

ARNOLDO MONDADORI EDITORE SpA

Share Capital €67,451,756.32

Head Office in Milan

Administrative Offices in Segrate (MI)

Interim report on the year to 30 September 2010

Corporate Boards

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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 2010

There were no significant changes in the economic trends in the sectors of reference for Mondadori in the third quarter of the year. In particular, both circulation figures and advertising investments remained at lower levels than the previous year. Despite this unfavourable context, the company has been able to achieve in the third quarter a level of gross operating profit 73.2% higher than the same period of last year, bringing the increase for the first nine months of 2010 to 51.2%.

The elements that have determined such a conspicuous improvement in profitability, with just a slight increase in revenues (+1.4%), are further confirmation of what was already stated in the report for the first six months, i.e:

- a good level of stability in terms of magazine circulation, with a performance clearly ahead of the market average both in Italy and in France;
- a further increase in profitability in the book business, where revenues in the third quarter were also up on 2009;
- a constant improvement of the results from the international network and the ongoing success of *Grazia* France, both in terms of circulation and advertising sales;
- the increasing contribution of the plan for the reduction of operating costs, the result of the restructuring plan and the simplification of processes.

Activities related to digital content have continued with even greater impulse with the stipulation of agreements with operators in production, telecoms and retail; since the beginning of September the digital area has also taken on a locomotive role, both for its own activities and in support for other business sectors, above all magazines and books.

The introduction in October of a new organisational structure, which will become fully operational from the beginning of next year, will encourage and stimulate the involvement and cooperation of all of the business areas in response to new market opportunities.

The main indicators for the period to 30 September 2010 are as follows:

Consolidated revenues came to €1,130.2 million, an improvement of 1.4% on the €1,114.3 million of the first nine months of 2009.

Consolidated gross operating profit amounted to €103.1 million, an increase of 51.2% compared with the €68.2 million of last year, despite higher costs due to increased postal charges of €5.5 million. This is equal to a figure of 9.1% as a proportion of revenues, compared with 6.1% for the same period of 2009.

Consolidated operating profit reached €85.6 million, a 71.2% increase on the €50 million of 30 September 2009, with amortizations and depreciations of tangible and intangible assets for a total of €17.5 million (€18.2 million in 2009). As a proportion of revenues, an increase from 4.5% in 2009 to 7.6%.

Consolidated profit before taxation amounted to €67.5 million, an increase of 35% on the €50 million of the first nine months of 2009, with net financial charges of €18.1 million. For an appropriate comparison with the previous year, account should be taken of a capital gain of €14.5 million in the third quarter resulting from the closure of a private placement and relative derivatives.

Consolidated net profit came to €30.7 million, a 13.3% increase on the €27.1 million of 30 September 2009: this result was affected by the payment of €8.7 million to clear a pending fiscal suit.

Consolidated adjusted net profit, which takes account of the net impact of the extraordinary elements outlined above (financial capital gains in 2009 and tax charges for previous years paid in 2010), was more than double that of the same period of 2009.

Gross cash flow in the first nine months of 2010 amounted to €48.2 million, compared with €45.3 million in 2009.

The Group's **net financial position** went from -€372.9 million on 31 December 2009 to -€369 million. The improvement compared with 30 September 2009 was of €47.9 million and €275.5 million compared with 30 September 2008.

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

Results for the period

Consolidated income statement <i>in €m</i>	Q3			to 30 September		
	2010	2009	%Change	2010	2009	%Change
Income from sales of goods and services	403.4	383.5	5.2%	1,130.2	1,114.3	1.4%
Personnel costs	63.9	74.8	(14.6%)	198.2	217.9	(9.0%)
Cost of sales and management (*)	291.2	279.0	4.4%	832.2	822.9	1.1%
Income (charges) from investments (calculated on a net equity basis)	0.2	(1.7)	n.a.	3.3	(5.3)	n.a.
Gross operating profit <i>- as a proportion of revenues</i>	48.5 <i>12.0%</i>	28.0 <i>7.3%</i>	73.2%	103.1 <i>9.1%</i>	68.2 <i>6.1%</i>	51.2%
Depreciation of property, plant and machinery	2.9	3.0	(3.3%)	9.1	9.0	1.1%
Depreciation of intangible assets	2.8	2.9	-	8.4	9.2	(8.7%)
Operating profit <i>- as a proportion of revenues</i>	42.8 <i>10.6%</i>	22.1 <i>5.7%</i>	93.7%	85.6 <i>7.6%</i>	50.0 <i>4.5%</i>	71.2%
Net financial income (charges)	(6.1)	10.3	n.a.	(18.1)	-	n.a.
Other income (charges)	-	-	-	-	-	-
Profit for the period before taxation <i>- as a proportion of revenues</i>	36.7 <i>9.1%</i>	32.4 <i>8.4%</i>	13.3%	67.5 <i>6.0%</i>	50.0 <i>4.5%</i>	35.0%
Tax charges	20.9	12.4	68.5%	36.3	22.4	62.1%
Minority interest	(0.2)	(0.2)	-	(0.5)	(0.5)	-
Net profit	15.6	19.8	(21.2%)	30.7	27.1	13.3%

(*) 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 €1,130.2 million, an increase of 1.4%; an outline of the performance by business sector follows:

Business volumes by business area <i>in €m</i>	30 September 2010	30 September 2009	% Change
Books	294.5	306.0	(3.8%)
Magazines Italy	362.0	366.5	(1.2%)
Magazines France	252.6	254.8	(0.9%)
Advertising services	170.2	181.6	(6.3%)
Direct & Retail	181.2	140.2	29.2%
Radio	10.2	9.7	5.2%
Corporate and other business	14.4	13.3	8.3%
Total sales	1,285.1	1,272.1	1.0%
Intergroup sales	(154.9)	(157.8)	(1.8%)
Total consolidated revenues	1,130.2	1,114.3	1.4%

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

Revenues by geographical area <i>in €m</i>	30 September 2010	30 September 2009	% Change
Italy	856.8	839.7	2.0%
France	240.3	243.1	(1.2%)
EU countries	27.3	24.4	11.9%
USA	0.3	0.3	-
Others	5.5	6.8	(19.1%)
Total consolidated revenues	1,130.2	1,114.3	1.4%

Book Division

Market data for the first nine months of 2010 (source: Nielsen) confirm the leadership of the Mondadori Group in Trade books, with an overall market share of 26.7%, with Edizioni Mondadori and Einaudi in the top two places on the list of publishers.

Revenues in the Books Division at 30 September 2010 totalled €294.5 million, a fall of 3.8% on the €306 million of the same period of the previous year.

Sales in the third quarter, especially in September, showed signs of a recovery in market share. Of note during the period were the awards of the Premio Strega 2010 to Antonio Pennacchi for *Canale Mussolini* (Mondadori), the Premio Campiello for the novel *Accabadora* by Michela Murgia (Einaudi), and the Nobel Prize for Literature to Mario Vargas Llosa, a historic author of Einaudi, as well as the success of the new novel by Ken Follett, and a series of other important new titles that augur well for the Christmas season for all of the Group's publishing houses.

The following table shows the performance of the Book Division in the period:

<i>in €m</i>	30 September 2010	30 September 2009
Book sales	290.8	302.7
Other revenues	3.7	3.3
	294.5	306.0
Operating costs	(241.3)	(253.2)
Gross operating profit	53.2	52.8
Amortizations and depreciations	(1.4)	(2.3)
Operating profit	51.8	50.5

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

Books <i>in €m</i>	30 September 2010	30 September 2009	% Change
Edizioni Mondadori	85.9	88.4	(2.8%)
Einaudi	33.8	34.5	(2.0%)
Sperling & Kupfer	18.4	19.1	(3.7%)
Edizioni Piemme	34.9	33.7	3.6%
Mondadori Electa	24.4	29.6	(17.6%)
Mondadori Education	66.8	68.0	(1.8%)
Distribution	26.6	29.4	(9.5%)
Other revenues	3.7	3.3	12.1%
Total consolidated sales	294.5	306.0	(3.8%)

Edizioni Mondadori

To 30 September 2010 Edizioni Mondadori generated revenues of €85.9 million, a 2.8% fall compared with the previous year.

The autumn season was characterised by the simultaneous world publication of the new novel by Ken Follett, *La caduta dei giganti*, which immediately entered the bestsellers list with an initial print run of 500,000 copies. Among the successful titles in foreign fiction were Sophie Kinsella's, *I love mini shopping*, with sales of more than 160,000 copies and first-time author Maria Dueñas with *La notte ha cambiato rumore*, that began with sales of 40,000 copies, confirming a great interest among readers for Spanish fiction.

In Italian fiction, *Canale Mussolini* by Antonio Pennacchi continued to perform well, selling 200,000 copies (making a total of 265,000) and the new novel by Andrea Camilleri, *L'intermittenza* (already in its fourth printing) has sold more than 150,000 copies and the debut with Edizioni Mondadori of Chiara Gamberale who's *La luce nelle case degli altri*, was launched with an initial print run of 25,000 copies.

In non-fiction there was a confirmation of the success of *I segreti del Vaticano* by Corrado Augias (160,000 copies), while the new book by Pietro Citati, *Leopardi*, proved an unexpected hit with readers.

The Strade Blu series was marked by the publication of a new title by Chuck Palahniuk, *Senza Veli* in the Strade Blu Dark fiction line.

In the unclassified segment the Fabio Volo phenomenon continued (with sales of over 160,000 copies of *Il tempo che vorrei* two years after it was first published, making a total of 750,000 copies) and the usual launch of the 2011 edition of the Guinness Book of Records, with an initial print run of 85,000.

There were excellent results from the Oscar Mondadori August campaign, with discounts of 25% on all of the titles in the catalogue, which resulted in an increase in sales of around 8% compared with the previous year.

The protagonist during the summer months was the Oscar Grandi Bestsellers paperback edition of Paolo Giordano's *La solitudine dei numeri primi*, which sold 280,000 copies in just three months, returning to the top of the bestsellers list with the release of the film based on the novel.

In Children's books there was continued success for Licia Troisi and her *La ragazza Drago* series while Rick Riordan with *Percy Jackson e gli dei dell'Olimpo* reached sales of 70,000 copies. Meanwhile, Mauro Corona sold more than 50,000 copies of *Torneranno le quattro stagioni*.

Giulio Einaudi Editore

In the third quarter of 2010 Einaudi improved its performance compared with the situation at 30 June 2010, with total cumulative net revenues down by just 2%.

Among the best performing titles were: *Accabadora* by Michela Murgia (120,000 copies in 2010) winner of the Campiello Prize; *Tre secondi* by Roslund-Hellstrom (51,000); *Per l'alto mare aperto* by Eugenio Scalfari (51,000); *Il giovane Holden* by J.D. Salinger (77,000) and the recent *Mia suocera beve* by Diego De Silva with sales of more than 40,000 copies, *La vendetta* by Anne Holt (35,000). There was confirmed success for *La parola contro la camorra* by Roberto Saviano and *Prima di morire addio* by Fred Vargas. as well as for Anne Holt's *La dea cieca*, *Beautiful malice* by Rebecca James, *Caduta libera* by Nicolai Lilin and *Le cose fondamentali* by Tiziano Scarpa.

It should also be noted that the editorial plan of Einaudi foresees the publication of numerous titles in the last quarter of the year.

Sperling & Kupfer

In the first nine months of 2010, Sperling & Kupfer recorded revenues of €18.4 million, a fall of 3.7% compared with the first nine months of 2009, mainly due to a fall in revenues from the sale of rights for add-on initiatives.

Among the new titles published in the period we would highlight the new book by Sergio Bambarén *Lettera a mio figlio sulla felicità* and the historical thriller *Il circolo degli eretici* by S. J. Parris. In the crossover fiction area we would point to *Eternity* by Rebecca Maizel, the first in a vampire trilogy, which strengthen the presence of Sperling & Kupfer in this sector and, for younger readers, the new titles in the *Il mondo di Patty* series. Frassinelli published the new novel by the celebrated English author David Mitchell *I mille autunni di Jacob de Zoeb*, which was also warmly received by Italian critics.

In Non Fiction there were good results for the books by Franco Mandelli *Ho sognato un mondo senza cancro* and Diego Dalla Palma, *A nudo*. Of particular note was the great success of Sveva Casati Modignani's *Mister Gregory*, published at the end of the first half, which has sold almost 190,000 copies.

Edizioni Piemme

Cumulative revenues at Piemme to 30 September 2010 amounted to €34.9 million, an increase of 3.6% compared with the same period of last year.

Fiction and non-fiction lines saw an overall fall of 5.1% compared with 2009, mainly due to a different editorial programme for new titles which was not compensated by an increase in re-supplies.

In fiction there were important new titles from Anosh Irani with *Destini di vetro*, (30,000 copies), and Andrea Busfield with *Il bambino che corre nel vento* (20,000 copies), in the line that was launched with the books by Hosseini.

In non-fiction Siba Shakib's *Il sussurro della montagna proibita* (44,000) was a stand out hit, followed by *Adorabile bastardo* by Winn Steven (27,000). Sales were also unexpectedly high for *Terroni* by Pino Aprile (67,000), which remained in the bestsellers list for the whole of the period.

In the religion area, there was continued success for the new titles *Cento volte tanto* by Nicola Legrottaglie (24,000) and *Qualcosa in cui credere* by Carlo Maria Martini (18,000).

In paperbacks the most significant title was *Mille splendidi soli* by Khaled Hosseini (90,000); followed by Mark Kurzem's *Il bambino senza nome* (34,000 copies).

The Junior sector continued its positive trend, in the Stilton line the most significant new titles were *Sesto viaggio nel Regno della Fantasia* (126,000 copies) and *Viaggio nel tempo 3* (79,000 copies). Also of significance during the period was the publication of a celebrative volume to mark the tenth anniversary of Stilton, *Caccia al libro d'oro* (45,000 copies). The Il Battello a Vapore line had its biggest sales with the series "GOL!" (*Supergol 3* with 19,000 copies, and five other titles, each with sales of 15,000 copies). Also of note was the publication of the first volume in the new series "Le 39 chiavi" with comparable expectations.

The new Freeway series, which is aimed at young adults, published three new titles with sales of over 10,000 for each (*Il diario di Carrie*, *Numbers* and *Il bacio dell'angelo caduto*). Also of note was the start up in the Paperback Junior line which aims to offer the best from junior hardcover production.

Art books and Exhibitions

Total revenues by Mondadori Electa were down by 17.6% on the same period of 2009, this was due to the effects of a slowdown in all of the segments in which the company operates. The fall of revenues in the bookshop channel (-29.7%) and the substantial disappearance of add-on sales were not, unlike other years, compensated by revenues on the Cultural Heritage area (-12% compared with 2009) mainly due to the loss of certain museum bookstore concessions (Brera and Cenacolo in Milan, and the Musei Civici in Venice) and Sponsorship sales (-16%). There was, however, a recovery in co-editions (sales of foreign rights), penalised by the strength of the euro against the dollar and the pound.

Mondadori Education

During the first nine months 2010 Mondadori Education generated revenues of €66.8 million, a fall of 1.8% on the same period of the previous year, essentially confirming its share of the textbook adoptions market. The following table shows a breakdown of the market shares of the main competitors in this market:

Textbook adoptions	2010
Zanichelli-Loescher-D'Anna	15.5%
Mondadori Education	13.1%
PPBM Pearson-Paravia-Esbmo	13.0%
RCS Scuola	12.4%
Gruppo De Agostini	10.7%

Source: AIE

The primary school segment confirmed the results of the previous year, thanks to the five-year rule on adoptions.

The first level secondary segment saw an overall fall, despite good results for new titles and new editions.

The second level secondary segment saw a slight fall but confirmed excellent results in the subjects in which Mondadori Education is the market leader. There were good results in the scientific subjects affected by the reforms in high schools.

Note should also be made of trend for price reductions in both secondary levels.

In the university segment, of particular note was the ongoing editorial programme by University Press La Sapienza - Mondadori Università, with the publication of 5 titles; the publication by Mondadori Università of the first 6 titles in the series of manuals for the training sciences faculty edited by Giorgio Chiosso.

In the area of extra-curricular university non-fiction and cultural titles, Le Monnier continued to publish the "Quaderni di Storia" series.

Distribution and Logistics

Overall revenues from the distribution of third-party publishers' products were down by 9.5%. The main reasons for this reduction are related to changes in the editorial programme by Baldini Castoldi e Dalai which in June last year published the title by Giorgio Faletti involving the supply of the various channels. The new book by the same author is expected to be published in the final quarter of 2010.

Meanwhile the performance of Edizioni EL continued to be positive, with an increase in revenues of €0.8 million (+16.7%).

In the logistics area there was an increase of 4.8% in consignments compared with the third quarter of 2009, despite a slight downturn in the number of copies delivered (-1.5%). Delivery cost per copy was, however, down by 10.2%, as a result of effective cost controls in all phases of warehouse management.

Magazine Division Italy

Magazine sales during the summer months, traditionally positive for the magazine market, were positive and resulted in a recovery in terms of circulation.

In this context, Mondadori performed better than the market, both in terms of advertising sales and single copy sales through the different channels.

The revenues of Magazines Italy in the first nine months of the year came to €362 million, a slight fall (-1.2%) on the €366.5 million of the same period of the previous year.

Even more significant with respect to the market of reference was the increase in profitability, despite the impact of the cancellation of postal subsidies.

<i>in €m</i>	30 September 2010	30 September 2009
Magazine revenues	338.6	344.0
Other revenues	23.4	22.5
	362.0	366.5
Operating costs	(319.0)	(337.4)
Gross operating profit	43.0	29.1
Amortizations and depreciations	(0.5)	(0.7)
Operating profit	42.5	28.4

This encouraging performance was based on the following factors:

- a 2.9% fall in circulation revenues, markedly better than the performance of the competitors;
- essential stability in revenues from add-on sales, in absolute contrast to a market that slumped by 22%;
- a moderate re-balancing in advertising revenues (-2.4%), even more contained on a like-for-like basis.

Among the most significant factors during the period were:

- the re-launch at the end of July of *Tu Style*, supported throughout August by a big advertising campaign and promotional initiatives: to date the weekly has achieved notable results (with sales of over 200.000 copies);
- strong support for weeklies, that made it possible in the summer season to grow newsstand revenues close to the levels of 2009;
- the launch of an intensive campaign of launches of add-on sales, some of which are achieving much better than expected results;
- the ongoing programme of reorganisation in editorial and management structures;
- the reinforcement of the activities of Press-Di, the wholly-owned Mondadori subsidiary operating in distribution and subscription management for the group's titles and third-party publishers. In addition to the numerous contracts for the distribution of newspapers and magazines acquired in recent years, since 1 October the company will also distribute the products of Sergio Bonelli Editore, leader in comic books;

- the conclusion, at the end of July, of the negotiation between Fieg and the Poste Italiane for an agreement on postal charges, following the cancellation from 1 April of subsidies which for many years compensated publishers for the inefficiencies of the service. The agreement will make it possible to reduce by around 50%, from 1 September, the charges resulting from the application of the new conditions for the delivery of subscription products.

What follows is a more detailed breakdown of the management of both circulation and add-on sales:

Circulation

The market saw an overall drop in newsstand circulation of 9% in terms of copies and around 5% in terms of value, compared with the above indicated -2.9% by Mondadori.

Among the group's weekly titles, there was a marked improvement in the performance of *Tu Style*; TV guides held up well, as did *Chi*, *Grazia* and *Donna Moderna*. For monthlies, there was an increase in circulation revenues for the titles in the interiors and cooking segments.

Add-on sales

In the period January-September the ongoing slump in the market for add-on sales continued at a rate of 22%.

The context of reference for this sector was characterised by a few basic facts: an increase in the number of initiatives, the maintenance of relatively high prices and a strong downturn in average sales.

In this context Mondadori confirmed also in the third quarter a performance in marked contrast to the market that is expected to continue for the rest of the year.

The various initiatives in the home video segment and collectables were markedly up on 2009; those in music and editorial products, while less brilliant, were nevertheless satisfactory.

In a portfolio of articulated activities, the operations linked to the major titles, including *TV Sorrisi e Canzoni* and *Panorama*, remain fundamental.

International

Excellent results were recorded in the period by the company's international activities.

Following the good performance of *Grazia* UK, *Grazia* Olanda and the contribution of *Grazia* Germania and *Grazia* Francia (that were not present on the market in the first half of last year), licensing revenues grew by 46%.

Revenues for the sale of advertising in Italy for the international network more than doubled, both on account of new editions and for growth in revenues for existing titles (*Grazia* UK +10%, *Grazia* Russia +67%).

The performance of 50-50 joint ventures in Russia and China was decidedly better than last year and markedly better than the budget, particularly in terms of advertising sales.

The Attica subsidiary has felt the effects of the financial crisis in Greece and the Balkans with a fall in advertising revenues of around 22% (-20% on a like-for-like basis). A strong cost reduction programme is already being implemented in order to at least partially compensate for the fall in revenues by the end of the year.

Digital

The online advertising market grew significantly, with, in particular, an increase in display advertising of 17.7% compared with the same period of the previous year (source: Nielsen in terms of value, August 2010).

Advertising sales for Mondadori sites, managed by Mediamond, in the first nine months of 2010 saw an increase of 36%, thanks to a significant push by *DonnaModerna.com*, the positive results of which confirm the validity of the group's decision to focus on the women's market. Efforts to concentrate more specialised resources for advertising sales for the Digital area have initially resulted in an increase of the sales company's commission. This has held growth in net advertising revenues for the publisher at +15%.

Magazine Division France

Mondadori France ended the first nine months of the year with total revenues of €252.6 million (-0.9% on the €254.8 million of the same period of last year). Excluding the operations that have affected the consolidation area (the sale of titles to the joint venture Editions Mondadori Axel Springer Snc., the launch of *Grazia* and the restructuring of the magazine portfolio), revenues would be up by 6.7% compared with 2009.

<i>in €m</i>	30 September 2010	30 September 2009
Magazine revenues	243.1	245.5
Other revenues	9.5	9.3
	252.6	254.8
Operating costs	(234.2)	(241.6)
Gross operating profit	18.4	13.2
Amortizations and depreciations	(8.1)	(8.6)
Operating profit	10.3	4.6

Gross operating profit was up by 39.4% on September 2009; if account is taken of the costs of the move of the Mondadori France offices to Montrouge (€2.4 million) gross operating profit was up by 57.6% thanks to a substantial improvement in the results of magazines and digital activities.

Circulation

Circulation revenues totalled €175.8 million, a 2.1% fall (+4,5% on a like-for-like basis, compared with the same period of last year, thanks mainly to the launch of *Grazia* and a significant increase in subscriptions). Being less exposed to economic cycles, the subscription channel, which makes up around 33% of circulation revenues, is an important asset for the Group.

This positive performance demonstrates the appropriateness of the strategy of repositioning the portfolio of titles towards the “grand public” market that the Group has been pursuing since 2007 and has been accompanied by a constant improvement in the editorial quality of the titles. These results are even more remarkable given the current situation in the magazine sector and have been recognised by the market which has, over the last two years, awarded ten prizes for editorial excellence to our products.

In terms of copies Mondadori France recorded an increase of 3% in circulation, while the market as a whole saw a fall of 1.8%. In addition to the effect of *Grazia*, the excellent performance of other titles in the portfolio should be underlined, in particular *Mode&Travaux* (+6.2%), *Sciences et Vie Découverte* (+5.7%), *Biba* (+5.1%), *Science et Vie Junior* (+4.8%), *L’Ami des Jardins et de la Maison* (+2.5%), *Science et Vie* (+2.4%) and *Closer* (+1.7%).

Advertising

Advertising sales were up 5.5% on the previous year, an improvement that was even more significant on a like-for-like basis (+19.1%).

This excellent performance is above all explained by the growth in advertising sales for the up market (*haut de gamme*) women’s titles (the weekly *Grazia* and the monthly *Biba*) that now account for 26% of total advertising revenues.

The magazine advertising market to the end of September recorded an increase of 8.8% in page numbers (source: Kantar Media). In the same period Mondadori France recorded a very positive performance with an increase of 25.8% in pages and a 1.2 percentage point increase in market share; this result was achieved thanks to the contribution in particular of *Grazia* and the consolidation in the market of the monthly *Biba*.

Activities during the period

The strategic decisions taken in 2009, the launch of *Grazia*, the concentration in the joint venture with Axel Springer of the auto sector titles and the closure of marginal titles, have had a positive impact of the accounts in 2010.

Despite strong competition from two new titles (*Be* and *Envy*, which, however, interrupted publication at the end of September) the positive performance of *Grazia* continued with an average of 30 advertising pages in 2010 and newsstand circulation of 177,000 copies.

The activities of the joint venture Editions Mondadori Axel Springer, following the concentration of the auto sector titles, continued to show positive results, increasing newsstand sales; the editorial structure is evaluating new formulas for *Sport Auto* and *Auto Plus* and working on the development of digital activities.

The policy of cost reduction, began in recent years, continued, with particular attention on industrial costs and general expenses.

Advertising services

The market

Advertising investments in the first nine months of 2010 continued the generally positive trend noted in the first half of the year (+4.8% to August, source: Nielsen) showing, on the one hand, a progressive recovery in “healthy” media, including internet, radio and television, while on the other, ongoing difficulties for print media, within which newspapers (with the exception of the free press) and national commercial advertising remained essentially stable.

Magazine advertising, meanwhile, saw positive changes recorded in certain sectors, FMCGs, fashion, cosmetics and lately even furniture, only partially compensating the downturn in other segments. Despite positive August sales, a general uncertainty continues to hang over the medium in the latter part of the year characterised by different client behaviour on different titles, some of which have bucked the general trend in the market.

The Company

<i>in €m</i>	30 September 2010	30 September 2009
Advertising revenues	167.6	178.3
Other revenues	2.6	3.3
	170.2	181.6
Operating costs	(174.2)	(183.8)
Gross operating profit	(4)	(2.2)
Amortizations and depreciations	(0.1)	(0.1)
Operating profit	(4.1)	(2.3)

Mondadori Pubblicità ended the first nine months of the year with total revenues essentially in line, on a comparable basis, with 30 September 2009. Marked changes in the revenue breakdown, such as the termination in November 2008 of the contract with Società Europea di Edizioni SpA. and the shift of online advertising sales, from January, to Mediamond, have had a negative impact on 2010 of around 7 percentage points.

On the **Magazines** side, after a third quarter in slight decline, the Mondadori titles have remained essentially in line with the first nine months of 2009 (-1.2%): on a like-for-like basis -2.4%. Weeklies have held up well (+1.2%), thanks mostly to the performance of women’s titles, particularly *Donna Moderna*, *Chi* and *Tu Style*, that was supported by a targeted sales campaign that resulted in a total increase in sales of 35%, coinciding with the re-launch in July (+50% in the third quarter alone). The monthlies remained below the levels of 2009.

Along with the publisher, activities have continued in the development of digital projects, including the launch of iPad versions of *Panorama* and *Grazia*, and the realisation of new events with innovative promotional formats. These include “Fashion & Design 2.0”, organised by *Grazia* and *Interni* during the Milan Fashion Week and “Milano Design Weekend”, an event dedicated to the interiors sector that took place in October.

In **Radio**, the positive trend of R101 continued, up 6.2% in the first nine months of the year, and progressively recovering compared with the trend in the market in recent months. The figure is even more significant when account is taken of the comparison with an excellent first quarter in 2009, 7 percentage points ahead of the market. Sales were also good for Radio KissKiss, which began in March of last year.

Direct and Retail

The Direct and Retail area generated revenues in the first nine months of 2010 of €181.2 million, a 29.2% increase on the €140.2 million of the same period of 2009.

It should be pointed out that the figures for last year did not include Mondolibri SpA., which has only been consolidated since April 2010; on a comparable basis, the increase was of around 7%.

<i>in €m</i>	30 September 2010	30 September 2009
Revenues	179.4	140.2
Other revenues	1.8	-
	181.2	140.2
Operating costs	(178.7)	(141.1)
Gross operating profit	2.5	(0.9)
Amortizations and depreciations	(4.2)	(3.7)
Operating profit	(1.7)	(4.6)

Meanwhile, the number of outlets in the network has risen to 570 (527 in 2009).

Direct

Cemit saw a 25% increase in revenues, in a market that grew by just 2%.

Since May 2010, Cemit has been joined by Mondolibri, which with its seven thematic book clubs operates in mail-order sales with around 800,000 members.

The revenues of the book clubs were down by 6% compared with 2009; though this was compensated by growth in the e-commerce channel through the Bol.it web site (+34%).

Retail

Retail sales which, from May also include sales from the Mondolibri book shops, grew by 12.1% (5% on a like-for-like basis) compared with the same period of last year.

This increase in turnover was largely due to the expansion of the network, which now totals 570 book shops and multicenters, including both directly owned and franchised stores and *Edicolè* outlets. In September the closure of two outlets in Rome was completed, part of the rationalisation of reach.

Work will be completed by the end of October on the layout changes at the 8 multicenters, with the aim of providing a greater assortment of products.

The development plan is continuing along with the increase in services offered to franchisees, such as the Mondadori Card, launched in June, which will make it possible to offer important loyalty programmes across the entire Retail Area.

Also Mondadori Express has now become fully operational and will bring big improvements in services to bookstores and make it possible to recruit operators currently active mainly in minor markets (stationery).

Radio

Advertising for R101 generated total net revenues in the period of around €10 million. These are essentially the company's share of the gross advertising revenues of around €14.7 million, up by 6.2% on the same period of last year. In particular, in September, R101 recorded growth in advertising sales of 5.3% compared with 2009, in a market of reference that was down (-0.5%; +11.2% cumulative to the end of September: source FCP Assoradio).

The figure, overall lower than the market average, is however positive when account is taken of the fact that in the period display advertising on R101 (which makes up 91% of the radio station's advertising) grew by 10% on 2009. The fall is therefore entirely attributable to a lower number of special initiatives compared with the first nine months of last year.

Communication activities were carried out in the early part of the year with a campaign of posters supporting the morning show "*La Carica di 101*" and, in particular, the prize game show "*Il botto alle otto*". There has also been continued attention by the company to multimedia development through web radio and the creation of dedicated applications.

Also this year, during the summer months, the "*Spiaggia 101*" tour was organised which brings the music and fun of R101 to 5 important Italian seaside resorts.

In terms of ratings, the new Audiradio survey (which is conducted with panel diaries) rewarded R101 which in Q1 2010 had a daily average of 2.5 million listeners and around 7 million over 21 days, a record for the station.

An important breakthrough that confirms the Mondadori Group's radio station as one of the leading players in Italian radio, and increasingly closing the gap with its historic rivals.

Audiradio subsequently decided not to publish the results for the remaining quarters of 2010 given the different definition for the entire process of collecting data to be used in 2011.

R101 is currently examining new projects to be introduced in the early part of next year aimed at further improving the station's positioning in its targets, revamping the schedule and continuing to build the audience.

<i>in €m</i>	30 September 2010	30 September 2009
Revenues	10.2	9.7
Other revenues	-	-
	10.2	9.7
Operating costs	(11.4)	(12.3)
Gross operating profit	(1.2)	(2.6)
Amortizations and depreciations	(1.3)	(1.2)
Operating profit	(2.5)	(3.8)

Corporate and other businesses

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 2010 showed a deficit of €369 million, a slight improvement compared with the end of last year.

<i>in €m</i>	30 September 2010	31 December 2009	30 September 2009
Cash and other equivalent liquid assets	56.8	119.6	160.0
Financial investments at fair value	-	-	-
Financial investments available for sale	29.6	35.7	37.9
Gains (losses) from derivatives	(9.8)	(4.7)	(9.0)
Other financial gains (losses)	(7.2)	(14.6)	1.9
Loans (short & medium/long term)	(438.4)	(508.9)	(607.7)
Net financial position	(369.0)	(372.9)	(416.9)

The cyclical expansion of the global economy that began in the second half of 2009 saw a slow-down in the third quarter of 2010, after a first half that had been better than expected.

The support for the recovery provided by most western governments has undermined their public accounts and the inevitable fiscal tightening could well prove to be a further critical factor.

Most of the emerging economies continued to experience stable growth, despite some temporary difficulties at the beginning of 2010.

The financial system, meanwhile, continued to provide neither strength nor support for the world economy. In fact, despite ongoing expansive policies by the leading central banks, concerns about the sovereign debt crisis in several European countries risk compromising the stability of the system.

In Europe the interest rate fixed by the ECB has remained at 1.00% since 2009. The 3-month Euribor 3 rate, meanwhile, over the first nine months of 2010 went from a minimum of 0.634% at the end of March to 0.892% on 30 September, having recorded a maximum of 0.905% in early August. The average over the period was 0.743%. At the same time, the average cost of money for the Mondadori Group was 3.73%.

In terms of exchange rates, the euro at first saw a weakening against the dollar, due to the tensions linked to the financial situation in a number of European countries. However, from June, the euro began a recovery, a trend that currently continues: the average over the nine-month period was around 1.31, ranging from a maximum of 1.456 to a minimum 1.194.

The average pound sterling/euro rate, meanwhile, hovered around an average of 0.857 with a minimum of 0.81 and a maximum of 0.911.

The overall credit lines available to the Group at 30 September 2010 came to €1,066.5 million, €750.3 of which was committed.

The Group's short-term borrowing facilities, worth a total of €316.2 million, unused as of 30 September 2010, are made up of current account overdrafts and advances on invoices.

Medium-long term lines thus include:

- a €320 million five-year multi-borrower variable rate bank loan (maturity 2014) organised by a pool of leading international banks; it is made up of a €150 million term loan (fully used as of 30 September) and a €170 million revolving credit facility, not utilised as of 30 June. It should be noted that interest rate swaps have been applied on this term loan, transforming the variable into a fixed rate;
- a €150 million variable interest loan provided by Intesa Sanpaolo and expiring in May 2013, made up in equal measure by a term loan, fully used as of 30 September and an unused revolving facility; an interest rate swap, maturity July 2011, exists on the term loan (€50 million);
- a €100 million variable rate loan provided by Intesa Sanpaolo and expiring in December 2015, made up in equal measure by a term loan of €35 million, fully utilised as of 30 September, and an unused revolving facility of €65 million.

During 2010, the Mondadori Group replaced €180 million of committed lines, with the following loans:

- a €130 million variable rate amortization term loan, organised by a pool of leading Italian banks (*Banche Popolari*), and expiring in June 2015; in August an amortizing interest rate swap contract was stipulated on a notional €50 million;
- a €50 million variable rate bullet term loan, provided by Mediobanca and expiring in December 2017; in July an interest rate swap contract was stipulated covering the full amount, valid from the end of July 2011.

The replacement operation has allowed the Mondadori Group to take advantage of improved conditions, as well as obtaining longer average maturities on available credit lines.

Mondadori International

The financial assets under management by the company, as of 30 September 2010, amounted to €34.8 million (€114.3 million at the end of 2009). The company recorded a loss of €0.19 million in the quarter.

The composition of the portfolio on 30 September was as follows:

- current accounts, cash equivalent assets and time deposits with leading Italian banks with maximum expiry within three months for a total of €5.2 million;
- bonds with variable rates available for sale for a total of €29.6 million.

Personnel

As of 30 September 2010 the number of people employed by companies of the Group (both on temporary and permanent contracts) totalled 3,717.

On a like-for-like basis, i.e. net of the impact of the consolidation of Mondolibri SpA, the figure shows a reduction compared with December 2009 of 260 (-7%), attributable to the effects of the restructuring plan at the parent company, as well as ongoing efficiency gains across the Group. The action taken to date has been conducted in full compliance with the approved restructuring plan and has made it possible, in nine months and on a comparable basis, to reduce staff by 8% in Italy and almost 5% in France. The restructuring process will continue for the whole of 2011.

As a consequence, the cost of contract staff, which amounted to €198.2 million (€217,9 million on 30 September 2009) was down by 9%.

Finally, it should be noted that the national contract for printing and publishing employees, which expired in March 2010, has, to date, still not been renewed.

The following table provides a breakdown of Group personnel on 30 September 2010:

Personnel	30/09/2010	31/12/2009	30/09/2009
Arnoldo Mondadori Editore SpA:			
- Managers, journalists and office staff	1,109	1,270	1,278
- Manual workers	97	102	103
	1,206	1,372	1,381
Italian subsidiaries:			
- Managers, journalists and office staff	1,505	1,366	1,383
- Manual workers	75	34	56
	1,580	1,400	1,439
Foreign subsidiaries:			
- Managers, journalists and office staff	931	978	1,033
- Manual workers	-	-	-
	931	978	1,033
Total	3,717	3,750	3,853

Capital investments

Capital investments in the first nine months of 2010 came to a total of €6.1 million and mainly refer to furniture, fittings and office machinery, as well as radio equipment.

Significant events after the end of the period

Entry into the ebook market

Conscious of the rapid transformations taking place across the world in the book market as a result of technological developments, at the beginning of October Mondadori signed an agreement with Telecom Italia for the creation of *Biblestore*, Italy's first digital bookstore.

Some 1,200 titles from the publishing houses of the Mondadori Group (Mondadori, Einaudi, Piemme, Sperling & Kupfer) will be available from the Telecom Italia ebook store of which 800 will be back list titles and 400 new titles, published at the same time in print and digital formats.

The partnership with Telecom Italia is an important first step in the diffusion of the Group's editorial assets, which will also be available on all of the leading platforms and devices on the market.

Thanks to the collaboration with Telecom Italia, for Christmas three thematic channels will be available for ebook subscriptions: literature, genre fiction and children's.

Other information

The interim report for the period to 30 September 2010 has been prepared in compliance with IAS/IFRS standards and the evaluation criteria adopted are in line with those used at 31 December 2009.

The document provides the information requested by Art. 154 ter, 5 - introduced by legislative decree no 195/2007 - of legislative decree no 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 reports and communications with the market. Moreover, the interim report for the first quarter of 2010 is in line with previous quarterly reports.

Consequently, international accounting principle no 34, concerning financial communication during the course of the fiscal year, has not been applied.

Expectations for the full year

The third quarter saw a confirmation of the indications outlined in the half yearly report: all of the businesses achieved better revenue performance than the market benchmarks and, at the same time, continued to pursue the development of new activities.

Reorganisation objectives were also achieved, both in terms of simplifying processes and reducing operating costs.

These have resulted in a substantial recovery of profitability, which, failing any particular changes in market trends, we expect to continue during the last months of the year, allowing the company to significantly increase its operating profit for 2010, despite higher costs resulting from increased postal charges.

Also the estimate for net profit for the year, the improved operating performance should compensate for the impact of extraordinary items (positive in 2009 and negative in 2010) making it possible to post a significantly better final result than last year.

On behalf of the Board of Directors
The Deputy Chairman and Chief Executive
Maurizio Costa

Consolidated financial statements

Consolidated balance sheet

	30 September 2010	31 December 2009
Assets		
Intangible assets	906,036	904,283
Fixed assets	2,404	2,470
Land and buildings	10,866	11,374
Plant and machinery	6,007	7,184
Other assets	29,476	29,747
Property, plant and machinery	46,349	48,305
Investments booked using net equity method	135,915	143,329
Other investments	237	221
Total investments	136,152	143,550
Non-current financial assets	540	483
Advanced taxes	45,500	46,238
Other non-current assets	4,899	2,897
Total non-current assets	1,141,880	1,148,226
Tax credits	27,925	23,578
Other current assets	88,342	87,042
Inventories	125,314	124,010
Trade receivables	351,748	378,269
Stocks and other current financial assets	36,353	41,369
Cash and equivalents	56,777	119,627
Total current assets	686,459	773,895
Assets destined for sale or closure	-	-
Total assets	1,828,339	1,922,121

Consolidated balance sheet

	30 September 2010	31 December 2009
Liabilities		
Share capital	67,452	67,452
Share premium reserve	286,857	286,857
Treasury stock	(144,967)	(138,840)
Other reserves and results carried forward	321,650	294,701
Profit (loss) for the period	30,683	34,333
Total Group shareholders' equity	561,675	544,503
Minority capital and reserves	1,747	1,778
Total shareholders' equity	563,422	546,281
Reserves	48,017	58,381
Severance payments	54,201	59,037
Non-current financial liabilities	422,387	382,187
Deferred tax liabilities	91,082	89,140
Other non-current liabilities	-	72
Total non-current liabilities	615,687	588,817
Income taxes payable	27,940	20,380
Other current liabilities	246,577	256,731
Trade liabilities	334,468	357,693
Bank debts and other financial liabilities	40,245	152,219
Total current liabilities	649,230	787,023
Liabilities deriving from sales or closures	-	-
Total liabilities	1,828,339	1,922,121

Separate consolidated income statement

	Period to 30 September 2010	Period to 30 September 2009
Revenues from sales and services	1,130,206	1,114,305
Decrease (increase) in inventories	5,310	1,461
Cost of raw materials and consumables and goods for resale	170,734	175,220
Cost of services	615,058	614,969
Personnel costs	198,155	217,895
Other income (expense)	41,195	31,186
Income (expense) from investments accounted for using the equity method	3,316	(5,341)
Gross operating profit	103,070	68,233
Depreciation and impairment of property, plant and machinery	9,065	9,084
Amortisation and impairment of intangible assets	8,393	9,198
Operating profit	85,612	49,951
Financial income (expense)	(18,149)	5
Income (expense) from other investments	(5)	-
Profit before taxes	67,458	49,956
Income taxes	36,240	22,424
Profit from continuing activities	31,218	27,532
Income (expense) from assets/liabilities held for sale	-	-
Result attributable to minorities	(535)	(476)
Net profit	30,683	27,056
Earnings per share (in €)	0.13	0.11
Diluted earnings per share (in €)	0.13	0.11

On behalf of the Board of Directors
The Deputy Chairman and Chief Executive
Maurizio Costa

Comprehensive consolidated income statement

	Period to 30 September 2010	Period to 30 September 2009
Net result before third-party share of profits	31,218	27,532
Profits (losses) from the conversion of financial statements from foreign subsidiaries	20	(12)
Other profits (losses) from companies valued at net equity	(1,075)	(163)
Effective portion of profits (losses) on cash flow hedge instruments	(5,031)	(4,936)
Profit (loss) from assets available for sale (fair value)	(1,974)	3,665
Tax relating to profits (losses)	-	-
Total other profits (losses) net of taxes	(8,060)	(1,446)
Comprehensive result for the period	23,158	26,086
Attributable to:		
- Parent company shareholders	22,623	25,610
- Minorities	535	476

On behalf of the Board of Directors
The Deputy Chairman and Chief Executive
Maurizio Costa

Separate consolidated income statement

	Q3 2010	Q3 2009
Revenues from sales and services	403,421	383,578
Decrease (increase) in inventories	3,960	5,226
Cost of raw materials and consumables and goods for resale	57,202	58,473
Cost of services	213,078	204,012
Personnel costs	63,892	74,807
Other income (expense)	16,949	11,335
Income (expense) from investments accounted for using the equity method	179	(1,692)
Gross operating profit	48,519	28,033
Depreciation and impairment of property, plant and machinery	2,907	3,057
Amortisation and impairment of intangible assets	2,826	2,911
Operating profit	42,786	22,065
Financial income (expense)	(6,150)	10,326
Income (expense) from investments	(5)	-
Profit before taxes	36,631	32,391
Income taxes	20,896	12,417
Profit from continuing activities	15,735	19,974
Income (expense) from assets/liabilities held for sale	-	-
Result attributable to minorities	(151)	(169)
Net profit	15,584	19,805

On behalf of the Board of Directors
The Deputy Chairman and Chief Executive
Maurizio Costa

