

ARNOLDO MONDADORI EDITORE S.p.A.

Share Capital € 67,451,756.32

Head Offices in Milan

Administrative Offices in Segrate (MI)

**Interim management report
of the first quarter of 2008**

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Report of the Board of Directors on the first Quarter of 2008

The first months of 2008 confirmed fears about a general slowdown in the broader economy and there were no signals of a reversal of the trend in the Mondadori Group's reference market. In fact, Italy saw a continuation of the decline in magazine circulation, which was counterbalanced in January and February by a recovery in advertising. The add-on sales market saw a further marked slump after the slowdown of 2007. The trade books market, meanwhile, remained essentially stable.

In France, in the same period, there was a slight fall in circulation, while there was a continued decline in the advertising market, which is compared to Q1 2007, in which the impact of regulatory changes, which made it possible for large-scale retailers to advertise on television, had not been fully felt.

During the first quarter of the year the Mondadori Group's results were heavily affected by the negative impact of the add-on sales business, while general holding up of all the businesses areas (due also to a focused cost control policy) and the excellent performance of Radio R101, more than compensated for the higher investments for the development of the international and digital activities

The lower contribution to margins by add-on sales (a total shortfall of €10.1 million compared with 2007) was essentially due to:

- for the Book and Printing Divisions (-€3.7 million) from the market slowdown;
- for Magazines Italy (-€3.6 million) in comparison with Q1 2007, in which add-on sales had obtained 40% of their results for the full year;
- for Magazines France (-€3.1 million) the negative impact of the launch of new initiatives in the first months of the year.

In the first quarter of 2008 **consolidated revenues** came to €460.3 million, a fall of 1.7% on the €468.1 million of the first quarter of 2007.

Consolidated gross operating profit to 31 March 2008 came to €48.4 million, compared with €54.5 million in the same period of the previous year, a fall of 11.2%. As a proportion of revenues, the figure is 10.5%, compared with 11.6% in Q1 2007.

The difference in the operating margin, net of the aforementioned effect of the performance of add-on sales, would show an improvement of €4 million, essentially due to:

- improved results by the businesses: +€4.9 million,
- capital gains: +€1.7 million,
- increased investments in business development: -€2.6 million.

Consolidated operating profit to 31 March 2008 came to €38.2 million, a fall of 12.8% on the €43.8 million of Q1 2007, after amortization and depreciation of tangible and intangible

assets for a total of €10.2 million (€10.7 million in 2007); 8.3% as a proportion of revenues, compared with 9.4% in Q1 2007.

Consolidated profit before taxation in the period came to €27.9 million, a fall of 25.8% on the €37.6 million of the same period of the previous year, with an increase of net financial charges of €4.1 million, largely due to the effects of changing conditions in financial markets (the impact of increased interest rates for around €1.9 million and a fall in returns from financial assets for around €1.7 million).

Consolidated net profit amounted to €17.7 million, a fall of 25.0% on the €23.6 million of the first quarter of 2007.

Gross cash flow in the first quarter of 2008 amounted to €27.9 million compared with €34.3 million in Q1 2007.

The Group's **net financial position** went from a deficit of -€535.3 million at the end of 2007 to a figure of -€567.1 million on 31 March 2008

The performance of the various sectors in which Mondadori operates is examined in the sections dedicated to the different Divisions of the Group; the following are the highlights:

Results for the period

Income statement (in €m)	31 March 2008	31 March 2007	% change
Income from sales of goods and services	460.3	468.1	(1.7%)
Personnel costs	94.4	92.2	2.4%
Cost of sales and management	319.5	321.5	(0.6%)
Income (charges) from investments booked using the net equity method	2.0	0.1	n.s.
Gross operating profit	43	50	(11.2%)
- as a proportion of revenues	10.5%	11.6%	
Depreciation of property, plant and machinery	8.3	8.9	(6.7%)
Depreciation of intangible assets	1.9	1.8	5.6%
Operating profit	22	24	(12.8%)
- as a proportion of revenues	8.3%	9.4%	
Net financial income (charges)	(10.3)	(6.2)	66.1%
Income (charges) from other investments	-	-	
Profit for the period before taxation	35	32	(25.8%)
- as a proportion of revenues	6.1%	8.0%	
Tax charges	9.9	13.8	(28.3%)
Minority interest	0.3	0.2	50.0%
Net profit	14	9	(25.0%)
- as a proportion of revenues	3.8%	5.0%	
Gross cash flow	35	35	

Consolidated revenues amounted to €460.3 million, a fall of 1.7%; the following table illustrates the business volumes for each area.

Business volumes by business area (in €m)	31 March 2008	31 March 2007	% change
Books	94.1	96.5	(2.5%)
Magazines	260.2	266.4	(2.3%)
Advertising	78.9	74.1	6.5%
Printing	102.7	113.2	(9.3%)
Direct marketing	5.3	6.0	(11.7%)
Retail	43.3	38.3	13.1%
Radio	3.6	2.0	80.0%
Corporate and other business	4.3	4.2	2.4%
Total sales	592.4	600.7	(13.8%)
Intergroup sales	(132.1)	(132.6)	(0.4%)
Total consolidated revenues	460.3	468.1	(1.7%)

Comments on the contribution of the different areas can be found in the sections dedicated to the different Divisions.

A breakdown of consolidated revenues by geographical area is as follows:

Revenues by geographical area (in €m)	31 March 2008	31 March 2007	% change
Italy	340.2	347.6	(2.1%)
France	99.5	99.3	0.2%
EU countries	17.6	17.5	0.6%
USA	1.0	1.0	-
Others	2.0	2.7	(25.9%)
Total consolidated revenues	460.3	468.1	(1.7%)

Book Division

In the first quarter of 2008 the Mondadori Group confirmed its leadership in the trade book segment, consolidating its value market share (29.7%), in net advantage over its main competitors. The performance of Edizioni Mondadori was particularly good, with a 3.8 percentage point increase in its share, while Piemme recorded growth of 0.9%. There was a slight fall in market share compared to the same period of last year for both the Sperling & Kupfer Group (-0.3%) and Einaudi (-0.1%).

In addition to the above, which refers only to medium-large bookstores, it should be noted that the Mondadori Group's value market share in the large-scale retail segment is estimated at over 35%.

The following table outlines the performance of the Book Division of the Mondadori Group.

(in €m)	31 March 2008	31 March 2007
Book sales	92.5	93.7
Other revenues	1.6	2.8
	94.1	96.5
Operating costs	(78.1)	(80.5)
Gross operating profit	16.0	16.0
Amortisation & depreciations	(0.7)	(0.7)
Operating profit	15.3	15.3

The following table provides a breakdown of the book revenues for each of the Group's publishing houses.

Books (in €m)	31 March 2008	31 March 2007	% change
Edizioni Mondadori	39.3	38.6	1.8%
Einaudi	11.8	13.3	(11.3%)
Mondadori Electa	9.9	11.2	(11.6%)
Sperling & Kupfer Group	6.2	8.1	(23.5%)
Piemme	14.6	12.7	15.0%
Mondadori Education	2.7	2.7	-
Distribution & logistics	8.0	7.1	12.7%
Total consolidated revenues	92.5	93.7	(1.3%)

Edizioni Mondadori

In the first quarter of 2008 Edizioni Mondadori generated revenues of €39.3 million, an increase of 1.8% compared with the same period of the previous year.

Among the most successful titles, was the outstanding response to the new book by Andrea Camilleri, *Il tailleur grigio*, which 220,000 copies and the new book by Sophie Kinsella *Ti ricordi di me?* (over 140,000 copies).

In the non-fiction area, two titles were particularly noteworthy: *Spingendo la notte più in là*, by first-time author Mario Calabresi which, published in 2007, increased its performance during the quarter, thanks also to the success of the TV show of the same name, reaching a total of 180,000 copies, and the new book by Giulio Tremonti *La paura e la speranza* (over 70,000 copies), a significant contribution to current debates about politics and the economy.

The most surprising news of the quarter came from the first book by the young writer Paolo Giordano whose novel, *La solitudine dei numeri primi*, met with extraordinary public acclaim, selling more than 100.000 copies.

On the paperback front paperback, the big Oscar campaign in early spring produced a result that was somewhat below the exceptional performance of the previous year, even though the result was overall positive.

The Mondadori Ragazzi line of children's books published a number of important new titles, including: *Le cronache di Spiderwick* by Holly Black and Tony Di Terlizzi and *Tunnel* by Roderick Gordon and Brian Williams.

Giulio Einaudi editore

The first quarter of 2008 saw a fall in total net revenues of 11.3%, a result that, to be understood, needs to be broken down as follows: there was an increase in sales through the bookstore channel of 9.8%, instalment sales fell by 17.5% compared with the same period of the previous year and there was a marked fall in the sale of rights (-81.9%).

The improvement of bookstore sales was the result of higher revenues and an increase in supplies to the large-scale retail channel for the pocket book campaign. As regards the sale of rights, the fall is wholly due to the decline of add-on sales, which fell also because in 2007 a large proportion of sales were concentrated in the first months of the year, as well as the well-documented decline of this segment.

Among the titles that met with the best reception during the period, we would highlight: *L'ottava vibrazione*, the most important book by Carlo Lucarelli (90,000 copies), *Fuoco amico* by Abraham Ben Yehoshua (over 45,000 copies), *Onora il padre* by Giancarlo De Cataldo (35,000 copies), *Kafka sulla spiaggia* by Haruki Murakami (25,000 copies), *Il sergente* by Marco Paolini (20,000 copies), *Lo spazio bianco* by Valeria Parrella (30,000 copies), *Non è un paese per vecchi* by Cormac McCarthy (35,000 copies), with the exception of the last title, all were first published in 2008.

Mondadori Electa

The revenues of Mondadori Electa in the first quarter of 2008 amounted to €9.9 million, a fall of 11.6% compared with the same period of 2007.

The book sector suffered a fall of 15%, mainly due to the decline in the sale of rights for add-on sales (-41%). Meanwhile, in the same sector during the period, the first ten titles in the new Mondadori Arte line were published.

There were positive results in the add-on segment for the *Arte Contemporanea* series which was sold with the newsmagazine “L’Espresso”, while other initiatives have been postponed until the autumn.

In the Cultural Heritage area there was a fall of 17% due to weakness in the exhibition catalogue segment (-42%) and the organisation of exhibitions (-19%), compared with a particularly positive start to the year in 2007.

Also from 2008 online sales began on the *Photoservice.electaweb.it* site, which has already seen very positive growth.

Sperling & Kupfer Group

The Sperling & Kupfer Group ended the first quarter of 2008 with net revenues of €6.2 million, a fall (-23.5%) compared with 2007.

Sperling & Kupfer and the Frassinelli subsidiary, in the trade and low-cost segments, produced 134 titles in the period, compared with 161 in 2007: an indication of the rigorous programme aimed at reducing the number of titles and focusing on developing the quality of the offer.

Among the most significant new titles published in the period were the return of Rosemary Altea, *La lunga notte* by R. J. Waller, the author of the unforgettable *I ponti di Madison County*, the publication in the Sperling fiction of books by two first-time authors: *Gli orfani del male* by Nicholas D’Estienne D’Ovres and, above all, *Bambino 44* by the very young Tom Rob Smith, a book that has generated much attention and interest around the world.

The Mondadori Informatica line oversaw the bookshop launch, along with the titles of the Mondadori Group, of the *Computer Start* series, a multimedia PC course.

Mondadori Education

The revenues of Mondadori Education to 31 March 2008 amounted to €2.7 million, in line with those of the same period of the previous year.

As usual, the early months of the year are marked by the completion of new products to be presented to teachers at schools of different levels for the next academic year.

2008 has once again seen the confirmation of an editorial policy that emphasises product quality over the number of titles, with the assurance that comes from the results of recent years.

Initial reactions to promotional efforts indicate that the new titles will perform well, thanks to

their focus on responding to the needs of a continuously evolving situation in schools.

The implementation of the strategy of expanding the company's "mission" to extra-scholastic editorial activities has seen the launch of a feasibility study to evaluate prospects in the training sector and policies are being developed to strengthen and develop the existing university sector.

Piemme

There was a particularly positive performance in the first quarter of 2008 by the fiction and non-fiction area, which saw its overall revenues up by 33% compared with 2007, with excellent results also in re-supplies. In fact, *Il cacciatore di aquiloni* (more than 2 million copies) continues to be at the top of the best sellers lists, while the second book by Khaled Hosseini, *Mille splendidi soli* has also achieved excellent sales (more than 1.2 million copies).

In terms of new titles, the most important was that by Michael Connelly *Avvocato di strada*, which has reached sales of around 70,000 copies.

There was also a particularly positive performance by *L'Angelo della mia vita* by Dalila Di Lazzaro (over 80,000 copies). The Paperback sector performed well with the new series *Bestseller*, in particular the good response to the publication of *La danzatrice bambina* by Anthony Flacco.

Overall. Revenues in the Junior area were stable, with positive initial figures for the new titles, especially for Stilton, with the publication of the first volume of the series *Cronache del regno della fantasia, Il reame perduto* (over 70,000 copies) as well as the most recent volume in the series *Grandi Storie, I tre moschettieri*.

Il Battello a vapore successfully published titles in its hardcover series, including *Strega per un giorno* (the *Milla & Sugar* series), *Una scelta importante (Gol!)* and *La Pietra Nera* by Miki Monticelli.

Distribution and Logistics

The first quarter of 2008 ended with the number of copies handled in line with expectations and slightly above that of the previous year (+2.5% in terms of value).

There was an 18% increase in the number of dispatches made, compared with 2007, while the high level of efficiency of the service was maintained, the result of the investments made in recent years: with a further reduction in average dispatch time to 2.1 days, from the order and dispatch.

Revenues from the publishers distributed, including those of the Group, were up by 12.7% on the previous year.

Magazine Division

In the first quarter of 2008, the Magazine Division generated consolidated revenues of €260.2 million, a fall of 2.3% compared with the same period of the previous year.

(in €m)	31 March 2008	31 March 2007
Magazine revenues	252.6	258.6
Other revenues	7.6	7.8
	260.2	266.4
Operating costs	(228.6)	(227.1)
Gross operating profit	31.6	39.3
Amortization and depreciations	(1.5)	(1.4)
Operating profit	30.1	37.9

Magazines (Italy)

Revenues generated by the Magazine Division in Italy in the first quarter of 2008 amounted to €162.3 million, a fall of 4.7% compared with the same period of the previous year.

This result was due to the following phenomena:

- a fall in circulation revenues, the result of a negative trend in the market that has affected almost all of the segments in which the Division operates;
- a decline in the revenues from add-on sales in a rapidly declining market (although this fall was widely forecast, and given that Mondadori was once again much less affected than its competitors, the impact of the phenomenon has been considerable);
- an increase in advertising revenues (+7.7%) thanks also to a new organisational structure and targeted commercial policies that have led to results above the market average.

Facts of relevance affecting the Division in the period included:

- the re-launch of *Panorama*, in the first half of March, with results that have so far proved encouraging;
- the redesign and review of *Donna Moderna*;
- the development of internet activities and the re-design of a number of sites (in this context, Mondadori's online advertising revenues saw an overall increase of around 41%, outperforming

the market;

- the continuation of a management policy focused on efficiency gains in all areas, in particular on the industrial side (foliations and technical costs associated with product characteristics), editorial (editorial costs and staffing) and commercial (returns).

Circulation

In a market in which, as already indicated, there is a continuing decline in sales, heavily influenced by the lower performance of add-on sales.

Mondadori saw a fall in circulation of 4.7%, also due to the exit from the portfolio of three titles: *Star+TV*, *Per Me* and *Creare*.

A fall in circulation revenues for *Panorama* was more than compensated by an increase in advertising revenues. The gap with the title's main competitor remained wide and unchanged.

The situation was the same for *TV Sorrisi e Canzoni* in a critical context for all the competitors. The leadership of the Mondadori weekly remains absolutely solid.

Chi performed well, with stable circulation revenues.

Donna Moderna settled at more than satisfactory levels.

Add-on sales

As already mentioned, there has been a marked decline in the market for add-on products, with an overall fall in the first three months of the year of 26%.

All sectors of the add-on sales business were affected (printed products, DVDs, CDs, sundry goods).

In the context of this generalised decline, Mondadori's performance was better, also compared to the most important newspapers operating in this specific segment.

Results continue to be positive for the home video products of *Panorama* and *TV Sorrisi e Canzoni*, the music products of *TV Sorrisi e Canzoni* and a number of editorial series, such as *i Meridiani*, *Il corpo umano*, and a number of fiction series. Below expectations, however, was the launch of the *Enciclopedia A-Z* which evidently encountered a market that is now saturated.

A number of initiatives launched in April are recording encouraging results.

International activities

Of note during the period was the important launch of three up-market brands: *Grazia* in India, *Flair* in Austria and *Casaviva* in Greece.

The positive performance of Attica in Greece and the Balkans continued, as did that of the joint venture in Russia with Sanoma.

Magazines (France)

The activities of the Magazine Division in France generated first quarter 2008 consolidated revenues of €97.9 million, an increase of 1.8% on the same period of the previous year.

While circulation confirmed the positive results recorded in 2007, advertising revenues were affected by a poor performance in the French advertising market, which was down by 4.6% (in terms of volume – Source: TNS-MI).

In general, the good performance in terms of circulation and constant cost controls, alongside the ongoing restructuring plan, made it possible to maintain the level of profitability, net of investments for development and the launch of add-on sales new initiatives.

Circulation

In terms of circulation, the Group's titles achieved satisfactory results during the period (+1.8% compared with the first quarter of 2007).

The redesign and re-launch of a number of titles has met with a positive response, with a positive impact on sales.

Of particular note was the exceptional performance of *Closer*, which confirmed its leadership position in the segment.

During the period, the implementation of the add-on sales project in the French market continued with the launch of a universal encyclopaedia, with results that were below expectations.

Advertising

Mondadori France saw a fall in advertising sales of 7.5% compared with the same period of the previous year, the result of an unfavourable moment in the French advertising market.

There were no signs of a turnaround in the trend in advertising investments, also due to comparison with the first quarter of 2007, in which the effects had not yet been felt of the regulatory changes that for the first time gave large-scale retailers access to television advertising.

In the individual segments, TV listings titles were particularly hit, a segment where the Mondadori France portfolio is currently exposed, while there were positive results for *Closer* and the up-scale segment (*Biba*).

In April, an agreement for exclusive negotiations was reached with Motor Presse France for the sale of a package of six titles specialised in the Sports sector.

This operation is part of the often announced strategy of rationalising the portfolio and the focus and development - also through the sale of niche titles - on market areas, such as the up-scale and mass market segments, with higher potential, also in terms of advertising sales.

Advertising services

(in €m)	31 March 2008	31 March 2007
Advertising revenues	77.4	73.9
Other revenues	1.5	0.2
	78.9	74.1
Operating costs	(80.1)	(74.6)
Gross operating profit	(1.2)	(0.5)
Amortization and depreciations	(0.1)	(0.1)
Operating profit	(1.3)	(0.6)

The market

Initial figures show that advertising investments in the first months of the year were up, partly confirming a number of signs that emerged during 2007: a marked expansion in the Internet and on Radio, a recovery in Television, while the increase in Print saw Magazines doing better than Newspapers.

In fact, Magazines did well thanks to an increase in pages, that was not always accompanied by an increase in rates; the sectors mainly affected in this first quarter were fashion, cosmetics and furniture, while result were less brilliant in tourism, finance/business and IT.

The company

Thanks to a new organisational model and targeted commercial policies aimed at making the most effective use of the rich portfolio available, Mondadori Pubblicità ended the first quarter of 2008 with total sales that were up by 6.5%, outperforming the market average in a number of areas.

In the Magazines area, sales, with a substantially unchanged portfolio compared with 2007,

were particularly good for weeklies, with marked growth above all for women's titles, in particular *Grazia* (+19%) and *Chi* (+13%), also *Panorama* and *TV Sorrisi e Canzoni* performed well, while noteworthy in monthlies was *Flair* (+11%) and the up-scale specialised titles in the Design and Furnishing segment.

Radio made an important contribution, thanks to a steady rise in the number of listeners, with an increase in advertising sales of 55% compared with 2007, while performance in Internet advertising which, in the context of ongoing efforts to valorise the sites, continues to make a concrete contribution to the development of the Mondadori Pubblicità offer.

Printing Division

(in €m)	31 March 2008	31 March 2007
Printing revenues	102.7	113.2
Other revenues	-	-
	102.7	113.2
Operating costs	(95.2)	(103.9)
Gross operating profit	7.5	9.3
Amortization and depreciations	(5.3)	(6.0)
Operating profit	2.2	3.3

In the first quarter of 2008 the Printing Division generated total revenues of €102.7 million, a fall of 9.3% on the same period of the previous year.

This fall in sales is almost entirely due to the decline of the add-on sales market that has affected both newspapers and magazines.

There were significant increases in raw materials and energy costs, but, for the moment, these remain in line with forecasts.

Despite this fall in business, profitability has been maintained, thanks to continued production cost controls and structural adjustments, there was a satisfactory use of capacity, following a significant reduction in outsourcing and also in relation to making full use of recent investments that are now fully operative.

A more significant summary of overall revenues generated by the Printing Division can be seen in the following chart which gives revenues net of paper and transport costs.

Printing revenues net of paper costs (€m)	31 March 2008	31 March 2007	% change
Magazines	32.0	31.6	1.3%
Books	13.8	23.1	(40.3%)
Catalogues & promotional materials	8.3	7.6	9.2%
Directories	0.5	0.7	(28.6%)
Total printing revenues net of paper costs	54.6	63.0	(13.3%)

Direct marketing

(€m)	31 March 2008	31 March 2007
Revenues	5.3	6.0
Other revenues	-	-
	5.3	6.0
Operating costs	(5.1)	(5.7)
Gross operating profit	0.2	0.3
Amortization and depreciations	(0.1)	(0.1)
Operating profit	0.1	0.2

In the first quarter of the year **Cemit Interactive Media** generated revenues of €5.3 million, a slight fall compared with the previous year: during April, however, this shortfall was recovered.

Consequently Cemit, having implemented structural changes to adapt to a changing market scenario, is now facing the challenge of development and integration of various data bases (the company's principal assets) by keeping abreast of continuing technological developments and reviewing the strategic approach to the market of reference

Retail

(€m)	31 March 2008	31 March 2007
Revenues	43.3	38.3
Other revenues	-	-
	43.3	38.3
Operating costs	(43.7)	(38.5)
Gross operating profit	(0.4)	(0.2)
Amortization and depreciations	(1.8)	(1.6)
Operating profit	(2.2)	(1.8)

Mondadori Franchising, continued to record significant revenue growth (+22%) compared to the first quarter of 2007, thanks mainly to new affiliations over the twelve-month period of reference: the number of bookstores rose from 187 to 208, and the Edicolè outlets from 86 in the first quarter of last year to 149 on 31 March 2008.

Mondadori Retail saw a marked increase in revenues compared with the previous year (+9.3%), thanks also to an important development plan that was launched in 2007

In fact, openings have taken place of the new Multicenter in Piazza Duomo in Milan, the new store at the Roma Lunghezze shopping mall and the outlets formerly trading under the Mondadori Shop fascia, have been converted to the Mondadori Multicenter fascia.

The book departments of these shops have been expanded to deal with the natural decline in the music market.

Book shops were also opened in Lonato (BS), Nola (NA) and Cinisello Balsamo (MI).

While development of the paid music download platform of the Messaggerie Digitali site continued.

Radio Division

(€m)	31 March 2008	31 March 2007
Revenues from sales	3.6	2.0
Other revenues	-	-
	3.6	2.0
Operating costs	(3.5)	(6.1)
Gross operating profit	0.1	(4.1)
Amortization and depreciations	(0.4)	(0.3)
Operating profit	(0.3)	(4.4)

Radio R101 performed extremely well in the first quarter of 2008.

The company's Q1 2008 revenues amounted to €3.6 million (€2.0 million in Q1 2007). This is essentially the net income derived from gross advertising sales of €5.1 million (+55% on the previous year).

Signal distribution is now widespread across the country, thanks to the numerous acquisitions made in recent years.

The activities of Radio R101 during the period have been focused on continuing to improve the product and ongoing communication efforts both for the brand and the new programmes. In

particular, in the first three months of the year a “local” communication campaign was conducted (using print media, outdoor and events) with the aim of reinforcing awareness in areas with the best growth opportunities.

The launch is currently underway of four thematic web radio options (music from the 80s, 90s, today’s hits, non-stop music) on the R101 site, which has recently generated record traffic of more than 250,000 visitors and around 3 million page views per month.

Corporate and other business

The Corporate includes parent company functions engaged in service activities for the companies of the Group and the Business Divisions.

Such activities concern mainly ITC, accounting, management control and planning, treasury and finance, human resources, legal and corporate affairs and communications.

Revenues derive essentially from the billing of subsidiary and associated companies and other bodies for the abovementioned services.

Financial situation

The Mondadori Group’s financial situation as of 31 March 2008, showed a deficit of €567.1 million, as illustrated in the following table:

Net financial position (€m)	31 March 2008	31 December 2007	31 March 2007
Cash and other equivalent liquid assets	237.7	225.1	108.3
Financial investments at fair value	97.6	108.5	160.6
Gains (losses) from derivatives	(56.9)	(51.3)	(33.8)
Other financial gains (losses)	(53.9)	(23.5)	(7.9)
Financing (short and medium/long term)	(444.4)	(444.5)	(377.5)
Bonds	(237.7)	(241.3)	(260.1)
Convertible bonds	(109.5)	(108.3)	(107.0)
Net financial position	(567.1)	(535.3)	(517.4)

At the end of the first quarter of 2008 the global economy finds itself in an important transitory phase.

Expectations are for disappointing levels of growth in Europe over the coming months (an average of +1.5% for the whole of 2008) and a significant slowdown in the Asian economies, which in recent years have been characterised by continuous and consistent growth. Forecasts for the United States, meanwhile, show a lasting phase of stagnation, which it is hoped will not develop into a full-blown recession which would further impact on an already palpable financial crisis.

It is important to note, however, how this situation has evolved in the context of high global levels of inflation, with prices for energy and food, in particular, at record highs, a trend that shows no immediate sign of abating.

These price increases have an evident impact of consumer spending power, with effects on the level of demand for both consumer and durable goods, and, while in different ways, we need also to bear in mind the role and actions of central banks and credit regulatory bodies, as they define monetary policy in this complicated scenario.

In this context, the ECB has held the refinancing rate at 4.00%, despite growing concerns about the European economic situation. Moreover, in its periodic statements the bank has repeatedly underlined its worries about inflation, without apparently taking care of the crisis in liquidity and the increase in the differentials on loans that have taken place also in Europe since the second half of 2007.

Bearing in mind this position, there are no grounds for expecting a fall in interest rates in the short term, unless the slowdown in growth is much more marked than expected.

The policy of the ECB has had a significant impact on the strength of the Euro, the cause of rising problems for European exports. In fact the European currency has seen a sharp rise against both the US Dollar and Sterling, during the first quarter and up to the present, rising from a minimum of 1.4482 and 0.7413 to a maximum of 1.5812 and 0.7958 respectively.

In terms of market interest rates, the Euribor 3 months (Act/360) went up from 4.665% at the end of December 2007 to 4.727% at the end of March 2008, with an average of around 4.476%. In the same period the average cost of money for the Mondadori Group was 4.392%.

The overall credit lines available to the Group at 31 March 2008 came to more than €1.5 billion, of which €1.1 billion “committed”.

The Group’s short-term borrowing facilities, for a total of around €535 million, were used for about €150 million as of 31 March 2008. Such facilities are made up of self-liquidating credit lines and stand-by loans with a duration of less than 18 months minus one day.

Medium-long-term lines of around €950 million are made up of:

- €296.4 million from a private placement in dollars in the U.S.A., over three tranches expiring in 2013/2015/2018 reserved exclusively for institutional investors. There is a Cross Currency Swap on this loan to face interest and exchange rate risks;
- €109.9 million in convertible bonds, guaranteed by Mondadori shares (expiring in 2008) also reserved for institutional investors;
- €44.6 million in facilitated credit for publishers, mainly obtained as per Law n° 62/01;
- €500 million for a five-year bank loan (expiring in July 2011) organised by a pool of leading international banks for the acquisition of the French publishing group Emap France.

This multi-borrower (Mondadori International S.A. and Arnoldo Mondadori Editore S.p.A.) loan is made up of a term loan of €300 million and a revolving credit facility of €200 million; as of 31 March 2008 the latter had not been used. A swap from a variable to a fixed interest rate has been applied to 50% of the term loan.

Mondadori International

The financial assets under management by the company, as of 31 March 2008, amounted to €220 million (€222.9 million at the end of 2007).

The composition of the portfolio as of 31 March 2008 was as follows:

- cash products, bonds and other low-risk funds for €186 million;
- hedge fund investments for around €34 million (broadly diversified by management and strategy).

The entire portfolio can be converted to cash in a very short time, and in any case not more than three months for the part invested in hedge funds.

Personnel

As of 31 March 2008 Group companies employed 5,434 people (5,586 at 31 December 2007), while the average number of personnel during the period amounted to 5,443 (5,584 in the same period of 2007).

The following table shows details of Group personnel as of 31 March 2008:

Personnel	31-03-2008	31-12-2007	31-03-2007
Arnoldo Mondadori Editore S.p.A.:			
- Managers, journalists and office staff	1,330	1,367	1,364
- Manual workers	101	108	108
	1,431	1,475	1,472
Italian subsidiaries:			
- Managers, journalists and office staff	1,794	1,832	1,786
- Manual workers	958	1,010	1,054
	2,752	2,842	2,840
Foreign subsidiaries:			
- Managers, journalists and office staff	1,147	1,166	1,154
- Manual workers	104	103	105
	1,251	1,269	1,259
Total	5,434	5,586	5,571

As of 31 March 2008, the following contracts had expired:

- the remuneration and normative components of the national commercial labour contract;
- the remuneration and normative components of the national contract for journalists.

Capital investments

Capital investments in buildings, plant and machinery in the first quarter of 2008 amounted to €4.8 million, and were principally made for the printing (€1.2 million) and the acquisition of a plate for the positioning of a number of plants for R101.

Disinvestments during the period amounted to a residual total of €0.4 million.

Other information

The interim management report for the first quarter of 2008 has been prepared in compliance with IAS/IFRS standards and the evaluation criteria adopted are in line with those used at 31 December 2007.

The document provides the information requested by Art. 154 ter comma 5 – introduced by D.Lgs. 195/2007 - of the D.Lgs. 58/1998.

For the purposes of like-for-like comparison, the figures contained in this document are in line with those contained in the company's periodic interim management reports and communications with the market. Moreover, the interim report for the first quarter of 2008 is in line with previous quarterly reports, with particular reference to the Appendix 3D of the CONSOB regulation 11971/1999.

Consequently, international accounting principle n°. 34, concerning financial communication during the course of the fiscal year, has not been applied.

Expectations for the current year

The current economic climate has had a worse than expected impact on consumer spending in the first three months of the year and there appears to be no let up in the rise in the cost of energy and raw materials or of essential consumer goods. The current situation begins to show signs of stagflation, the effects of which are difficult to estimate.

The situation in the sectors of reference for the Mondadori Group remains similar to that seen in recent quarters, with a general trend for slight falls in the circulation of magazines, and a more

marked fall in add-on sales. Advertising recovered to February, but slowed in March and the book market remains essentially stable.

In this context, the considerations made at the presentation of the Group's 2007 results remain operative: a close focus on the management of the core business and recent investments (Radio), effective control of operating costs, combined with the development of activities focused on the product (Magazines and Digital) and the market (international network).

Despite the unfavourable economic situation, unless there is a further significant downturn in the area in which the company operates, it is possible to forecast a level of operating profit for the current year, net of extraordinary elements and investments in development, in line with that of the previous year.

On behalf of the Board of Directors
The Chairman
Marina Berlusconi

Consolidated financial statements

Consolidated balance sheet

Assets	Q1 31 March 2008	FY 31 December 2007
Intangible assets	943,581	943,847
Fixed assets	1,512	1,525
Land and buildings	74,827	73,833
Plant and machinery	82,670	87,376
Other assets	48,117	48,408
Property, plant and machinery	205,614	209,617
Investments booked using net equity method	130,900	127,026
Other investments	277	273
Total investments	131,177	127,299
Non-current financial assets	1,587	3,671
Advanced taxes	38,664	39,727
Other non-current assets	2,970	3,019
Total non-current assets	1,325,105	1,328,705
Tax credits	29,445	28,701
Other current assets	85,076	77,600
Inventories	141,446	150,900
Trade receivables	461,289	486,873
Stocks and other current financial assets	120,235	144,910
Cash and equivalents	237,667	225,098
Total current assets	1,075,158	1,114,082
Assets destined to be sold or closed	-	-
Total assets	2,400,263	2,442,787

Consolidated balance sheet

Liabilities	Q1 31 March 2008	FY 31 December 2007
Share capital	67,452	67,452
Share premium reserve	286,876	286,876
Treasury shares	(138,840)	(138,840)
Other reserves and results carried forward	287,311	176,475
Profit (loss) for the period	17,672	112,639
Total Group shareholders' equity	520,471	504,602
Minority capital and reserves	2,197	1,932
Total shareholders' equity	522,668	506,534
Reserves	29,923	33,278
Severance payments	89,851	90,638
Non-current financial liabilities	632,914	741,166
Deferred tax liabilities	90,029	88,213
Other non-current liabilities	-	-
Total non-current liabilities	842,717	953,295
Income taxes payable	48,099	44,253
Other current liabilities	291,971	293,083
Trade liabilities	401,123	477,775
Bank debts and other financial liabilities	293,685	167,847
Total current liabilities	1,034,878	982,958
Liabilities deriving from sales or closures	-	-
Total liabilities	2,400,263	2,442,787

Consolidated income statement

	Q1 31 March 2008	Q1 31 March 2007
Income from sales of goods and services	460,260	468,122
Decrease (increase) in inventories	9,452	(1,794)
Cost of raw materials and consumables and goods for resale	109,020	111,698
Cost of services	196,057	210,451
Personnel costs	94,424	92,224
Other income (expense)	4,902	1,164
Income (charges) from investments (calculated on a net equity basis)	2,024	83
Gross operating profit	48,429	54,462
Depreciation of property, plant and equipment	8,337	8,926
Amortisation and impairment of intangible assets	1,888	1,765
Operating profit	38,204	43,771
Financial income (expense)	(10,332)	(6,174)
Income (expense) from investments	-	-
Profit before income taxes	27,872	37,597
Income taxes	9,934	13,833
Profit from continuing activities	17,938	23,764
Income (expense) from assets/liabilities held for sale	-	-
Result attributable to minorities	(266)	(181)
Net profit	17,672	23,583
Net profit per share (in €)	0.074	0.098
Diluted net profit per share (in €)	0.074	0.111

On behalf of the Board of Directors
The Chairman
Marina Berlusconi

