

ARNOLDO MONDADORI EDITORE S.p.A.

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Head Offices in Milan

Administrative Offices in Segrate (MI)

Quarterly report to 30 September 2006

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Report of the Board of Directors

The Mondadori Group's business activities

As part of its strategic objective for international expansion, the Mondadori Group – as is well known – concluded on 31 August 2006 its acquisition of Emap France (now Mondadori France), one of France's leading publishers of consumer magazines, and operating with more than 40 titles in one of Europe's markets.

The French company was fully consolidated on the day when Mondadori took control; consequently the consolidated income statement for the first nine months of 2006 includes revenues and costs only for the month of September, while the balance sheet includes the assets and liabilities on the date of closure.

In the period to 30 September 2006 the Mondadori Group recorded revenues of €1,233.8 million, in line with the same period of the previous year. The figures include the total revenues of Mondadori France (a total of €33.5 million).

The business in the period to 30 September 2006 generated results that show an improvement on the figures for the first nine months of 2005, net of the government paper contribution of €17.5 million.

Consolidated gross operating profit came to €161.6 million compared with the €169.7 million at 30 September 2005 (an increase of 6.2% net of the paper contribution); the contribution of Mondadori France amounted to €5.4 million.

Consolidated operating profit came to €136.3 million compared with the €143.8 million of the same period of the previous year (an increase of 8% net of the paper contribution).

Profit before taxation for the period came to €130.1 million compared with the €140.5 million at September 2005 (an increase of 5.8% net of the paper contribution).

Consolidated net profit for the first nine months of 2006 came to €75.7 million compared with the €92.1 million for the corresponding period of 2005 (an increase of 0.4% net of the paper contribution).

Cash flow at 30 September 2006 came to €101 million compared with the €118 million at September 2005 (€100.5 million net of the paper contribution).

The Group's net financial position showed a deficit of €91.2 million compared with a deficit of €20.1 million at 30 September 2005: this figure takes account of the distribution of €47.3 million in dividends and an outlay of €51 million for the acquisition of Emap France.

What follows are comments on the Group's consolidated results for the first nine months of the year to 30 September 2006.

Results for the period

Income statement in €m	Q3			To 30 September		
	2006	2005	Change	2006	2005	Change
Income from sales of goods and services	423.7	404.5	4.7%	1,233.8	1,230.0	0.3%
Personnel costs	71.7	61.9	15.8%	204.3	196.8	3.8%
Cost of sales and management	288.3	282.4	2.1%	870.2	870.7	n.s.
Income (charges) from investments (calculated on a net equity basis)	(0.5)	2.6	n.s.	2.3	7.2	(68.1%)
Gross operating profit	63.2	62.8	0.6%	161.6	169.7	(4.8%)
- as a proportion of revenues	14.9%	15.5%		13.1%	13.8%	
Depreciation of property, plant and machinery	8.6	8.4	2.4%	24.1	24.5	(1.6%)
Depreciation of intangible assets	0.4	0.4	-	1.2	1.4	(14.3%)
Operating profit	54.2	54.0	0.4%	136.3	143.8	(5.2%)
- as a proportion of revenues	12.8%	13.3%		11.0%	11.7%	
Net financial income (charges)	(4.5)	2.4	n.s.	(6.2)	(3.0)	106.7%
Other income (charges)	-	(0.3)	n.s.	-	(0.3)	n.s.
Profit for the period before taxation	49.7	56.1	(11.4%)	130.1	140.5	(7.4%)
- as a proportion of revenues	11.7%	13.9%		10.5%	11.4%	
Tax charges	18.5	15.4	20.1%	53.4	47.4	12.7%
Minority interest	(0.6)	(0.4)	50.0%	(1.0)	(1.0)	-
Net profit	30.6	40.3	(24.1%)	75.7	92.1	(17.8%)
- as a proportion of revenues	7.2%	10.0%		6.1%	7.5%	
Gross cash flow	39.6	49.1		101.0	118.0	

(*) Includes the following items: decrease (increase) in inventory; costs of raw materials and consumables and goods for resale; cost of services; other income (expenses).

The figure at 30 September 2005 relating to "Personnel costs" is different from that published in the quarterly report for the same period of 2005 due to a reclassification of €0.6 million under the item "Cost of sales and management"; the latter item was affected by the reclassification of income of a financial nature booked under "Net financial income (charges)" for €0.6 million.

It should also be noted that the process of allocating the acquisition price for Mondadori France, which according to the "purchase method" foresees the identification of a fair value of the assets acquired, is still being defined.

In the consolidated financial statements to 30 September 2006 the higher price paid, compared to the net assets acquired, is provisionally booked under intangible assets, without making a precise attribution of the individual assets acquired.

Consolidated revenues amounted to €1,233.8 million, an increase of 0.3%; the following table illustrates the business volumes for each business area.

Business volumes by business area	€m		Change %
	30 September 2006	30 September 2005	
Books	317.9	311.2	2.2%
Magazines	596.8	603.0	(1.0%)
Advertising	245.8	244.9	0.4%
Printing	336.0	333.8	0.7%
Direct	17.2	20.5	(16.1%)
Retail	93.3	89.6	4.1%
Radio	6.1	2.8	n.s.
Corporate and other business	10.7	11.3	(5.3%)
Total sales	1,623.8	1,617.1	0.4%
Intergroup sales	(390.0)	(387.1)	0.7%
Total consolidated revenues	1,233.8	1,230.0	0.3%

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

Revenues by geographical area	€m		Change %
	30 September 2006	30 September 2005	
Italy	1,119.5	1,155.6	(3.1%)
EU countries	100.1	58.8	70.2%
USA	5.4	7.1	(23.9%)
Others	8.8	8.5	3.5%
Total consolidated revenues	1,233.8	1,230.0	0.3%

Book division

According to Demoskopea figures, while there was a slight increase in the book market in terms of value compared with the same period of the previous year, (+0.8%), there was also a more marked fall in terms of copies sold (-2%).

The Mondadori Group conformed to these trends, with a slight reduction in its market share in terms of copies (-0.5%), while in terms of value remaining essentially at the same level as last year (-0.1%). In a context in which RCS saw a slight drop (-0.3% in terms of value) and the GEMS Group performed well, both in terms of value and copies (+1.6% and +1.1% respectively), the Division confirmed its position as the undisputed leading player in the Italian book market, with a market share of 29.9% in terms of copies and 27.4% in terms of value.

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

	€m	€m
	30 September 2006	30 September 2005
Book sales	312.3	307.8
Other revenues	5.6	3.4
	317.9	311.2
Operating costs	(251.8)	(254.2)
Gross operating profit	66.1	57.0
Amortisations & depreciations	(2.0)	(2.2)
Operating profit	64.1	54.8

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

Books	€m		Change %
	30 September 2006	30 September 2005	
Mondadori	97.2	100.2	(3.0%)
Einaudi	32.8	30.5	7.5%
Mondadori Electa	32.7	31.1	5.1%
Sperling & Kupfer Group	21.1	20.2	4.5%
Piemme	35.0	30.9	13.3%
Edumond Le Monnier	71.5	68.8	3.9%
Distribution & logistics	22.0	26.1	(15.7%)
Total consolidated revenues	312.3	307.8	1.5%

Edizioni Mondadori

In the first nine months of 2006 Mondadori books saw a slight decline in its revenues compared with the same period of the previous year, (-3.0%), recording revenues of €7.2 million.

The first part of the year was marked by the success of books by Patricia Cornwell, Fabio Volo and Andrea Camilleri, established authors in the portfolio that confirmed their solidity.

In spring the most interesting successes were in the non-fiction area, with the new books by Federico Rampini (*L'impero di Cindia*, 100,000 copies) and Magdi Allam (*Io amo l'Italia*, 90,000), as well as the fortunate fiction debut by Roberto Saviano with *Gomorra* which had sold 60,000 copies by the end of September. The new book by Dan Brown, *Crypto*, recorded excellent sales (600,000), albeit not at the same level as his previous titles. In fact the film version of the *Codice Da Vinci* appears to have generated a saturation for the books by the American novelist.

The real revelation of the first nine months of 2006 has been *Notte prima degli esami*, a title that benefited from the success of the film of the same name, which by the end of September had resulted in sales of 105,000 copies. Finally, a number of titles that got off to a good start were published in September: *I Fantasmi di pietra* by Mauro Corona (43,000 copies) and *Inchiesta su Gesù* by Corrado Augias and Mauro Pesce (70,000 copies).

In the reference sector there was a very positive response to the operation to renew and update the *Devoto-Oli* dictionary, conducted in cooperation with Edmond Le Monnier (20,000 copies), as well as the launch of a new line of dictionaries, resulting from an agreement with the international leader in the sector, the German company Langenscheidt (4 compact dictionaries, 8 phrase books and a first big Italian-English dictionary, for a total of 157,000 copies sold by the end of September).

In the Children's area the most significant news concerns the good results obtained by *Grinpow*, a fantasy novel by the new author Rafael Abalos, and the success of the first volume of a new trilogy by Licia Troisi, *La setta degli assassini*, which had sold 36,000 copies by the end of September.

In the Paperback segment, the Oscar campaign was extremely positive, resulting in an increase in revenues of 30.8% compared with 2005, in both the bookstore and large-scale retail channels.

Giulio Einaudi Editore

At 30 September 2006 Giulio Einaudi Editore had recorded an increase of 7.5% in net revenues compared with the same period of the previous year, with around €2.3 million.

This increase is largely attributable to the excellent trend in bookstore supplies and the positive results of the paperback campaign.

The titles that were most successful during the period included: *La ragazza del secolo scorso* by Rossana Rossanda, *Parole e canzoni con DVD* by Vasco Rossi, *Dark Side*, *Una cosa da nulla* by Mark Haddon, *Volevo la luna* by Pietro Ingrao, *L'uomo a rovescio* by Fred Vargas, *L'albero dei Giannizzeri* by Jason Goodwin, *Non Lasciarmi* by Kazuo Ishiguro, *Istanbul* by Orhan Pamuk (who won the 2006 Nobel Prize for Literature), *Diario di un gatto con gli stivali* by Roberto Vecchioni.

Mondadori Electa

Total revenues in the period January-September 2006 came to €32.7 million, an increase of 5.1% on the €31.1 million of the previous year. In particular, there was a 19% increase in publishing activities compared with the same period of last year, while activities in the Cultural Heritage area saw a slight fall. The revenues of the Electa Napoli subsidiary were in line with those of last year.

While publishing activities continue to enjoy marked growth thanks to the add-on sales phenomenon, activities in the cultural heritage area have suffered from the lack of the Biennial Visual Arts Exhibition over the last 3 months, partly compensated by the opening of a number of important exhibitions (Carracci, Naumann, Mollino, *L'Iliade* at the Coliseum, for which Electa also produced the catalogue). In terms of traditional channels, there were positive trends in supplies to bookstores and a markedly improved performance on returns compared with 2005.

July saw the creation of Campania Arte Scarl, of which Mondadori Electa SpA has a 22% stake. This new company is a private partner in the mixed public-private company SCABEC (Società Campana Beni Culturali), created to manage the extensive cultural assets of the Campania region.

Sperling & Kupfer Group

The Sperling & Kupfer Group ended the first nine months of 2006 with net revenues of €21.1 million, an increase of 4.5% compared with the same period of the previous year.

This revenue increase was the result of both the good performance of consolidated authors in the catalogue and the positive results of new non-fiction titles..

Among the titles published in 2006 we would highlight: Sveva Casati Modignani with the book *Rosso corallo* (188,000 copies), Stephen King with *Cell* (120,000 copies), Danielle Steel with *Una preghiera esaudita e Un angelo* (a total of 104,000 copies), Sergio Bambaren with *Fratello mare* (58,000 copies) and, not least, the remarkable publication of the latest book by Giampaolo Pansa, *La grande bugia*, yet another landmark in the cultural panorama of Italian politics (100,000 copies in the month of September alone). There were also very good results for first books by Antonio Caprarica, *Dio ci salvi dagli inglesi* (43,000 copies) and Luca Telese, *Cuori neri* (34,000 copies). Edizioni Frassinelli confirmed its production of literary titles with the publication of bestselling authors, such as Nicholas Sparks, with *Tre settimane, un mondo*, and *Ogni giorno della mia vita* (with combined sales of 165,000 copies).

Edumond Le Monnier

Over the first nine months of 2006 Edumond Le Monnier SpA generated total net revenues of €71.5 million, an increase of 3.9% on the same period of 2005.

This growth in revenues was the result of a positive year, due largely to the success obtained in the primary school segment. In fact, in this specific segment, the company had particular success with its *Ciliegie* reading course, for primary 1 to 3, published under the Minerva Italica imprint and the supplementary materials collection *Exploro*, for primary 4 and 5, published by Mondadori Scuola.

At the end of the third quarter, revenues for production for the second level of secondary schools reflect the trend in textbook adoptions, while the sale of products for the first level of secondary schools, have overtaken expectations. Support for revenues also came from the sale of rights to the parent company Arnoldo Mondadori Editore SpA, in particular for the classic compact Italian dictionary Devoto-Oli (LeMonnier), published in association with Edizioni Mondadori.

Statistics on adoptions supplied by AIE (the Italian publishers' association), which are now definitive, show a marked recovery in primary schools and an essentially stable position in the most important segment of the market, second level of secondary schools.

With these results the company is alongside the Zanichelli-Loescher-D'Anna Group, the absolute leader in the Italian market, with a market share that has grown to 14.2% for the figure of 13.7% recorded in 2005.

Edizioni Piemme

For the period that ended on 30 September 2006, Piemme recorded net revenues of €35.0 million, a marked increase on the €30.9 million of 2005.

Revenues from the commercial bookstore and large-scale retail channel continued the positive trend indicated in the half-yearly report, with an increase of 15.9%. Underlying this performance was the success of sales in the Children's area, *Il Battello a Vapore* and *Geronimo Stilton*, and the re-supply of a number of titles in the fiction and non-fiction area.

In fact there was a marked jump in the performance fiction and non-fiction titles with excellent sales for *Il Cacciatore di aquiloni* by Khaled Hosseini (380,000 copies), and a good performance by other titles, such as *Il poeta è tornato* by Michael Connelly. The Pocket line recorded an increase in sales of 12.9%, mainly thanks to the outstanding performance of *Il diavolo veste Prada* by Lauren Weisberger, a backlist title that has been revived thanks to the film of the same name starring Meryl Streep.

As for the Linea Junior, *Il Battello a Vapore* grew by 10.1%, thanks to series dedicated to characters, both original and under licence, such as *GOL!* (a new and successful experiment in the graphic novel), *Milla & Sugar* and *Ulysses Moore* (successful also for the sale of rights), high-quality products with an average price of more than €10. Compared with 2005, there was also a positive trend for Geronimo Stilton (+1.5%) which, in the second part of the year, introduced a line, *Viaggio nel Tempo 2*, that met with immediate success in all of the different channels.

Distribution & Logistics

The performance of the Division in the period to 30 September 2006 was characterised by two fundamental elements: on the one hand, the inclusion in the Mondadori distribution system of Edizioni Piemme, which was absorbed and managed without any difficulty and progressively completed in October, and, on the other, by the excellent performance of Baldini Castoldi Dalai Editore, which made a significant contribution to the revenues for third party publishers, thanks to the new book by Giorgio Faletti.

Magazine division

The results for the Magazine division include, for the month of September only, the figures for Mondadori France, with total revenues of €3.5 million and gross operating profit of €0.4 million.

The revenues of the division saw a fall 1% (-6.6% like-for-like), concentrated in circulation revenues, which fell by 5.2% (-9.8% like-for-like), while there was an increase advertising revenues of 8.8% (+1.2% like-for-like).

	€m	€m
	30 September 2006	30 September 2005
Magazine revenues	586.2	596.1
Other revenues	10.6	6.9
	596.8	603.0
Operating costs	(508.2)	(505.7)
Gross operating profit	88.6	97.3
Amortizations and depreciations	(1.2)	(1.3)
Operating profit	87.4	96.0

Circulation

In terms of circulation, there was a generalised fall in the Italian market affecting all segments, in particular the television listings segment, where in any case Mondadori held on to its absolute leadership with a market share of over 61%, thanks to *TV Sorrisi e Canzoni* - Italy's top-selling magazine - and its other four titles in the segment.

In the first nine months of the year, the Mondadori Group's total circulation revenues were down, compared with the previous year, but up compared with the previous quarters.

A closer look at the main segments shows excellent performance for *Panorama* (+4.1%) and *Men's Health*, both clear leaders in their specific segments, *Grazia* (+7.6%) and *Flair* (+2.9%). Circulation remained stable at last year's levels for *Donna Moderna*, *Chi* and the "cookery system" (*Sale&Pepe*, *Cucina Moderna*, *Cucina no Problem*).

This fall in revenues was also affected by re-launch and marketing policies based on cover prices, including the reduction in the cover price of *Grazia* during the promotional phase of the re-launch and the publication of a pocket edition of *Donna Moderna*, in part compensated by increases in the cover price of other titles (including *Chi*, *Donna Moderna*, *Sale&Pepe*) the effects of which will be more evident in the last quarter.

Add-on sales

The policy of focusing on the profitability of add-on sales initiatives that has been adopted for some time by Mondadori, which is based on cost controls and reduction, the management of returns and the optimisation of communication investments, has proved successful and led to a marked improvement in margins, up by around three percentage points.

The abandonment of VHS (-88% in volumes compared with 2005) and a rationalisation in the use of music CDs (-16%) and miscellaneous products for women, all had an impact of total sales, which showed a fall of 11.8%.

It should be remembered that the situation also suffers by comparison with the first half of 2005 characterised by the extraordinary success of the "Garzantine" encyclopaedia initiative (especially evident in the first half)..

France

Following the closure of the deal for the acquisition on 31 August of Emap France (now Mondadori France) Mondadori entered the French magazine market, Europe's biggest with total revenues of over €4.5 billion (almost twice that of Italy).

Mondadori France is the third biggest player in the country, with more than 40 titles, 14 of which among the 100 top-selling titles, in the television, women's, male lifestyle, Senior and specialised segments.

The revenues breakdown almost equally between newsstand sales and subscriptions, with a 12% market share and an 11% share of the advertising market.

Advertising

	€m	€m
	30 September 2006	30 September 2005
Advertising revenues	243.1	240.0
Other revenues	2.7	4.9
	245.8	244.9
Operating costs	(244.8)	(244.3)
Gross operating profit	1.0	0.6
Amortizations and depreciations	(0.2)	(0.2)
Operating profit	0.8	0.4

The market

In the third quarter of 2006 the value of advertising investments across the different media showed a slowdown in the growth trend of the first half of the year, with an increase in August of 2.9%, compared with an increase in June of 4.0%.

In the magazine sector, growth in the first nine months of the year was sustained by women's and family titles, while male lifestyle and news magazines remained stable. The upward trends were confirmed in the cosmetics, fashion, FMCG and financial sectors, while difficulties persistent above all in the IT and telecoms sectors.

The company

Comparison with the results of 2005 are on a like-for-like basis, given that there were no significant changes in the portfolio of titles managed by the company.

Trends in the core advertising sales (in other words, excluding other revenues) for Mondadori, after closing the first six months up on the previous year, show an essentially stable summer season, with an overall increase of 1.2% compared with 2005.

These results were obtained mainly thanks to a positive performance in the fashion, cosmetics, FMCG and financial sectors, with a particularly positive impact on women's and family titles, while the situation was stable in the male lifestyle segment

Of particular note were the results of *Chi* (+15%, thanks also to *Chi International*) and *Grazia* which, thanks to the redesign and re-launch in March, has grown by around 7%, confirming the positive trend of the first half of the year. Positive results were also posted by *Panorama* (including *First*), *TV Sorrisi e Canzoni* and the Interiors and Design area.

There was a further consolidation in Radio, which has a brilliant third quarter and a confirmation of client interest in the special initiatives promoted by Radio R101 during the summer (2005 Vodafone – 2006 Skoda).

Printing division

	€m	€m
	30 September 2006	30 September 2005
Printing revenues	336.0	333.8
Other revenues	-	-
	336.0	333.8
Operating costs	(311.0)	(305.0)
Gross operating profit	25.0	28.8
Amortizations and depreciations	(17.5)	(17.3)
Operating profit	7.5	11.5

At 30 September 2006 there was a slight increase in turnover of 0.7% compared with the same period of 2005; in the first 9 months of 2006 total revenues came to €336.0 million, compared with €333.8 million in 2005, an increase of 0.7%.

In the hardback and paperback books market there was a confirmation of the excellent results of last year; there was a positive trend in the printing of editorial products sold as add-ons with magazines and newspapers, and an increased share for illustrated books compared with the previous year, even if the third quarter saw a slowdown compared with the first half of the year.

The foreign market for catalogues and commercial products continued to show the signs of recovery noted in the first half of the year, despite a competitive European scenario and strong price pressure. Despite this Mondadori Printing managed to consolidate its position with its main customers.

During the period, the cost of paper grew slightly, as already announced last year. In addition, there was an increase in energy costs, which was met by the Division with efficiency gains.

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

Printing revenues net of paper costs	€m 30 September 2006	€m 30 September 2005	Change %
Magazines	97.3	99.8	(2.5%)
Books	60.8	58.7	3.6%
Catalogues & promotional materials	25.3	21.2	19.3%
Directories	1.0	2.0	(50.0%)
Total printing revenues net of paper costs	184.4	181.7	1.5%

Direct

	€m 30 September 2006	€m 30 September 2005
Revenues from sales	17.2	20.5
Other revenues	-	-
	17.2	20.5
Operating costs	(15.5)	(16.7)
Gross operating profit	1.7	3.8
Amortizations and depreciations	(0.2)	(0.3)
Operating profit	1.5	3.5

During the first nine months of 2006 Cemit developed a programme for the reorganisation of processes and a review of the portfolio in order to meet the new challenges facing the direct marketing sector.

Also during the third quarter revenues were affected by limits imposed by new privacy legislation.

Retail

Total revenues in the Retail Division, in the first 9 months of 2006, came to €93.3 million, an increase of 4.1%.

	€m 30 September 2006	€m 30 September 2005
Revenues from sales	93.3	89.6
Other revenues	-	-
	93.3	89.6
Operating costs	(92.1)	(88.5)
Gross operating profit	1.2	1.1
Amortizations and depreciations	(1.6)	(1.7)
Operating profit	(0.4)	(0.6)

Mondadori Franchising saw a significant increase in revenues (+26.1%) thanks both to new affiliations during the twelve-month period of reference (during which the number of bookstores grew from 157 to 181), and the success of the Edicolè formula (69 outlets in operation).

The development and restructuring programme for **Mondadori Retail** continued and there was an increase in revenues from the directly owned chain, thanks to sales from existing stores and new openings in 2005 and 2006 (+2.4% compared with the previous year), compensating the fall in sales following the closure of two stores (Florence and Bologna Farini). The five new openings in shopping malls in the first half of the year will be followed by two more, also located in shopping malls, before the end of the year. Total turnover from Mondadori Retail was down by 4.5% as a result of a fall, compared with 2005, in the Corporate channel.

Radio

	€m 30 September 2006	€m 30 September 2005
Revenues from sales	6.1	2.8
Other revenues	-	-
	6.1	2.8
Operating costs	(14.6)	(9.3)
Gross operating profit	(8.5)	(6.5)
Amortizations and depreciations	(0.6)	(0.6)
Operating profit	(9.1)	(7.1)

The activities of Radio R101 during the first nine months of the year were concentrated in the first quarter on consolidating the schedule, combined with an intense communication effort on the brand and product, which led to a doubling of the audience in less than a year.

During the summer communication activities were intensified with an advertising campaign, planned exclusively on Mondadori titles, focusing on the music programming. While, in order to build the audience in particularly strategic geographic areas, a tour was organised around the main seaside resorts (especially in the centre and south of Italy) with the aim of promoting listening of R101 and increasing the number of listeners in areas considered particularly strategic.

At the same time intense activities in the acquisition of frequencies during the period mean that coverage is now more than 85%. Further investments are foreseen by the end of the year to improve signal reception in a number of principal provincial towns.

Net turnover in the first 9 months of 2006 came to €6.1 million, more than double the €2.8 million of the first nine months of last year; this figure reflects the generation of gross advertising revenues of around €10 million.

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 30 September 2006, showed a deficit of €91.2 million, as illustrated in the following table; however, considering the financial commitment involved in the acquisition of the publishing activities in France, amounting to €51 million, the level of debt would be in the region of €40 million.

Net financial position	€m	€m	€m
	30 September 2006	31 December 2005	30 September 2005
Cash and other equivalent liquid assets	88.0	73.1	42.2
Financial investments at fair value	206.7	442.9	556.5
Gains (losses) from derivatives	(22.8)	2.0	0.2
Other financial gains (losses)	(28.4)	(29.4)	(50.4)
Financing (short and medium/long term)	(454.2)	(57.5)	(163.5)
Bonds	(273.5)	(295.3)	(300.4)
Convertible bonds	(107.0)	(103.6)	(104.7)
Net financial position	(591.2)	32.2	(20.1)

The favourable global economic phase that was already clear in 2005 has continued also to the end of the third quarter of 2006, with a level of growth in the world economy of around 3.6%, from 3.0% growth in traditional markets and 6.4% in emerging markets. The most recent figures for the Italian situation, meanwhile, shows GDP growing at a rate of 2.0% in Q3 2006, essentially in line with recent trends. A similar result is expected for the full year.

During the first nine months of 2006 the €/\$ exchange rate strengthened, varying between 1.1820 (at the beginning of the year) and a maximum of 1.2963, an average rate of 1.2465 while the €£ exchange rate varied between a minimum at the end of September of 0.6695 and a maximum in early April of 0.7013 (an average rate in the period of 0.6648). The current €£ exchange rate is at an annual minimum of 0.67.

In terms of market interest rates, Euribor 3 months (Act/360) went up from 2.488% at the end of December 2005 to 3.417% at the end of September 2006 due to the actions of the European Central Bank on basic interest rates. In the same period the average cost of money for the Mondadori Group was 2.86%.

The overall credit lines available to the Group at 30 September 2006 came to around €1,578 million.

The Group's short-term borrowing facilities, for a total of €17 million, were used for about €100 million as of 30 September 2006. 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 €61 million are made up of €96.4 million from a private placement in dollars in the U.S.A., over three tranches expiring in 2013/2015/2018, €109.9 million in convertible bonds, guaranteed by Mondadori shares (expiring in 2008), €500 million for a five-year bank loan (expiring in July 2011) and €4.5 million in facilitated credit for publishers, the medium/long-term share of which amounted to €0.8 million.

The bank loan of €500 million was organised by Mondadori International at the end of July 2006, and was underwritten by a pool of six leading Italian and foreign banks. €300 million is part of a Term Loan (five years) and the remaining €200 million is a revolving credit facility (with a duration of five years, but with an option to extend for a further two years). The loan may also be used by Arnaldo Mondadori Editore SpA and is secured by the company.

On 30 September 2006 only the Term Loan part had been used, for the acquisition of Emap France.

Mondadori International

At 30 September 2006, the company's financial surplus amounted to €175 million, a reduction of € around €255 million compared with the end of 2005. In the months of August the company capitalised, for around €260 million, the company Mondadori France in the context of the acquisition of the Emap France Group.

The composition of the portfolio at that date was as follows:

- cash products, bonds and bank deposits for €147 million;
- hedge fund investments for around €28 million (broadly diversified by management and strategy).

The return of the financial portfolio in the first nine months of 2006 was 2.78% (calculated on an annual basis).

The entire portfolio can be converted to cash in a very short time, and in any case not more than three months.

Personnel

As of 30 September 2006 Group companies employed 5,594 people (4,450 at 31 December 2005), while the average number of personnel during the period amounted to 4,542 (4,518 in the same period of 2005).

It should be noticed that the figures includes the personnel of the French publishing group ex-Emap France, that entered the consolidation area from the beginning of September.

On a like-for-like basis, the average number of personnel for the period would be 4,411.

The following table shows details of Group personnel as of 30 September 2006:

Personnel	30 September 2006	31 December 2005	30 September 2005
Arnoldo Mondadori Editore SpA:			
- Managers, journalists and office staff	1,470	1,488	1,481
- Manual workers	101	107	107
	1,571	1,595	1,588
Italian subsidiaries:			
- Managers, journalists and office staff	1,560	1,576	1,574
- Manual workers	1,136	1,134	1,194
	2,696	2,710	2,768
Foreign subsidiaries:			
- Managers, journalists and office staff	1,224	42	44
- Manual workers	103	103	103
	1,327	145	147
Total	5,594	4,450	4,503

Personnel costs, amounting to €204.3 million, increased by 3.8% compared with September 2005, including also the costs for September of Mondadori France.

Expectations for the full year

In terms of performance for the full year 2006, the Mondadori Group expects to produce, net of the government paper contribution, an operating result that is higher than that of the previous year, thanks also to the contribution of the editorial businesses acquired in France.

For the Board of Directors
The Chairman
Marina Berlusconi

*Consolidated balance sheet and income statement
to 30 September 2006*

Consolidated balance sheet

Assets	Period to 30 September 2006	FY to 31 December 2005
Intangible assets	814,381	219,409
Fixed assets	4,801	5,523
Land and buildings	87,924	87,399
Plant and machinery	95,255	76,303
Other assets	37,590	45,211
Property, plant and machinery	220,769	208,913
Investments booked using net equity method	129,618	106,649
Other investments	2,175	2,156
Total investments	131,793	108,805
Non-current financial assets	774	-
Advanced taxes	45,304	37,090
Other non-current assets	4,274	3,078
Total non-current assets	1,222,096	582,818
Tax credits	29,111	30,390
Other current assets	74,955	65,481
Inventories	128,929	127,022
Trade receivables	483,128	411,085
Stocks and other current financial assets	239,951	482,204
Cash and equivalents	87,981	73,056
Total current assets	1,044,055	1,189,238
Assets destined to be sold or closed	-	-
Total assets	2,266,151	1,772,056

Consolidated balance sheet

Liabilities	Period to 30 September 2006	FY to 31 December 2005
Share capital	67,452	67,452
Share premium reserve	285,370	283,747
Treasury shares	(127,782)	(137,662)
Other reserves and results carried forward	146,626	178,163
Profit (loss) for the period	75,695	114,724
Total Group shareholders' equity	447,361	506,424
Minority capital and reserves	3,854	4,026
Total shareholders' equity	451,215	510,450
Reserves	43,521	15,637
Severance payments	102,316	98,983
Non-current financial liabilities	753,263	451,733
Deferred tax liabilities	29,974	25,998
Other non-current liabilities	-	-
Total non-current liabilities	929,074	592,351
Income taxes payable	37,883	25,111
Other current liabilities	260,974	187,748
Trade liabilities	420,382	385,032
Bank debts and other financial liabilities	166,623	71,364
Total current liabilities	885,862	669,255
Liabilities deriving from sales or closures	-	-
Total liabilities	2,266,151	1,772,056

Consolidated income statement

	Period to 30 September 2006	Period to 30 September 2005
Income from sales of goods and services	1,233,809	1,230,010
Decrease (increase) in inventories	6,639	(3,067)
Cost of raw materials and consumables and goods for resale	363,363	384,307
Cost of services	502,076	501,709
Personnel costs	204,266	196,771
Other income (expense)	(1,892)	(12,206)
Income (charges) from investments (calculated on a net equity basis)	2,269	7,170
Gross operating profit	161,626	169,666
Depreciation of property, plant and equipment	24,164	24,485
Amortisation and impairment of intangible assets	1,171	1,464
Operating profit	136,291	143,717
Financial income (expense)	(6,222)	(2,947)
Income (expense) from investments	28	(237)
Profit before income taxes	130,097	140,533
Income taxes	53,415	47,358
Profit from continuing activities	76,682	93,175
Income (expense) from assets/liabilities held for sale	-	-
Result attributable to minorities	(987)	(1,028)
Net profit	75,695	92,147
Net profit per share (in €)	0.31	0.38
Diluted net profit per share (in €)	0.31	0.38

Consolidated income statement

	Q3 2006	Q3 2005
Income from sales of goods and services	423,706	404,464
Decrease (increase) in inventories	(608)	(9,031)
Cost of raw materials and consumables and goods for resale	122,081	128,453
Cost of services	168,183	172,093
Personnel costs	71,707	61,867
Other income (expense)	(1,346)	(9,137)
Income (charges) from investments (calculated on a net equity basis)	(474)	2,603
Gross operating profit	63,215	62,822
Depreciation of property, plant and equipment	8,583	8,409
Amortisation and impairment of intangible assets	443	437
Operating profit	54,189	53,976
Financial income (expense)	(4,518)	2,484
Income (expense) from investments	(4)	(332)
Profit before income taxes	49,667	56,128
Income tax	18,519	15,421
Result attributable to minorities	(574)	(411)
Net profit	30,574	40,296

For the Board of Directors
The Chairman
Marina Berlusconi