

ARNOLDO MONDADORI EDITORE S.p.A.

Share Capital € 67,451,756.32

Head Offices in Milan

Administrative Offices in Segrate (MI)

**Interim report on the year
to 30 September 2008**

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Report of the Board of Directors

Report of the Board of Directors on the first nine months of the year to 30 September 2008

From the beginning of the second half of 2008, as feared, the effects on the real economy of the financial and macroeconomic problems that had emerged in the preceding period began to be felt and had an immediate and somewhat violent impact on consumer spending. A period of recession is now almost certain, and it is difficult to forecast either the quantitative impact or duration.

In Italy that characterising element of the general situation in the market of reference for the Mondadori Group has been a further marked decline in advertising investments, while there has been a continuation, without particular variations, in the slowdown in circulation and add-on sales. The growth recorded by books in the first months of the year has also come to a halt.

In France, magazine circulation has fallen, but also here it is advertising that has been most affected by the situation of uncertainty about prospects in the short term.

Despite such a difficult context, the Mondadori Group confirmed its capacity on the revenue front, recording a gross operating profit - net of add-on sales - that was higher than that of the corresponding nine-month period of the previous year, notwithstanding ongoing investments in business development.

This has been made possible by paying close attention to operating costs and efficiencies in all areas of the company: in fact, during the third quarter, there was a very significant fall in personnel costs and the cost of sales.

Consolidated revenues for the first nine months of 2008 came to €1,368.1 million, a fall of 5.1% compared with the €1,441.7 million in the first nine months of 2007 (-1.5% net of add-on sales).

Consolidated gross operating profit at 30 September 2008 came to €168.8 million, a fall on 9.8% on the €187.1 million of the same period of the previous year. As a proportion of revenues, a fall to 12.3% from the 13.0% of the same period of 2007.

Net of the impact of add-on sales (-€20.8 million) and non-recurring factors (increased capital gains: +€3.0 million; personnel: -€1.5 million due to the application of new regulations on leaving entitlements in 2007 and extraordinary charges), operating margin would have grown by €1.0 million due to:

- improved business results (+€7.2 million)
- increased investments in development activities (-€6.2 million).

Consolidated operating profit at 30 September 2008 came to €137.5 million, a fall of 11.0% on the €154.5 million of the same period of 2007, with amortizations and depreciations of tangible

and intangible assets for a total of €31.3 million (€32.6 million in 2007); as a proportion of revenues, a fall from the 10.7% of 2007 to 10.1% this time.

Consolidated profit before taxation amounted to €104.5 million, a fall of 19.8% on the €130.3 million of the first nine months of 2007, with an increase of €8.8 million in net financial charges, essentially due to the increased cost of borrowing (around €4.7 million) and lower returns from financial investments (around €3.1 million) and the IAS regulations regarding leaving entitlements (€1.0 million).

Consolidated net profit at 30 September 2008 came to €58.8 million, a fall of 16.1% on the €70.1 million for the same period of the previous year.

Gross cash flow in the first nine months of 2008 amounted to €89.9 million, compared with €102.7 million in the first nine months of 2007.

The Group's **net financial position** at 30 September 2008 showed a deficit of €644.5 million, compared to a deficit of €535.3 million at the end of 2007. During the period income taxes of €65.5 million and dividends of €83.8 million were paid out.

The performance of the different business areas in which the Mondadori Group operates is examined in more detail in the sections dedicated to the business areas. The following are the highlights:

Results for the period

Consolidated income statement in €m	Q3			To 30 September		
	2008	2007	Change	2008	2007	Change
Income from sales of goods and services	438.0	481.1	(9.0%)	1,368.1	1,441.7	(5.1%)
Personnel costs	82.9	90.8	(8.7%)	271.5	269.9	0.6%
Cost of sales and management (*)	291.5	323.1	(9.8%)	932.9	986.0	(5.4%)
Income (charges) from investments calculated on a net equity basis	0.7	0.4	75.0%	5.1	1.3	n.s.
Gross operating profit <i>as a proportion of revenues</i>	64.3 <i>14.7%</i>	67.6 <i>14.0%</i>	(4.9%)	168.8 <i>12.3%</i>	187.1 <i>13.0%</i>	(9.8%)
Depreciation of property, plant and machinery	8.7	9.2	(5.4%)	25.6	27.2	(5.9%)
Depreciation of intangible assets	1.9	1.8	5.6%	5.7	5.4	5.6%
Operating profit <i>as a proportion of revenues</i>	53.7 <i>12.2%</i>	56.6 <i>11.8%</i>	(5.1%)	137.5 <i>10.1%</i>	154.5 <i>10.7%</i>	(11.0%)
Net financial income (charges)	(13.4)	(12.2)	9.8%	(33.0)	(24.2)	36.4%
Other income (charges)	-	-	-	-	-	-
Profit for the period before taxation <i>as a proportion of revenues</i>	40.3 <i>9.2%</i>	44.4 <i>9.2%</i>	(9.2%)	104.5 <i>7.6%</i>	130.3 <i>9.0%</i>	(19.8%)
Tax charges	18.1	20.3	(10.8%)	45.2	59.5	(24.0%)
Minority interest	(0.2)	(0.2)	-	(0.5)	(0.7)	(28.6%)
Net profit	22.0	23.9	(7.9%)	58.8	70.1	(16.1%)

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

Consolidated revenues amounted to €1,368.1 million, a fall of 5.1%. The following table illustrates the business volumes for each business area.

Business volumes by business area	€m	€m	Change %
	30 September 2008	30 September 2007	
Books	316.5	326.4	(3.0%)
Magazines	725.5	791.8	(8.4%)
Advertising	244.7	248.8	(1.6%)
Printing	281.2	333.3	(15.6%)
Direct	15.9	17.1	(7.0%)
Retail	128.6	119.9	7.3%
Radio	11.1	7.4	50.0%
Corporate and other business	12.8	12.5	2.4%
Total sales	1,736.3	1,857.2	(6.5%)
Intergroup sales	(368.2)	(415.5)	(11.4%)
Total consolidated revenues	1,368.1	1,441.7	(5.1%)

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

Revenues by geographical area	€m	€m	Change %
	30 September 2008	30 September 2007	
Italy	1,009.4	1,080.0	(6.5%)
France	280.3	278.4	0.7%
EU countries	63.3	72.0	(12.1%)
USA	5.9	5.6	5.4%
Others	9.2	5.7	61.4%
Total consolidated revenues	1,368.1	1,441.7	(5.1%)

Book Division

The following table shows the performance of the Mondadori Group's Book Division in the first nine months of 2008 compared with the same period of the previous year.

	€m	€m
	30 September 2008	30 September 2007
Book sales	309.8	320.3
Other revenues	6.7	6.1
	316.5	326.4
Operating costs	(253.1)	(258.4)
Gross operating profit	63.4	68.0
Amortisations & depreciations	(2.2)	(2.0)
Operating profit	61.2	66.0

In the first nine months of 2008 the Book Division generated revenues of €316.5 million, a fall of 3% on the same period of 2007 (-1.8% net of the contribution of the sale of rights for add-on sales initiatives), confirming its leadership in the trade segment with a marked advantage over its main competitors, despite a period of recession and a general decline in consumer spending.

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

Books	€m		Change %
	30 September 2008	30 September 2007	
Edizioni Mondadori	93.5	94.1	(0.6%)
Einaudi	37.0	35.1	5.4%
Mondadori Electa	29.2	35.2	(17.0%)
Sperling & Kupfer Group	16.9	21.2	(20.3%)
Mondadori Education	70.9	72.1	(1.7%)
Piemme	37.4	42.8	(12.6%)
Distribution & logistics	24.9	19.8	25.8%
Other revenues	6.7	6.1	9.8%
Total consolidated revenues	316.5	326.4	(3.0%)

Particularly positive results were recorded by Edizioni Mondadori, that saw its market share increase by a full percentage point, and Einaudi, which grew by 0.6%, confirming its position as Italy's second-largest publisher, after Edizioni Mondadori.

There was a slight fall compared with the previous year in the market shares of Sperling & Kupfer (-0.2%) and Piemme (-0.9%), the latter benefitting in the same period of 2007 from the publication of the bestseller by Khaled Hosseini *Mille splendidi soli*.

To the above-mentioned market shares that are relative to just large and medium-sized bookstores, it should be noted that the value market share of the Mondadori Group through the large-scale retail channel is estimated at more than 35%.

Edizioni Mondadori

In the first nine months of 2008 Edizioni Mondadori generated revenues of €93.5 million, a slight fall compared with the previous year (-0.6%).

Among the important events during the period was the exceptional success of *La solitudine dei numeri primi*, the first novel by a new writer, Paolo Giordano, which in July also won the 2008 Premio Strega, and has sold more than 800,000 copies.

Of note in the non-fiction area was *Inchiesta sul Cristianesimo* by Augias – Cacitti, published at the beginning of September (170,000 copies), while the performance was confirmed for titles such as *La paura e la speranza* by Giulio Tremonti (125,000 copies) and *Chi ha paura muore ogni giorno* by Giuseppe Ayala (40,000 copies). Notice should also be given to the publication, at the end of September, of the new book by Bruno Vespa *Viaggio in un'Italia diversa*.

The Strade Blu imprint performed beyond expectations in the first half and in the last three months saw a continuation of the extraordinary phenomenon that is *Gomorra*, which has now sold in excess of one and a half million copies. Also of note was the novel by Junot Diaz *La breve favolosa vita di Oscar Wao* (Pulitzer Prize 2008), and the second book by Concita De Gregorio, *Malamore*, which was published in the very same days that she was nominated the new editor of L'Unità.

In the summer of 2008, the Oscar imprint saw the creation of a new series, Grandi Bestseller, and published a number of successful titles such as *Come Dio comanda* by Niccolò Ammaniti (60,000 copies), *Il libro dei morti* by Patricia Cornwell and *Racconti di Montalbano* by Andrea Camilleri (both more than 40,000 copies).

In foreign fiction, there were good starts for the new books by John Grisham, *Ultima sentenza* (220,000 copies) and Patricia Cornwell, *Al buio* (100,000 copies), as well as the recent *Yssa il Buono* by John Le Carré (30,000 copies).

In Children's books, meanwhile, there were excellent results for *Kung Fu Panda* a tie-in with the recent Dreamworks film. The various publications (book, illustrated book, book of puzzles) sold a total of more than 100,000 copies.

Giulio Einaudi editore

In the first nine months of 2008 there was an increase in total net revenues of 5.4% compared with the same period of 2007, following a marked increase in the bookshop channel, which compensated a fall in the instalments channel and a downturn in the sale of rights for add-on sales initiatives for newspapers and magazines.

Growth in the bookshop channel is particularly significant if account is taken of the fact that it was achieved not by the high sales of a few titles, but by the very positive, sometimes exceptional, sales of a range of titles with medium-sized or large print runs.

Some of the new titles in the period achieved excellent results: *Firmino* by Sam Savage, one of the publishing phenomena of the year, sold more than 330,000 copies, while the autobiographical book by the journalist Eugenio Scalfari, *L'uomo che non credeva in Dio*, reached 90,000 copies.

Among the other books that performed well in the first nine months of the year, we would highlight: *L'ottava vibrazione* by Carlo Lucarelli (more than 130,000 copies) *Crimini II* by AA.VV. (60,000 copies), the new book by Fred Vargas, *Un po' più in là sulla destra* (70,000 copies), *Quello che ti meriti* by Anne Holt (60,000 copies), *Fuoco amico* by Abraham Yehoshua (more than 45,000 copies), *Kafka sulla spiaggia* by Haruki Murakami (30,000 copies), *Carosello* by AA.VV. (25,000 copies), *Non avevo capito niente* by Diego De Silva, which, published in 2007, has sold more than 35,000 copies in 2008.

Mondadori Electa

Revenues for the first nine months of the year came to €29.2 million, a fall of 17% on the same period of 2007.

Mondadori Electa felt the effects of the general downturn in all of the market segments in which it operates; the fall in revenues from the bookshop channel and the forecasted decline in the volume of business related to add-on sales was compounded by difficulties in the exhibition catalogue market and the bookshops in the national heritage area. Around 80% of the fall in revenues was determined by commissioned business (as well as add-on sales, sponsors and co-editions with foreign publishers), businesses that are structurally high margin.

Among the books of note published in the first part of the year were *I miei Giardini* by Paolo Pejrone, *Cinema e Oltre* by Morricone (in its third edition in less than eight months), and *La Moda e l'Architettura* by Gisella Giammarresi.

In the last quarter, of special note are the publications by Julien Bell, *Lo Specchio del mondo*, and Alberto Arbasino, *Correggio*.

In the sector of concessionary services and exhibition organisation, the Coliseum remained by a wide margin Italy's most visited monument, even if the number of visitors was essentially in line with last year. Within the site a number of successful exhibitions were organised and note should be made of the successes of both the exhibitions and catalogues of Ugo Mulas, Schifano at the GNAM, and the publication of the catalogue *Italics* by Francesco Bonami, to coincide with the exhibition at Palazzo Grassi.

Sperling & Kupfer Group

The process of reorganising the catalogue, begun at the end of 2007, continued, with a focused editorial policy that has reduced the number of titles published annually and seen a reduction in the number of less attractive new titles.

At the end of the third quarter of 2008, Sperling & Kupfer had recorded revenues of €16.9 million, a fall of 20.3% compared with the previous year.

In terms of management, one of the most significant results was a containment of returns, the consequence of a rationalisation of production that was put in place in the second half of last year.

A number of titles published in the first part of the year maintained a good performance: *Bambino 44* by Tom Rob Smith reached sales of 50,000 copies, *La scelta* by Nicholas Sparks sold more than 130,000 copies and *Perché proprio a me?* by Melania Rizzoli achieved sales of 30,000 copies.

Among the new titles published in the period were a number of important titles by authors in the portfolio: *Il delfino e le onde* by Sergio Bambaren (more than 40,000 copies), *Più bella di così* by Maria Daniela Raineri (20,000 copies), and *Gli italiani la sanno lunga o no?!* by Antonio Caprarica (45,000 copies).

The period also saw the publication of titles by first-time authors, among the most successful of these were: *Quello che non ti aspetti* by Francesco Facchinetti (more than 10,000 copies), *I numeri della sabbia* by Roger R. Talbot (15,000 copies) and above all *Io e Dewey* by Vicki Myron (more than 40,000 copies).

Mondadori Education

In the first nine months of 2008 Mondadori Education generated net sales revenues of €70.9 million, a fall of 1.7% on the same period of the previous year.

Despite a slight fall, the primary school segment confirmed the good results of recent years with all of the newly adopted titles registering sales of more than 40,000 copies, while the extra-curricular titles also produced good results.

In the first level secondary segment, despite a slight fall in the catalogue, results were very satisfactory for a number of new titles and new editions, while the acceptable results of the new fiction series was penalised by the growing control of expenditure caps.

The second level secondary segment substantially maintained its market share with a brilliant performance by the new *Electa scuola* brand. The introduction of expenditure caps in this segment of the market determined a postponement by some teachers of certain subjects which were downgraded from “adopted” to “recommended”, such as English grammar, translations, civics and the classics.

In September, two new norms, the obligation over the next three years to create digital versions of all books from adoption and a six-year block on new for high schools and a five-year block for those for primary schools, have created the conditions for considerable disruption in the established market situation.

Edizioni Piemme

In the first nine months of 2008 Piemme generated revenues of €37.4 million, a fall of 12.6% on the same period of 2007, which benefited from the Khaled Hosseini “effect” with the publication of *Mille splendidi soli*.

Compared with 2007 there was a big rise in Non-fiction, the most important titles being: *La bambina che non esisteva* by Shakib Siba which sold more than 80,000 copies, *Il traduttore del silenzio* by Daoud Hari (more than 40,000 copies) and *Il paese di polvere e di vento* by Hamida Ghafour. Revenues from Fiction held up well thanks to a number of successful new titles such as the thriller by Michael Connelly *Avvocato di difesa* (more than 70,000 copies), *L'ottavo arcano* by Kate Mosse (50,000 copies) and *La parrucchiera di Kabul* by Deborah Rodriguez (50,000 copies).

The Religion area saw a marked improvement on 2007 not only for the excellent sales of the new book by Dalila Di Lazzaro *L'angelo della mia vita* (100,000 copies) but for a good performance by all the titles in the line.

The Paperback area saw an overall increase compared with 2007 thanks to the results of the new Bestseller series, launched in June 2007. Of particular note here were *La danzatrice bambina* by Anthony Flacco (60,000 copies) and *Il mio cielo* by Dalila Di Lazzaro (30,000 copies).

In the Junior segment, the Battello a Vapore line saw significant growth compared with the same period of 2007. First and foremost thanks to the growing success of series such as *GOL!* and *Scuola di danza*, as well as the launch of new titles for slightly older children *Clone Wars* (13,000 copies).

The Stilton line recorded good sales for new titles such as *La grande invasione di Topazia* (120,000 copies) and with an important line-extension programme in the direction of fantasy with *Il Reame Perduto* (more than 70,000 copies sold).

Distribution & Logistics

Revenues from Distribution & Logistics in the first nine months of the year showed an increase of 25.8% on the same period of 2007.

Revenues from third-party publishers continued the positive trend of the first six months, and there was a particularly positive performance from Baldini e Castoldi Dalai compared with the same period of 2007, thanks to the new book by Giorgio Faletti.

The overall business also increased thanks to cost cutting achieved through efficiency recovery operations. There was also a good performance in service levels thanks to the technological investments made which have made it possible to maintain levels of excellence along the logistics-distribution chain.

Magazine Division

The revenues of the Magazine Division recorded a fall of 8.4%, and amounted to a total of €725.5 million.

	€m 30 September 2008	€m 30 September 2007
Magazine revenues	702.7	769.4
Other revenues	22.8	22.4
	725.5	791.8
Operating costs	(621.5)	(675.4)
Gross operating profit	104.0	116.4
Amortizations and depreciations	(4.5)	(4.4)
Operating profit	99.5	112.0

Italy

Revenues generated in Italy in the first nine months of 2008 amounted to €440.9 million, a fall of 12.5% compared with the €504 million of the same period of 2007.

The shortfall in revenues is attributable to the following factors:

- weakness in circulation revenues in line with the reference market, marked by a decline that has affected almost all segments of the business, penalised by both the general economic situation and the natural prudence of publishers with regards to increasing cover prices;
- a marked fall in revenues from add-on sales, in line with the main competitors. The ongoing decline in this type of activity has necessitated a stricter selection of the initiatives in order to maintain significant margins while reducing the risks of failure;
- a downturn in magazine advertising which, after an encouraging start in the first quarter, saw an abrupt slowdown, above all from the summer period.

Among the most significant factors during the year have been:

- the re-launch of some important titles, such as *Panorama*, *Donna Moderna*, *Grazia*. In all three cases with a significant review of the editorial content being followed by a promotional phase and support that have led to a strengthening of the circulation leadership of the titles and facilitated deeper penetration of the advertising sectors of reference;

- the transformation of the monthly *Cambio*, published by the subsidiary Aci Mondadori, into *Panoramaauto*, with positive results, particularly on the advertising side;
- the development of digital activities that has involved a number of titles and the most significant action being the launch of the new “*www.donnamoderna.com*” web site. This initiative which aims, through the ongoing affirmation of the “portal”, to gain a leadership position in the area of women’s interest already in the summer quarter saw a significant increase in traffic and unique visitors;
- the development of the subsidiary Press-Di, that continued to acquire new clients, in particular for the distribution of magazines (*Walt Disney*);
- ongoing and effective cost controls that, as in 2007, have helped top compensate the fall in margins caused by pressure on revenues.

What follows is a summary of the situation, divided by the main determining factors.

Circulation

In a market that declined by around 5% in terms of copies (figures from the end of August), Mondadori maintained its market share leaving it in a position of absolute competitive pre-eminence.

The best performance was seen in the male/news segment in which *Panorama* extended its advantage over the competition, in women’s weeklies where *Donna Moderna* strengthened its circulation base and in all of the up-scale segment, where *Grazia* and *Flair* confirmed not only growth in circulation but also in advertising.

Finally, it is worth noting that, in view of the marked problems facing the sector, many publishers, including Mondadori, are re-examining their distribution policies in order to reduce, with respect to total circulation, the proportion of promotional sales with lower profitability.

Add-on sales

As is well known, the add-on sales phenomenon is undergoing a substantial downsizing. In market terms the business is down by around 30%: with declines in all segments (Music, Home Video, Editorial, and Miscellaneous goods) of between 20 and 30%.

Mondadori is tracking this trend, after a 2007 of marked stability, with an approach aimed at “piloting” the fall in revenues while maintaining good levels of profitability.

The best results have been achieved by the Home Video series with *Panorama* and *TV Sorrisi e Canzoni*, editorial products with *Chi*, *Donna Moderna* and *TV Sorrisi e Canzoni* and initiatives based on Music. Finally, there were good performances for the so-called “Multi-title” initiatives supported by all the Mondadori weeklies.

International activities

There was continued revenue growth from *licensing* both due to the ongoing success of existing titles and the launch of new licences. To 30 September the number of licences in the international network had grown to 15.

The month of October saw the addition of *Sale&Pepe* in Romania, *GraziaCasa* in Croatia and *Casaviva* in Bulgaria, raising the total to 18.

The subsidiary Attica continued its expansion with *Casaviva* in Greece and other launches in Bulgaria, Romania and Serbia.

France

Mondadori France ended the third quarter of 2008 with cumulative revenues of €284.6 million, essentially in line with the same period of 2007 (-1.1%).

The circulation revenues of Mondadori France remained at the levels of the previous year, both in terms of newsstand sales and distribution through the subscription channel.

Revenues from advertising, meanwhile, saw a sharp slowdown compared with the previous year, in line with an advertising market in which there have been many difficulties since the beginning of the year. Mondadori France safeguarded its market share, but nevertheless saw a fall compared with 2007.

New initiatives launched in the area of add-on sales, despite producing an increase in relative revenues, have not guaranteed the margins and development that the company was aiming for: such results have been further affected by an unfavourable trend in consumer spending.

Over the first nine months of the year the company's efforts have been concentrated in:

- pursuing the study and realisation of a new up-scale weekly magazine
- the development of digital activities, including the launch of new versions of the *Top Santé* and *Closer* web sites;
- the launch of a series of initiatives in the add-on sales area to test the potential of the French market.

Mondadori France has continued its activities for the control and reduction of costs, with important savings in industrial and distribution costs.

Circulation

The Group's titles recorded circulation figures that overall were positive: once again the redesigns carried out have met with public satisfaction and satisfactory results in terms of sales.

The performance of *Closer* and *Biba* remained excellent; and also *Modes & Travaux* and *Top Santé* held up well at the newsstand. Good results were achieved, following their re-launches by *Le Chasseur Français* and *Telestar Jeux*, while difficulties remained in the TV guides segment.

Overall, also sales revenues from subscriptions remained at the level of the previous year, thanks to a marked increase for *Closer* and *Autoplus*, that compensated for subscription losses for other titles.

Advertising

Also in the third quarter there was a continuation of the slowdown in advertising in the French magazine market. At the end of September, the accumulated shortfall on the previous year was 3.1% in terms of volume (Source: TNS-MI).

While maintaining its market share, Mondadori France was particularly penalised by the negative trend recorded in the *Femme Grand Public* and Television segments. Growth compared with the previous year was recorded only by *Closer* and *Biba*, driven by strong circulation growth. The titles in the Auto sector (penalised overall by the country's poor economic performance) saw advertising sales that were close to the level of the previous year.

Advertising

	€m 30 September 2008	€m 30 September 2007
Advertising revenues	239.9	246.4
Other revenues	4.8	2.4
	244.7	248.8
Operating costs	(243.7)	(248.1)
Gross operating profit	1.0	0.7
Amortizations and depreciations	(0.2)	(0.2)
Operating profit	0.8	0.5

The market

After a first half that closed with +0.9% advertising investments in the third quarter of 2008 showed a marked and progressive slowdown: in September 2008 the figure was unchanged compared with 2007.

In particular, in print media there was a decided shortfall for Magazines which saw a downturn of 4.5% compared with 2007. In the different segments Fashion continued to perform well and partially mitigated an overall decline in revenues that was aggravated above all by difficulties in the FMCG, Cosmetics, Auto, Telecoms, Finance and IT segments.

Growth in television advertising was stable (+1.4%) while radio (+5.7%) and the internet (+18.9%) continued to perform well.

The advertising company

The trend in advertising sales for Mondadori Pubblicità, after once again ending the first quarter positively, albeit with a lower level of growth, was subject to a worrying downward trend in the market in the third quarter, resulting in September sales that were around 1.6% down on 2007.

As regards the individual titles, there was continued evidence of growth in the *Grazia* “network” (+9%) while sales (display advertising) remained positive for *TV Sorrisi e Canzoni* and *Panorama*, despite a particularly critical trend in the segments typically oriented to male readers. Among the monthly titles, that in general are more affected by the current economic difficulties, *Flair* continued to benefit from the positive trend in the fashion segment.

R101 further consolidated its growth with +38% in September, thanks also to special initiatives developed by the advertising sales company during the summer period.

Growth in the Internet sector was essentially in line with the market trend, and benefited, among other things, from the excellent performance recorded by the *Donna Moderna* web site (www.donnamoderna.com).

Printing Division

	€m	€m
	30 September 2008	30 September 2007
Printing revenues	281.2	333.3
Other revenues	-	-
	281.2	333.3
Operating costs	(264.6)	(307.6)
Gross operating profit	16.6	25.7
Amortizations and depreciations	(16.1)	(17.9)
Operating profit	0.5	7.8

The situation to 30 September 2008 showed a significant fall in revenues compared with the same period of the previous year.

In fact, during the first nine months of 2008 the Printing Division generated total revenues of €281.2 million, a fall of 15.6% compared with the same period of the previous year, mainly the result of the lack of commissions on behalf of “Mondadori Education”, that were a feature of 2007.

The market for catalogues and commercial products remained stable and in line with forecasts; the foreign market for illustrated books showed signs of recovery in relation to European print volumes compared with the Far East and a number of interesting printing contracts were completed for the US market.

In the quarter there was a marked fall in paginations due to the sharp downturn in advertising compared with the trend up to the end of June.

The slowdown in the market for add-ons for newspapers and magazines continued compared with the previous year.

There was a slight increase in the cost of paper, in particular that used for magazines (LWC and SC).

Production levels were below the budget, despite significantly reducing outsourcing. The following table illustrates revenues net of the cost of paper and transport.

Printing revenues net of paper costs	€m	€m	Change %
	30 September 2008	30 September 2007	
Magazines & supplements	83.0	92.6	(10.4%)
Books	41.9	65.7	(36.2%)
Catalogues & promotional materials	24.5	25.9	(1.5%)
Directories	1.0	1.2	(16.7%)
Total printing revenues net of paper costs	150.4	185.4	(18.9%)

Direct Division

	€m	€m
	30 September 2008	30 September 2007
Revenues	15.9	17.1
Other revenues	-	-
	15.9	17.1
Operating costs	(14.6)	(15.4)
Gross operating profit	1.3	1.7
Amortizations and depreciations	(0.1)	(0.2)
Operating profit	1.2	1.5

In the first nine months of the year **Cemit** operated in an increasingly difficult market, characterised by reductions in communication investments.

During the period the company recorded revenues of €15.9 million, a fall of around 7% on the same period of the previous year.

The impact on profitability was lower thanks to an improvement in the mix, which was more focused of higher value added activities and the ongoing control of costs.

Retail Division

Total revenues from the Retail Division in the first nine months of 2008 came to €128.6 million, an increase of 7.3%.

	€m	€m
	30 September 2008	30 September 2007
Revenues	128.6	119.9
Other revenues	-	-
	128.6	119.9
Operating costs	(127.8)	(118.8)
Gross operating profit	0.8	1.1
Amortizations and depreciations	(5.5)	(5.1)
Operating profit	(4.7)	(4.0)

Mondadori Franchising continued to implement its development programme, and now has Italy's most extensive network of the sale of editorial products, with 369 outlets.

Currently, the network includes 212 bookshops (compared with 205 in the previous year) and 157 Edicolè outlets (compared with 117 last year).

Revenues were up by more than 10%, thanks above all to new affiliations.

Mondadori Retail focused also in the third quarter of 2008 on the integration of the ex Messaggerie Musicali (Mondadori Shop) chain and the rationalisation of the network.

The number of outlets now under direct management has risen to 30: and at the end of June a new store at Brescia Freccia Rossa was opened.

Like-for-like sales (including sponsorships) were down compared with last year.

Also during the third quarter of 2008 there was a fall in non-food consumer spending and Mondadori Retail has obviously been affected by this dynamic in the market, particularly in the areas of digital and audio/video, while books and stationery/games continued to grow.

Radio

The net revenues of R101 in the first nine months of the year amounted to €11.1 million (€7.4 million in 2007), corresponding to gross advertising revenues of over €16 million (+33.3% on the same period of the previous year).

	€m 30 September 2008	€m 30 September 2007
Revenues	11.1	7.4
Other revenues	-	-
	11.1	7.4
Operating costs	(12.1)	(15.3)
Gross operating profit	(1.0)	(7.9)
Amortizations and depreciations	(1.2)	(0.8)
Operating profit	(2.2)	(8.7)

Also in the 5th cycle the Audiradio ratings saw the average daily listeners at 2.1 million, an increase of 4.8% on the previous two-month period and 11% on the same period of the previous year. These results are of particular note given that the market as a whole showed a slight fall, with radio listeners down (-1.9%) compared with the 5th cycle of the previous year. Ratings over the 7 days, of 8.2 million, consolidate R101's position among the top 6 commercial radio stations in Italy.

After the summer period, a number of important changes were made to the schedule which has also this year been enriched with new programmes and presenters.

Marketing activities conducted by R101 during the year were aimed at maximising investments on the basis of the communication objectives: at the beginning of the year a "local" communication campaign was launched (using print media, outdoor and events) in order to reinforce awareness in areas with good growth prospects.

Subsequently, brand communication was extended nationally using the most important TV networks. In the summer a six-date Tour was organised in some of Italy's most important seaside resorts with the aim of building up the audience in geographic areas considered to be particularly strategic.

In May, 4 thematic web radio stations were launched (*music of the '80s, '90s, current, non stop music*) on the R101 web site which continue to show significant traffic (more than 250,000 visitors and around 3 million page views per month).

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

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 2008, showed a deficit of €644.5 million, after dividend payments to shareholders totalling €83.8 million.

	€m	€m	€m
Net financial position	30 September 2008	31 December 2007	30 September 2007
Cash and other equivalent liquid assets	249.0	225.1	130.0
Financial investments at fair value	91.9	108.5	188.1
Gains (losses) from derivatives	(37.7)	(51.3)	(65.7)
Other financial gains (losses)	(46.6)	(23.5)	(48.3)
Financing (short & medium/long term)	(533.1)	(444.5)	(472.9)
Bonds	(256.2)	(241.3)	(244.1)
Convertible bonds	(111.8)	(108.3)	(109.4)
Net financial position	(644.5)	(535.3)	(622.3)

The worsening of the global economic situation and the pressures on markets and world financial institutions in the third quarter of 2008 and in the month of October, are raising fears of a widespread and persistent recession also in the coming quarters.

This situation, which began in 2007 and was the result of the crisis in subprime mortgages and the real estate market in the United States, has spread rapidly in recent months to the whole of the financial system. The consequences have been, on the one hand, a grave crisis in liquidity and confidence, and, on the other, a growing series of bankruptcies and state injections aimed at saving some of the leading investment banks.

The financial crisis has led to a considerable tightening of credit conditions which, combined with a slowdown in consumer spending, a reduction in investments and a fall in disposable income, could increase the likelihood of a significant downturn in the real economy.

Europe has already recorded two quarters of negative growth (-0.7%) and expectations for the third and fourth quarters remain negative. In the USA, meanwhile, the second quarter of 2008 showed growth of 2.8%, sustained by favourable fiscal policies, exports and investments in reserves. The global crisis is also being felt in the emerging economies where there has been a slowdown in growth below the levels of recent years and in a fall in the reduction in capital flows that are pulling out of investments deemed to be risky.

The evolution of this situation will depend largely on how markets and operators respond to policies introduced and currently being defined by governments and central banks in different countries to deal with the problems arising from the financial crisis. Such measures will mainly tend to try to mitigate the credit crisis, expand the monetary base and drive growth. Other measures will attempt to guarantee bank liquidity, encouraging the re-capitalisation through direct investment and the provision of additional loans to build confidence and drive a recovery in the interbank finance market.

After the most recent measures, the base rate was fixed by the Central European Bank at 3.25%, a 1% reduction on the level fixed with the increase announced at the beginning of July. Further rate cuts are expected and to be hoped for soon. In the USA, meanwhile, the Federal Reserve has already intervened twice and, at the end of October, the rate on Fed Funds was 1.0%.

On the exchange rate front, since July the Euro/Dollar rate has weakened, falling from a high of 1.60 to levels (1.25 – 1.30) not seen since 2006. This phenomenon is related to the crisis in confidence in European banking and the imbalance between the (devalued) assets and liabilities in Dollars held by European banks. Decidedly less certain is the trend in the Euro/Pound exchange rate, which since March has swung between around 0.77 and 0.81.

In terms of market interest rates, Euribor 3 months (Act/360) went up during the year, in tandem with the crisis in liquidity and confidence, reaching a maximum of (5.393%) on 10 October. Since then, following measures taken by governments and the ECB, it has fallen steadily to below 4.80%. In the period from January to September 2008, the average rate was 4.778%. In the same period the average cost of money for the Mondadori Group was 4.380%.

The overall credit lines available to the Group at 30 September 2008 came to almost €1.70 billion, of which €1.22 billion committed.

The Group's short-term borrowing facilities, of around €711.2 million, were used for about €260.8 million as of 30 September 2008. Such facilities are made up of:

- €109.9 million from a bonded loan convertible in ordinary Mondadori shares fully repaid expiring on 20 October;
- €118.0 million from stand-by loans with a duration of less than 18 months minus one day;
- €32.9 million from overdrafts on current accounts.

Medium-long-term lines of around €1.0 billion 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;
- €40.8 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 in the summer of 2006. This multi-borrower (Mondadori International SA and Arnoldo Mondadori Editore SpA) loan is made up of a term loan of €300 million and a revolving credit facility of €200 million; as of 30 September 2008 the latter had not been used. On 50% of the term loan portion of the bank loan, a swap has been effected from a variable to a fixed rate, on which a basis swap has recently been attached to exploit the difference between the Euribor rates at three and one month, and which has enables a reduction of the fixed rate;
- €150 million for a "bilateral" bank loan, expiring in May 2013, from Intesa Sanpaolo and made up of a term loan of €75 million and a revolving credit facility for the same amount.

Mondadori International

The assets under management by the company as of 30 September 2008 amounted to €219.3 million (€222.9 at the end of 2007). It should be noted that, at the end of June, the company's financial investments in hedge funds were liquidated.

Personnel

As of 30 September 2008, Group companies employed 5,394 people (5,586 at 31 December 2007), while the average number of personnel during the period amounted to 5,435 (5,599 in the same period of 2007).

The following table shows details of Group personnel as of 30 September 2008:

Personnel	30 September 2008	31 December 2007	30 September 2007
Arnoldo Mondadori Editore SpA:			
- Managers, journalists and office staff	1,311	1,367	1,365
- Manual workers	106	108	108
	1,417	1,475	1,473
Italian subsidiaries:			
- Managers, journalists and office staff	1,817	1,832	1,831
- Manual workers	969	1,010	1,037
	2,786	2,842	2,868
Foreign subsidiaries:			
- Managers, journalists and office staff	1,087	1,166	1,139
- Manual workers	104	103	103
	1,191	1,269	1,242
Total	5,394	5,586	5,583

Personnel costs went from €269.9 million to €271.5 million, an increase of 0.6%.

Capital investments

In the first nine months of 2008 the Group made capital investments of €27.1 million, in buildings, plant and machinery, €9.7 million of which is operative.

Disinvestments during the period, comprising normal turnover due to technical obsolescence, amounted to a residual total of €1.1 million

Other information

This consolidated interim report for the period to 30 September 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 required by art. 154 ter comma 5 – introduced by the Legislative Decree 195/2007 - of LD 58/1998.

In order to ensure like-for-like comparison with the accounting figures in this document with those of previous reports and continuity in terms of market information, the interim report for the period to 30 September 2008 has been prepared in line with previous such reports, with specific reference to Enclosure 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.

Sale of “nature” titles

On 30 September 2008 agreement was finalised for the sale to Sofimav of two specialised titles published by Mondadori France.

On the basis of the agreement, the activities of the two titles, *Le Peche et les Poissons e Peche Mouche*, as well as some support structures, have been transferred to the buyer.

The total value of the transaction was established at €1.3 million.

The operation is part of ongoing activities aimed at focusing the company’s portfolio of titles in France in the up-scale and mass market segments which are of higher potential, also in terms of advertising sales.

Significant events after the close of the period

Sale of 80% of Mondadori Printing S.p.A.

As previously communicated on 14 October, Arnoldo Mondadori Editore S.p.A. signed a preliminary contract for the sale of 80% of the subsidiary Mondadori Printing S.p.A. to the Gruppo Pozzoni, one of the most important operators in the printing market with 2007 consolidated revenues of €166 million.

The operation should be seen in the context of a general trend toward consolidation and concentration among the qualified players that characterises the printing sector at an international level in response to new competitive pressures, overcapacity and a fall in demand.

The agreement also includes an 8-year printing contract - renewable on terms in line with the best market benchmarks - guaranteeing Mondadori an improvement in terms of costs and the maintenance of high standards of quality.

The value of the transaction was defined on the basis of an enterprise value for 100% of Mondadori Printing of €145 million. The impact of the operation on the consolidated net financial position of the Mondadori Group will be of €123 million.

The agreement gives to the Gruppo Pozzoni an option to buy the remaining 20% of Mondadori Printing, that may be exercised from December 2011, at a cost determined by the fair market

value of the company on the date of the operation. Mondadori will retain an option to sell the same 20%, from January 2016, at a price to be determined by the abovementioned criteria.

The terms of the operation and the signing of the preliminary contract are subject to the approval of the Italian Competition Authority.

Expectations for the full year

The current economic and financial situation is marked by exceptional factors and consequent uncertainties that cannot be compared to the past. Both the scale and, above all, the timing with which critical factors become evident, make it difficult to make forecasts about both the medium and the short term.

What is clear is that, even in these recent difficult months, the Mondadori Group has been able to face the inevitable downturn in business with results that are in line with the best expectations, and even better than the previous year, if the add-sales are excluded. At the same time, the company has created the conditions for further improvements in efficiency through an industrial partnership in printing.

As a result, it is possible to confirm, in line with the projections made at the time of the report on the first half of the year to 30 June, that, the management results for the core business, excluding add-on sales activities, at the end of 2008 are in line with those of the previous year.

On behalf of the Board of Directors
The Chairman
Marina Berlusconi

Consolidated financial statements

Consolidated balance sheet (in € ,000)

Assets	30 September 2008	31 December 2007
Intangible assets	944,545	943,847
Fixed assets	2,575	1,525
Land and buildings	75,558	73,833
Plant and machinery	82,127	87,376
Other assets	52,639	48,408
Property, plant and machinery	210,324	209,617
Investments booked using net equity method	126,056	127,026
Other investments	221	273
Total investments	126,277	127,299
Non-current financial assets	2,505	3,671
Advanced taxes	36,634	39,727
Other non-current assets	2,889	3,019
Total non-current assets	1,325,749	1,328,705
Tax credits	26,256	28,701
Other current assets	91,929	77,600
Inventories	145,059	150,900
Trade receivables	475,115	486,873
Stocks and other current financial assets	104,539	144,910
Cash and equivalents	248,958	225,098
Total current assets	1,091,856	1,114,082
Assets destined to be sold or closed	-	-
Total assets	2,417,605	2,442,787

Consolidated balance sheet (in € ,000)

Liabilities	30 September 2008	31 December 2007
Share capital	67,452	67,452
Share premium reserve	286,876	286,876
Treasury stock	(138,840)	(138,840)
Other reserves and results carried forward	206,055	176,475
Profit (loss) for the period	58,758	112,639
Total Group shareholders equity	480,301	504,602
Minority capital and reserves	1,739	1,932
Total shareholders' equity	482,040	506,534
Reserves	29,748	33,278
Severance payments	89,437	90,638
Non-current financial liabilities	632,982	741,166
Deferred tax liabilities	91,067	88,213
Other non-current liabilities	-	-
Total non-current liabilities	843,234	953,295
Income taxes payable	14,361	44,253
Other current liabilities	281,960	293,083
Trade liabilities	428,538	477,775
Bank debts and other financial liabilities	367,472	167,847
Total current liabilities	1,092,331	982,958
Liabilities deriving from sales or closures	-	-
Total liabilities	2,417,605	2,442,787

Consolidated income statement (in € ,000)

	Period to 30 September 2008	Period to 30 September 2007
Income from sales of goods and services	1,368,109	1,441,732
Decrease (increase) in inventories	5,844	(7,561)
Cost of raw materials and consumables and goods for resale	327,166	354,686
Cost of services	579,000	626,753
Personnel costs	271,457	269,852
Other income (expense)	20,894	12,133
Income (charges) from investments calculated on a net equity basis	5,078	1,250
Gross operating profit	168,826	187,119
Depreciation of property, plant and machinery	25,637	27,246
Depreciation of intangible assets	5,662	5,354
Operating profit	137,527	154,519
Net financial income (charges)	(33,027)	(24,203)
Other financial income (charges)	30	12
Profit for the period before taxation	104,530	130,328
Income taxes	45,204	59,560
Profit from current activities	59,326	70,768
Income (charges) from assets/liabilities destined for sale or closure	-	-
Minority interest	(568)	(677)
Net profit	58,758	70,091
Net profit per share (in €)	0.25	0.29
Diluted net profit per share (in €)	0.25	0.29

Consolidated income statement (in € ,000)

	Q3 2008	Q3 2007
Income from sales of goods and services	438,038	481,133
Decrease (increase) in inventories	(1,332)	1,063
Cost of raw materials and consumables and goods for resale	100,118	115,953
Cost of services	184,721	196,785
Personnel costs	82,880	90,825
Other income (expense)	8,031	9,358
Income (charges) from investments calculated on a net equity basis	702	385
Gross operating profit	64,322	67,534
Depreciation of property, plant and equipment	8,691	9,156
Amortisation and impairment of intangible assets	1,911	1,817
Operating profit	53,720	56,561
Financial income (charges)	(13,361)	(12,171)
Income (charges) from investments	-	12
Profit before income taxes	40,359	44,402
Income taxes	18,178	20,269
Profit from continuing activities	22,181	24,133
Income (expense) from assets/liabilities held for sale	-	-
Result attributable to minorities	(155)	(252)
Net profit	22,026	23,881

On behalf of the Board of Directors
The Chairman
Marina Berlusconi

