

# **ARNOLDO MONDADORI EDITORE SpA**

Share Capital Euro 67,451,756.32

Registered office in Milan

Administrative offices in Segrate (Milan)

## **Interim Report on Operations for the First Quarter of 2011**



# *Corporate Offices and Boards*

## *Board of Directors*

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### **Deputy Chairman and Chief Executive Officer**

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(\*) Secretary

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### **Substitute Statutory Auditors**

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Ezio Simonelli

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## ***Report on Operations***



### ***Board of Directors' Report on Operations for the First Quarter of 2011***

The first three months of 2011 did not show any significant changes at the macro economic level against the trend registered in the last months of the past financial year: manufacturing registered a slow rising trend and consumption remained flat, while unemployment stayed high.

In relation to the markets of reference for the Mondadori Group, data for the first two months in Italy showed a drop in magazines sales (-7.5% by issue) and advertising (-4.3%), while ancillary products recovered (+7.3%), rounding the mark after the significant downturn of the last years; books remained essentially steady, in terms of both volume and value.

In France, advertising in magazines was again positive for the quarter (+4.0% by issue), while figures regarding sales of magazines are not considered reliable.

With reference to the market scenario described above, the 3.2% growth in Mondadori consolidated sales volume against the same period of the previous year can be attributed to improved performance by all its business divisions compared to their markets of reference, as well as the Mondolibri consolidation.

From an income perspective, EBITDA increased slightly (+2.8%), despite the increasing trend of investments in the development of international magazines and the new digital activities network. A significant contribution was also provided by reduced operating costs in the quarter.

Here below are the financial highlights as at 31 March 2011.

**Consolidated sales** amounted to euro 355.6 million, up 3.2% against euro 344.7 million registered in 2010.

**Consolidated EBITDA** equalled euro 21.8 million, up 2.8% against euro 21.2 million of the previous year, despite increased investments dedicated to development as above described.

**Consolidated EBIT** totalled euro 16.3 million, up 3.8% against euro 15.7 million registered in 2010; in both quarters taken as reference, amortisation and depreciation of tangible and intangible assets were equal to euro 5.5 million.



**Consolidated profit before taxes** amounted to euro 10.9 million, up 26.7% against euro 8.6 million of the previous year, thanks to reduced financial charges due to the lower cost of credit, following the debt restructuring completed at year end, as well as a lower average debt.

**Consolidated net profit** totalled euro 5.0 million, more than doubled against euro 2.4 million registered in the same period of last year.

**Gross cash flow** in the first quarter of 2011 equalled euro 10.5 million against euro 7.9 million registered in 2010.

The **net financial position** improved from euro -342.4 million as at end of 2010 to euro -320.7 million as at 31 March 2011, up euro 21.7 million in the quarter of reference.

The performance relative to each sector of activity in which Mondadori operates is analysed in detail in a section dedicated to the Group's divisions. Here below is a summary of the key elements.

### *Financial and non-financial indicators*

<b>Consolidated income statement</b> (Euro/million)	<b>Q1 2011</b>	<b>Q1 2010</b>	<b>Var. %</b>
Revenues from sales and services	355.6	344.7	3.2%
Personnel	68.5	66.9	2.4%
Cost of sales and management costs (*)	265.3	256.3	3.5%
Income (charges) from investments recognised at equity	-	(0.3)	n.s.
<b>EBITDA</b>	<b>21.8</b>	<b>21.2</b>	<b>2.8%</b>
<i>EBITDA incidence on revenues</i>	<i>6.1%</i>	<i>6.2%</i>	
Depreciation of properties, plants and machinery	2.7	2.7	-
Amortisation of intangible assets	2.8	2.8	-
<b>EBIT</b>	<b>16.3</b>	<b>15.7</b>	<b>3.8%</b>
<i>EBIT incidence on revenues</i>	<i>4.6%</i>	<i>4.6%</i>	
Net financial revenues (costs)	(5.4)	(7.1)	(23.9%)
Revenues (costs) from other investments	-	-	
<b>Profit before taxes for the period</b>	<b>10.9</b>	<b>8.6</b>	<b>26.7%</b>
Income tax	5.7	6.0	(5.0%)
Third party profits	(0.2)	(0.2)	-
<b>Net profit</b>	<b>5.0</b>	<b>2.4</b>	<b>108.3%</b>

(\*) This item includes the following sub-items: decrease (increase) in inventory; costs for raw, ancillary, consumption materials and goods; costs for services; other costs (revenues).

Consolidated revenues amounted to euro 355.6 million, up 3.2%. Here below is a breakdown of revenues by business area.

<b>Sales by sector of activity</b> (Euro/million)	<b>Q1 2011</b>	<b>Q1 2010</b>	<b>Var. %</b>
Books	78.0	79.8	(2.3%)
Magazines Italy	122.0	123.4	(1.1%)
Magazines France	82.6	81.1	1.9%
Advertising	49.5	49.4	0.2%
Digital	4.4	-	n.s.
Direct and Retail	61.5	49.5	24.2%
Radio	3.3	3.1	6.5%
Corporate and other business activities	5.2	4.8	8.3%
<b>Total aggregate revenues</b>	<b>406.5</b>	<b>391.1</b>	<b>3.9%</b>
Intercompany revenues	(50.9)	(46.4)	9.7%
<b>Total consolidated revenues</b>	<b>355.6</b>	<b>344.7</b>	<b>3.2%</b>

Consolidated revenues by geographical area are broken down in the table below.

<b>Sales by geographical area</b> (Euro/million)	<b>Q1 2011</b>	<b>Q1 2010</b>	<b>Var. %</b>
Italian domestic market	264.8	258.4	2.5%
France	78.6	77.4	1.6%
Other EU countries	8.1	7.5	8.0%
US market	0.1	0.1	-
Other countries	4.0	1.3	n.s.
<b>Total consolidated revenues</b>	<b>355.6</b>	<b>344.7</b>	<b>3.2%</b>

### ***Books***

In the first quarter of 2011, book sales amounted to euro 78 million, down 2.3% against the first quarter of 2010. The decrease was mainly due to changes in the calendar of publishing initiatives.

Nielsen market data for the first three months of 2011 confirmed the Group's leadership in the Trade segment, with a share of approximately 26.1%. Edizioni Mondadori, Sperling & Kupfer and Piemme showed a slight decrease compared to the past year, while Einaudi grew in the same time span.

(Euro/million)	Q1 2011	Q1 2010
Revenues from books	76.5	78.5
Other revenues	1.5	1.3
	<b>78.0</b>	<b>79.8</b>
Operating costs	(65.4)	(69.5)
<b>EBITDA</b>	<b>12.6</b>	<b>10.3</b>
Amortisation and depreciation	(0.3)	(0.4)
<b>EBIT</b>	<b>12.3</b>	<b>9.9</b>

Revenues by publishing house are broken down in the table below:

Books (Euro/million)	Q1 2011	Q1 2010	Var. %
Edizioni Mondadori	27.3	28.6	(4.5%)
Einaudi	14.2	12.9	10.1%
Sperling & Kupfer	7.4	6.7	10.4%
Edizioni Piemme	11.9	12.3	(3.3%)
Mondadori Electa	6.4	7.7	(16.9%)
Mondadori Education	2.5	2.5	-
Distribuzione Libri	7.0	8.0	(12.5%)
Other revenues	1.3	1.1	18.2%
<b>Total consolidated revenues</b>	<b>78.0</b>	<b>79.8</b>	<b>(2.3%)</b>

### ***Edizioni Mondadori***

In the first quarter of 2011, Edizioni Mondadori posted revenues of euro 27.3 million, down 4.5% against the previous year.

Edizioni Mondadori Hardcover registered a value share equal to 19.9% (+0.3% against the first quarter of 2010); source: Nielsen Bookscan.

Noteworthy for the first quarter of 2011 is the good performance of 2010 Christmas gift books, including *I dolori del giovane Walter* by Luciana Littizzetto (more than 420,000 copies sold), which remained at the top of the Nielsen charts in the first weeks of January, and *Impero* by Alberto Angela (more than 180,000 copies sold).

Special mention is also due to the books that celebrated the 150th anniversary of Italy's unification, which posted a good performance: *Il Cuore e la Spada* by Bruno Vespa, *La patria, bene o male. Almanacco essenziale dell'Italia unita* by Carlo Fruttero and Massimo Gramellini and *Viva l'Italia* by Aldo Cazzullo.

In the first three months of 2011, Narrativa Italiana (Fiction) featured the release of Margaret Mazzantini's new novel, *Nessuno si salva da solo*, on 4 March, which immediately jumped to the top of the best-seller list. In addition to the traditional promotional activities, the launch of this book (250,000 copies) also envisaged, for the first time, the organisation

of a “live” event - “Slam Book” - which also involved Margaret Mazzantini’s readers on line through the distribution of content on the social networks.

*Mammut* was released in February. This is a new novel by Antonio Pennacchi, winner of the Strega Award in 2010, with a print run of more than 60,000 copies. A positive performance was also registered by Mauro Corona’s *La fine del mondo storto*, which was awarded the Selezione Bancarella Prize in 2011. The new entry of *Malastagione* by Francesco Guccini and Loriano Macchiavelli, in the Strade Blu Narrativa series, is also noteworthy, with 50,000 copies sold in the first three months.

With regard to foreign fiction, Madeleine Wickham (a.k.a. Sophie Kinsella) did not disappoint with *Vacanze in villa*, confirming the author’s success in the women’s fiction genre for this spring and quickly taking over the number one spot in the category (65,000 copies sold).

With reference to Varia, after the success of *Il viaggio dimagrante*, Rosanna Lambertucci released *Le diete della salute* (45,000 copies) followed by the fifth novel of the much appreciated *Amici* series by Maria De Filippi, *Testa o Cuore* by Luca Zanforlin, which sold 70,000 copies in one month.

Five years after the resounding success of *The Secret* (10 million copies sold worldwide), Edizioni Mondadori published the Italian version of Rhonda Byrne’s long-awaited sequel: *The Power* (more than 120,000 copies).

Oscar Mondadori paperbacks benefitted from the traditional discount campaign. At the end of March, NumeriPrimi<sup>o</sup> was launched, the new trademark dedicated to quality paperbacks, which reissues the best-selling books of the Group’s publishing houses a few months after the release of the original version: the first 13 titles reached approximately 800,000 copies, distributed in book stores and large retail stores.

Children’s books posted a positive performance, with the first children’s legal thriller by John Grisham, *La prima indagine di Theodore Boone*, and the continuing success of Rick Riordan with his latest, “Percy Jackson e gli dei dell'Olimpo” and Licia Troisi, with the last volume of the “Le leggende del Mondo Emerso” trilogy and *I Dannati di Malva*. The second new title launch of the Oscar Junior series concluded the quarter.

### ***Giulio Einaudi Editore***

As at 31 March 2011 net revenues were up 10.1% as a result of significantly increased sales in both bookshops and large retail stores, and revenues from the transfer of publishing rights. The sale by instalments channel posted a slight decrease.

The best performing books in the quarter were: *Libertà*, by Jonathan Franzen (76,000 copies sold), *Il signor Cevdet e i suoi figli* by Orhan Pamuk (23,000 copies), *Nemesi* by Philip Roth (26,000 copies), *L'unico figlio* by Anne Holt (27,000 copies), *Vizio di forma* by Thomas Pynchon (14,000 copies) and *Un calcio in bocca fa miracoli* by Marco Presta (15,000 copies). Also worthy of mention: *Che la festa cominci*, by Niccolò Ammaniti (45,000 copies) and *Romanzo criminale* by Giancarlo De Cataldo (29,000 copies), which were also re-issued as NumeriPrimi<sup>o</sup> series books. Also, *Momenti di trascurabile felicità* by Francesco Piccolo (41,000 copies) and *Ogni cosa alla sua stagione* by Enzo Bianchi (25,000 copies), published in 2010, sold well in the first quarter of 2011.

### ***Sperling & Kupfer***

In the first quarter of 2011, Sperling & Kupfer posted revenues of euro 7.4 million, up 10.4% against the same period in 2010. An outstanding performance was posted by the latest novel by Nicholas Sparks, *Vicino a te non ho paura*, released in March 2011 (110,000 copies sold).

Production included 94 new titles compared to the 77 of the previous year (particularly increasing in number were the Non-Fiction series and the Paperback series, by 7 titles and by 9 titles, respectively).

The Fiction publishing proposal included the return of Guillaume Musso with *La ragazza di carta* (32,000 copies) and the successful re-issue of *La ragazza del lago* at a promotional price. *Lo sguardo di uno sconosciuto* (27,000 copies) by the Norwegian writer Karin Fossum, concurrently with the release of her new book, *Al lupo, al lupo*. As for the fantasy series, two novels are worth mentioning: *Spells* (19,000 copies) by Aprilynne Pike and *Oksa Pollock e il mondo invisibile* (25,000) by Anna Plichota and Cendrine Wolf. In the Non-Fiction category, *Il ruggito della mamma tigre* by Amy Chua, *Viva la grammatica!* by Valeria Della Valle and Giuseppe Patota and *L'intoccabile* by Marisa Merico and Douglas Thompson, all posted satisfactory sales.

As for Paperback, two titles in the new NumeriPrimi<sup>o</sup> series were particularly successful: *Donne che corrono coi lupi*, by Clarissa Pinkola Estés, and *L'ultima canzone*, by Nicholas Sparks.

### ***Edizioni Piemme***

In the first quarter of 2011 Piemme posted revenues of euro 11.9 million, down 3.3% against the first quarter of 2010.

As for Adults, the two series – Essays and Novels – registered steady performance, while Paperback dropped as a result of a shift in the timing of the promotional campaigns.

As for Juniors, the considerable increase in the Stilton series (+32.9% against 2010), the launch of the new Paperback Junior series and the good performance of Freeway (+212%), targeting young adults, made up for the slight reduction registered by the Il Battello a Vapore series (-4.1%).

As for the most important titles in the Novels series, worth mentioning are *Profumo di spezie proibite* (20,000 copies sold) by Priya Basil, *Leggere il vento* by Dinaw Mengestu; *Tutto per amore o quasi* by Emily Giffin, for women readers, and the thriller, *Moonlight Mile*, by Dennis Lehane, all with 17,000 copies sold.

In the pop psych category, Sherry Argov performed well, confirming her previous success with *Falli soffrire 2.0. Gli uomini preferiscono le stronze. La versione aggiornata* (34,000 copies), followed by *Lunga è la notte* by Jerry Clark and Anthony Flacco (28,900 copies) in the new Voci series. Other important titles are: *Quaranta frustate. La mia ribellione alla legge degli uomini* by Lubna Ahmad Al-Hussein and Djénane Karez Tager (22,000 copies) and *Il giardino della luce* by Marilyn Berger (20,000 copies).

As for the Religion series, worth mentioning are *L'aldilà nei messaggi di Medjugorje* by Father Livio (20,000 copies) and the new book by Nicola Legrottaglie, *L'amore vince tutto* (15,000 copies).

As for Paperback, in the NumeriPrimi<sup>o</sup> series, worth mentioning is *A un passo dal baratro* by Paolo Brosio published by Piemme (46,000 copies).

As for Juniors and the Stilton series, the Grandi Libri line confirmed its success, particularly with *Le avventure di re Artù* (86,000 copies) and an excellent performance was immediately registered also by the newborn series, *I Preistotopi* (the first two titles reached 27,000 copies each). The Il Battello a Vapore series confirmed the success of the GOL! series (two titles in 2011 with 19,000 and 18,000 copies sold, respectively), while for the Freeway line worth mentioning is *Angeli nell'ombra*, by Becca Fitzpatrick (15,000 copies).

### ***Art books and exhibitions***

Mondadori Electa revenues for the first quarter of 2011 totalled euro 6.4 million, down 16.9% against the same quarter of the previous year. The reasons for this drop are attributable to the general negative trend in the majority of the market segments in which Mondadori Electa operates. It should also be noted that, in addition to falling sales in the bookshops, some sponsorships have also been changed. In the cultural heritage area, Mondadori Electa reduced the number of its activities as a result of the transition that the entire sector is experiencing, pending the launch of new tenders for museum concessions, which have long been subject to extensions.

Sales growth in museum bookshops was mainly due to the awarding of the concessions at the Museo del Novecento in Milan and the Maxxi in Rome.

### ***Mondadori Education***

Mondadori Education posted net revenues of euro 2.5 million as at 31 March 2011, in line with the same period of the previous year. However, this result was achieved in a season which usually has a minimal impact on the yearly sales volume.

The production of school books for the 2011-2012 school year was particularly relevant in this quarter: 196 titles published (191 in the same period of 2010). Production mainly referred to a large portion of the catalogue of textbooks adopted in the first level secondary schools (a market which, if no ulterior legislation is passed meanwhile, is expected to remain stable until 2015, as a result of the six-year freeze on the adoption of new textbooks introduced in 2009) and the first two years of the second level secondary schools, a segment in which the effects of the reform passed in 2010 are still visible. The process started in 2010 was consolidated: that is, the production of an offering that combines multimedia assets that can also be used on line in addition to the printed textbook, in close correspondence with the material in the books. Moreover, an offline (32 titles), digital, interactive and customizable publishing proposal was launched, specifically designed to be used in combination with multimedia interactive tablets.

### ***E-Book***

This market is still in its initial stages, pending the opening of e-stores by the major international operators, and Mondadori increased its offering through a catalogue that included approximately 1,700 titles at the end of the first quarter (+200 against end of 2010). An e-book version is released concurrently with the release of the hard copy on the market. Sales performance proved steady after the Christmas peak and a general recovery is expected during the year.

### ***Distribution and logistics***

Revenues in the quarter amounted to euro 7 million, down 12.5% against the same period in 2010. Revenues by Baldini e Castoldi Dalai dropped, while revenues by Edizioni EL, a company jointly controlled with Giulio Einaudi Editore, grew.

It should also be noted that ADD Editore started its distribution activities.

With reference to logistics, the number of shipments remained steady, in line with the same period of the past year, though copies shipped dropped by 4.6%. Shipment costs by copy dropped 12.1%, thanks to specific measures adopted to improve industrial efficiency and optimise cost components.

## *Magazines Italy*

(Euro/million)	Q1 2011	Q1 2010
Revenues from magazines	113.1	114.3
Other revenues	8.9	9.1
	<b>122.0</b>	<b>123.4</b>
Operating costs	(107.8)	(109.3)
<b>EBITDA</b>	<b>14.2</b>	<b>14.1</b>
Amortisation and depreciation	(0.1)	(0.2)
<b>EBIT</b>	<b>14.1</b>	<b>13.9</b>

Revenues performance was characterised by a 5.8% drop in distribution and increased advertising (+4.8%), supported by effective actions by the sales network and numerous innovative initiatives, as well as excellent performance of the international network and sales in the digital business.

Revenues from ancillary products remained steady.

The most significant events that occurred in the quarter of reference are specified below:

- re-launch of *Cosmopolitan*, a magazine published by the Hearst Mondadori joint venture. This monthly magazine was successfully re-launched in February under the guidance of the newly appointed chief editor. The magazine was subject to a complete re-styling in terms of graphics and content, as well as the re-adoption of the standard format with the consequent shelving of the pocket format. This magazine is currently registering excellent results both in terms of distribution and reader appreciation;
- re-launch of *Casaviva*. This is a traditional interior design magazine for the publishing house (launched by Mondadori in 1973) and it was subject to a makeover in terms of graphics and content. Also in this case, figures from the sale of advertising spaces and distribution confirmed an extremely positive response, showing a growth trend against past performances;
- *Ciak*, Italy's leading magazine for cinema news, was also given a new skin.

The process of renovation, re-styling and re-positioning of the magazines published by Mondadori will continue in the coming months and at least another 4 monthlies and 1 weekly are expected to have completed the process by year end. In these days *Panorama Icon*, the new attachment to *Panorama*, was launched, dedicated to style and men's fashion, replacing *First*. Distribution figures for this new magazine proved excellent, greatly appreciated by the market of reference.



### ***Circulation***

Circulation continued to shrink in terms of the number of copies sold (-7.5% in February; source: internal estimates).

Mondadori defended itself better than its competitors, with sales down only 6.4%, mainly due to a lower number of promotional copies and the planned reduction in the subscription channel (-11%), a process that was started last year in response to the substantial increase in postal rates.

A breakdown by individual magazine shows the following:

- positive performance for the circulation of *Grazia*, despite the reduction in the number of subscriptions, it remained in line with 2010. On a rising trend are *CasaFacile*, *Grazia Casa* and *Casaviva*;
- in line with the market trend are *Donna Moderna*, *Tv Sorrisi e Canzoni* and *Chi*. In particular, for the last two magazines, new low cost competitors were launched, causing a general lowering of prices. Mondadori, however, refrained from adopting the price reductions.

### ***Add-on sales***

The market in the first quarter was characterised by some particularly successful initiatives undertaken by dailies, increase their circulation at the expense of the average price.

In this context, Mondadori, specifically operating through *Panorama* “la prima visione” and *Tv Sorrisi e Canzoni* “le collane animation”, performed below market trend and in line with 2010. However, a recovery is expected in the upcoming months, thanks to the initiatives already undertaken.

### ***International***

Revenues from licensing performed well, up more than 50%, thanks particularly to the recovery of the advertising market.

All magazines performed well, in particular weeklies, which also drove the revenues deriving from the sales of advertising space to Italian customers for the international network.

The number of Mondadori Group licensed editions is still growing, thanks to the stipulation of a contract with Sanoma for the launch of *Casaviva* in Ukraine in June and with Artcom Media for the launch of *Interni Russia* next fall.

The figures from the joint ventures in Russia and China are definitely improving against last year, thanks to the considerable increase in the sale of advertising spaces.

In the first quarter, Attica, still suffering the effects of the financial crisis in Greece, posted a drop of approximately 30% in revenues.

In the Balkan countries, revenue performance from advertising proved different: Bulgaria and Rumania, closer to the Greek market, showed a downturn, while Serbia and Hungary remained steady or improved slightly.

### **Digital**

Properties posted a performance in line with the budget, with a year on year growth above market expectations. Overall, revenues from web advertising showed a 20% growth in the first quarter of 2011 against the same period of 2010, with [www.donnamoderna.com](http://www.donnamoderna.com) doing particularly well, along with [www.grazia.it](http://www.grazia.it) and [www.panorama.it](http://www.panorama.it).

The trends of the key traffic parameters were also positive as at end of March: to name one, [www.donnamoderna.com](http://www.donnamoderna.com) registered a 26% growth in the number of visitors (approximately 4 million), while clicked pages grew 25% (approximately 52 million).

### **Magazines France**

Mondadori France posted Q1 sales of euro 82.6 million, up 1.9% against the same period in 2010.

EBITDA totalled euro 6.5 million, up 51.2% against the same period in 2010. This performance is mainly due to the improved results obtained by the weekly magazine *Grazia* and the cost abatement policy adopted in the previous years. In this context, reference should be made to the transfer to the new offices of Montrouge, which further reduced lease costs.

(Euro/million)	Q1 2011	Q1 2010
Revenues from magazines	79.7	78.0
Other revenues	2.9	3.1
	<b>82.6</b>	<b>81.1</b>
Operating costs	(76.1)	(76.8)
<b>EBITDA</b>	<b>6.5</b>	<b>4.3</b>
Amortisation and depreciation	(2.4)	(2.5)
<b>EBIT</b>	<b>4.1</b>	<b>1.8</b>

### **Circulation**

Revenues from circulation, including both newsstand sales and subscriptions, accounted for approximately 71% of total revenues and remained essentially steady at the consolidated level (+0.5%): this performance is even more positive if one considers the ongoing downward trend in the market of reference.

In this context, Mondadori France launched three new formulas for *Science & Vie*, *Auto Plus* and *Le Film Français*, as well as a new quarterly magazine, *Guerre & Histoire*, in the *Science & Vie* series in the first quarter of 2011. A pocket version of the weekly magazine *Grazia* was launched at the end of March, at the price of euro 1.50, while the price of the “large format” version was increased to euro 1.70.

Lastly, the positive performance of women’s magazines is worth mentioning, showing an increase in the number of copies sold and thus confirming the re-positioning strategy of the portfolio in the women’s segment and for the most popular titles. In the first quarter *Modes & Travaux* posted +8.0%, *Top Santé* +4.2% and *Biba* +14.5% against the same period in 2010.

### **Advertising**

Consolidated revenues from advertising grew 10.2% against the same period in the previous year.

This excellent performance was mainly due to the significant growth in revenues from advertising registered by the weekly magazine *Grazia* (+68%) and the good performance of *Sciences*, *Closer* and *l’Ami des Jardins*.

Revenues from advertising registered by Mondadori France “high-end” women’s magazines (the weekly *Grazia* and the monthly *Biba*) accounted for 32.5% of total revenues from advertising (24.6% in the first quarter of 2010).

The advertising market for magazines grew 4.0% by volume of pages in the first quarter of 2011 (source: Kantar Media). In the same period, Mondadori France posted an excellent performance with +13.0% by volume and increased its market share by 0.8%.

The weekly *Grazia* ranked second in the magazines market with 539 pages in the first quarter.

## **Advertising services**

### **The market**

Figures for the first months of 2011 showed a slight reduction in investments in advertising (in February the total for media measured by Nielsen registered -2%).

In particular, the most negative aspect referred to the unexpected reduction in dailies (-8.7%), which negatively affected magazines (-4.3%), already saddled with the drop in trade publications.

As for the other media, radio and TV kept pace, the latter slightly down (-0.5%), while the web appears to be the only media channel to buck the trend in the quarter of reference (+15.5%).

As for magazines, signs of recovery were apparent in beauty products, cars and pharmaceuticals, fashion held steady and a positive trend was also registered for consumer goods and interior design.

### **The Company**

Mondadori Pubblicità closed the first quarter with revenues in slight growth against the same period in 2010.

(Euro/million)	Q1 2011	Q1 2010
Revenues from advertising	49.0	48.6
Other revenues	0.5	0.8
	<b>49.5</b>	<b>49.4</b>
Operating costs	(51.9)	(51.7)
<b>EBITDA</b>	<b>(2.4)</b>	<b>(2.3)</b>
Amortisation and depreciation	-	-
<b>EBIT</b>	<b>(2.4)</b>	<b>(2.3)</b>

In the context of magazines, Mondadori magazines posted +3%, mainly as a result of the improved performance of the weeklies (+5.6%). Worth mentioning is the positive performance of *Grazia* (+18%), *Donna Moderna* (+4%), *Tu Style* (+46.4%) and *Panorama* (attachments included +3.2%).

With regard to monthlies, which have continued to be weak since the beginning of the year, worth mentioning is the excellent performance of *Starbene* (+23.4%), *Flair* (+4.7%) and *Cosmopolitan* which, thanks to a re-launch and change of format, posted sharply rising sales (+58.7%).

Lastly, revenues from the radio channel – *R101* – were in line with 2010.

### ***Digital***

In the last quarter of 2010 a new business digital area was established, dedicated to the development of different activities linked to new technology.

In the quarter of reference, figures for the digital segment are given, which, as a result of the matrix-based organisation adopted by the Mondadori Group since the beginning of 2011, also supports the other business units.

Based on the foregoing, the digital segment includes direct activities such as e-commerce ([bol.it](http://bol.it) and [easyshop.it](http://easyshop.it)), gaming, applications and CRM. Other activities (e-book, book club on line, websites, subscriptions and web advertising) are instead included under other business areas.

Direct revenues, equal to euro 4.4 million, mainly referred (almost euro 4 million) to the [www.bol.it](http://www.bol.it) website, through which the Group distributes and sells books, other publishing products and gifts; the remaining portion referred to services and applications linked to mobile phones and website management services.

[www.bol.it](http://www.bol.it) proved extremely promising in March in terms of visitors (reached 835,000 visitors, +14% against March 2010), with more than 6.3 million pages viewed.

Other initiatives are expected to begin contributing in the second half of the year: the e-commerce activity through [www.easyshop.it](http://www.easyshop.it), through which Mondadori has been selling signature fashion, interior design, design and technology products since the last ten days of March, and the on line gaming activity, for which the relevant government concession application has already been filed.

An important activity for the digital segment is the processing and implementation of a suitable customer relationship management (CRM) system, aimed at having the Group share the customer database in order to better exploit its potential.

With regard to e-books and properties, reference should be made to the comment made for Books and Magazines Italy; the overall volume of direct and indirect activities was equal to euro 12 million.

### ***Direct and Retail***

Overall revenues from the Direct and Retail area in the first quarter of 2011 equalled euro 61.5 million, up 24.2%, as a result of the consolidation of Mondolibri SpA as of May 2010, without which an approximately 5% reduction would have been registered, mainly due to the closure of some proprietary stores in the second half of 2010.

(Euro/million)	Q1 2011	Q1 2010
Revenues	59.7	44.4
Other revenues	1.8	5.1
	<b>61.5</b>	<b>49.5</b>
Operating costs	(63.2)	(50.0)
<b>EBITDA</b>	<b>(1.7)</b>	<b>(0.5)</b>
Amortisation and depreciation	(1.5)	(1.3)
<b>EBIT</b>	<b>(3.2)</b>	<b>(1.8)</b>

### ***Direct***

In the first quarter Cemit Interactive Media posted the same revenue volume as the previous year, with customer relations essentially steady. Still relevant is the impact of consumer goods in the services offered.

The company continues traditional direct marketing operations, expanding its service portfolio in the internet area.

Mondolibri bookclub revenues showed a downturn, reflecting the situation all over Europe; the objective is to reduce costs and adjust them to the reduced volumes, while concurrently concentrating efforts to expand the types of products offered to members.

Services supplied to third parties by the Brescia plant increased and partially counterbalanced the reduction in revenues from the core business.

## ***Retail***

As already mentioned, the reduction of revenues was mainly due to the closure of two important stores in Rome. Considering the same network, the reduction would have amounted to approximately 2% against the previous year.

The March performance indicates a possible recovery in the upcoming months.

As to multcenters, an initiative was launched, whose scope is to open a significant number of corners which, based on specific agreements stipulated with the major suppliers of non-publishing products, will allow to expand and better concentrate products offered to the clientele.

The development of a private label for stationery products (Emporio Mondadori) and movies (Grande Cinema Mondadori) continued, along with the expansion to new segments (gift boxes), compensating for a possible future reduction in the books area.

The franchising network development continued, and today numbers 487 units. This trend is reflected in an approximately 5% revenue growth.

In the light of the policy adopted to provide better services to the stores, Mondadori Express improved its activities through the launch of Mondadori Franchising, an initiative that provides stores with the most frequently requested titles in the shortest time possible.

In the first quarter significant promotions on books were continued (with the support of Italian domestic communication campaigns), in order to stimulate book purchasing in a moment in which the market is particularly weak.

It should be noted that in March the Boards of Directors of the companies operating in the retail area (Mondadori Retail, Mondadori Franchising and Mondolibri) approved the merger project, fusing the three companies into one as of 1 July 2011.

## ***Radio***

In the first quarter of 2011, the radio market posted a downturn in sales equal to 5% against the same period of the previous year (Source: FCP Assoradio).

The publication of audience data by Audiradio is still suspended, because of the ongoing debate within the Board of Directors about the validity of the Panel Diari survey (latest data published referred to the first quarter of 2010, during which *R101* registered 2.5 million listeners in an average day and approximately 7 million listeners in 21 days).

No survey has been officially commissioned for 2011 as yet.

(Euro/million)	Q1 2011	Q1 2010
Revenues	3.3	3.1
Other revenues	-	-
	<b>3.3</b>	<b>3.1</b>
Operating costs	(4.3)	(4.3)
<b>EBITDA</b>	<b>(1.0)</b>	<b>(1.2)</b>
Amortisation and depreciation	(0.4)	(0.4)
<b>EBIT</b>	<b>(1.4)</b>	<b>(1.6)</b>

*R101* gross revenues from advertising totalled euro 4.4 million, in line with the result of the past year.

From a publishing perspective, the re-styling process of the radio channel started in the last months of 2010 was continued: more emotional music, new disk jockeys, more concentration on the concept of “adult contemporary radio”, that is, a radio designed for a 25-54 target.

*R101* also enhanced its positioning as a music channel on the web, by combining the digital and the traditional activities and expanding the offering with the objective of reaching different targets, improving relations with listeners and attracting investors in advertising through new promotional spaces.

Currently, there are 5 theme-based web radios (dedicated to the hits of the '70s, '80s, '90s, '00s and the ‘top of the pops’ of the last forty years), which can be listened to from the radio website and on the next-generation smartphones, thanks to dedicated apps.

*R101* is also present in the main social networks, like Facebook, Twitter, FriendFeed and YouTube, with official fan pages and proprietary channels, key tools for daily communication with the general public. The website, recently enhanced by the introduction of a new WebTV channel, which features the entire video production of a radio station, registered significant traffic volumes (more than 200,000 visitors and approximately 3 million page views a month), while the station’s official page on Facebook has already reached approximately 100,000 fans.

### ***Corporate and other business activities***

The Corporate segment includes the Parent Company functions, concentrated in service activities in favour of the Group companies, and the business units, in addition to the structures in charge of managing the Group’s financial assets.



These services are mainly attributable to activities regarding ITC, administration, management control and planning, treasury and finance, human resources, legal and corporate affairs and public relations.

Revenues mainly referred to amounts billed to subsidiaries and affiliates, as well as other entities using the services above described.

### ***Mondadori International***

The financial assets managed by the company as at 31 March 2011 accounted for euro 34.4 million (euro 33.8 million as at end of 2010). In the quarter of reference the company posted a loss equal to euro 0.6 million.

Assets as at 31 March 2011 are broken down here below:

- current accounts, cash and cash equivalents and time deposits with Italian leading banks with maturity lower than three months for a total of euro 13.4 million;
- float-rate bonds available for sale for a total of euro 21.0 million.

### ***Financial situation***

At the end of the quarter of reference characterised by limited investments, the Group's financial position as at 31 March 2011 showed a debt of euro 320.7 million, an improvement of approximately euro 22 million against the end of the previous year.

<b>Net financial position</b> (Euro/million)	<b>31 March 2011</b>	<b>31 December 2010</b>	<b>31 March 2010</b>
Cash and cash equivalents	82.6	84.9	34.2
Financial assets at fair value	-	-	-
Financial assets available for sale	20.9	26.2	33.5
Assets (liabilities) in derivatives	0.8	(5.3)	(5.3)
Other financial assets (liabilities)	(11.4)	(9.8)	(17.0)
Loans (short and medium-long term)	(413.6)	(438.4)	(402.6)
<b>Net financial position</b>	<b>(320.7)</b>	<b>(342.4)</b>	<b>(357.2)</b>

### ***Trends in interest and exchange rates***

The economic recovery triggered in 2010 continued in the first quarter of 2011, sustained by the high level of development of the emerging countries and the recovery in the United States. In Europe, growth consolidated at lower levels than expected, despite the positive performance of Germany.

International trade is progressing and the price of raw materials is increasing. This accelerates inflation in the economically advanced countries.

Preoccupations about the situation of the sovereign debt of some European countries remain high, with Portugal and Greece feeling the worst effects in the first part of 2011.

The recovery in manufacturing and increased inflation led analysts to predict a rise in interest rates, in particular in Europe, where the Central Bank intervened at the beginning of April, increasing the minimum re-financing rate by 0.25%.

The 3-month Euribor trend in the quarter essentially reflected these expectations, with a more or less steady growth from 1.00% at the beginning of the year to 1.24% at the end of March. The average value for the period was equal to 1.096%. The average cost of Mondadori Group debt was instead equal to 3.66%.

The euro/dollar exchange rate rose from 1.29 minimum in January to 1.42 at the end of March; similarly the euro/sterling exchange rate rose from 0.83 minimum in January to 0.88 end of March.

Credit lines available to the Group as at 31 March 2011 amounted to euro 1,086.4 million, of which euro 750.2 million committed.

The Group's short-term loans, equal to euro 336.2 million, unutilised as at 31 March 2011, included overdraft credit lines on current accounts and advances subject to collection.

The main medium-long term loans are:

- euro 320.0 million for a float-rate bank loan with a five-year maturity and expiry in March 2014, granted by a pool of banks with international standing; the loan includes specifically a term loan for euro 150.0 million, entirely utilised as at 31 March, and a Revolving Facility for euro 170.0 million, still unutilised. Some Interest Rate Swaps contracts have been attached to the term loan for the purpose of transforming the float rate into fixed;
- a float-rate amortizing loan for euro 130.0 million, specifically a term loan, granted by a pool of Italy's leading banks with expiry in June 2015. In addition, an Interest Rate Swap contract was stipulated in August on a notional value of euro 50 million;
- float-rate bullet loan for euro 50 million, specifically a term loan, granted by Mediobanca, with expiry in March 2017. In addition, an Interest Rate Swap contract was stipulated in July to supplement coverage with forward introduction at the end of July 2011.

In March 2011, the Mondadori Group re-negotiated the bilateral committed lines with Intesa Sanpaolo, obtaining an overall extension of the duration of the loans. Here below the aforementioned bilateral lines are broken down in detail as at 31 March 2011. The situation before the re-negotiation is reported in parentheses:

- float-rate loan for euro 50.0 million (euro 150.0 million) with expiry in May 2013, specifically a term loan, entirely utilised as at 31 March; an Interest Rate Swap contract was attached to the term loan with expiry in July 2011;
- float-rate loan for euro 200.0 million (euro 100.0 million) with expiry in December 2016 (December 2015), divided into a term loan for euro 50.0 million (euro 35.0 million), utilised for euro 35.0 million as at 31 March and a Revolving Facility for euro 150.0 million (euro 65.0 million), still unutilised as at 31 March.

## ***Personnel***

### ***People***

Employees with a fixed-term or permanent labour contract employed by the Group companies as at 31 March 2011 totalled 3,674 people against 3,852 people in the same period of the previous year (3,649 as at December 2010).

Personnel trends clearly reflect the results attained in the last 12 months, and the ongoing process of re-organisation, started in 2010, which led to an overall reduction of 178 people, equal to 4.6% of the work force, considering also the effect of last year's consolidation of Mondolibri.

The increase in the number of employees as at December (0.6%) reflects the re-organisation and re-structuring actions undertaken in the traditional business areas, still in progress, but now reaching completion, and the new hires associated with the Group's development strategies in the web and digital business areas.

A re-organisation plan for TV magazines was recently presented in France, which is expected to result in a reduction in the number of employees by 37 units.

It should be also noted that these figures do not include the effects of the renewals of the national collective labour contracts for employees working in the graphics-publishing, trade and services industries; the first is still being negotiated and the second was redefined in the first days of April.

The table below illustrates employee breakdown for the Group as at 31 March 2011:

<b>Personnel</b>	<b>31 March 2011</b>	<b>31 December 2010</b>	<b>31 March 2010 (*)</b>
Arnoldo Mondadori Editore SpA:			
- Managers, journalists, office staff	1,127	1,108	1,193
- Workers	92	96	98
	<b>1,219</b>	<b>1,204</b>	<b>1,291</b>
Italian subsidiaries:			
- Managers, journalists, office staff	1,465	1,478	1,530
- Workers	58	58	62
	<b>1,523</b>	<b>1,536</b>	<b>1,592</b>
Foreign subsidiaries:			
- Managers, journalists, office staff	932	909	969
- Workers	-	-	-
	<b>932</b>	<b>909</b>	<b>969</b>
<b>Total</b>	<b>3,674</b>	<b>3,649</b>	<b>3,852</b>

(\*) This includes, for comparison purposes, Mondolibri SpA employees, a company consolidated since May 2010.

### ***Capital expenditures***

Capital expenditures in the first quarter of 2011 totalled euro 0.9 million and mainly include furniture, furnishings and office equipment.

### ***Other information***

The interim report as at 31 March 2011 was prepared in compliance with IAS/IFRS accounting standards and the evaluation criteria adopted are in line with those used as at 31 December 2010.

The document provides the information required by art. 154 ter, par. 5, of Italian Legislative Decree no. 58/1998.

For the purposes of facilitating valid comparisons between the figures contained in this document and those in previous interim reports and of continuity in its disclosures to the market, this report as at 31 March 2011 is in the same format as previous quarterly reports.

As a result, international accounting principle no. 34 in the matter of interim financial reporting was not applied.

### ***Foreseeable evolution***

The first three months of the year did not provide clear indications about possible changes in the short term in relation to the situations described above in terms of macroeconomic outlook and markets of reference for the Mondadori Group, which suffered a further volume reduction.

Mondadori posted positive results for the fifth straight quarter, thanks to a clear focus on product quality, brand protection and ongoing improvement of the overall operating structure.

In addition to the foregoing, the Group increased its commitment to the development of digital activities, in order to maximise the potential of the Group's product portfolio and communities and provide an answer to emerging customer demands, dictated partly by rapid changes in technology.

If the markets of reference remain steady, without significant changes and unexpected events, the coming quarters are expected to confirm the improvements attained since the beginning of 2010, thus enabling Mondadori to maintain a good level of profitability despite the investments envisaged for the development of the new activities in the digital area.

For the Board of Directors  
The Chairman  
Marina Berlusconi

*Consolidated balance sheet*

*Consolidated income statement and comprehensive  
income statement*

*Consolidated balance sheet*

Assets (Euro/000)	31 March 2011	31 December 2010
<b>Intangible assets</b>	<b>899,366</b>	<b>901,468</b>
<b>Investments</b>	<b>2,361</b>	<b>2,383</b>
Land and buildings	10,506	10,680
Plant and machinery	15,458	5,513
Other fixed assets	28,168	39,766
<b>Property, plant and machinery</b>	<b>54,132</b>	<b>55,959</b>
Investments booked at equity	132,386	131,464
Other investments	1,332	222
<b>Total investments</b>	<b>133,718</b>	<b>131,686</b>
<b>Non-current financial assets</b>	<b>2,967</b>	<b>1,889</b>
<b>Advanced tax assets</b>	<b>44,322</b>	<b>45,679</b>
<b>Other non-current assets</b>	<b>1,431</b>	<b>1,390</b>
<b>Total non-current assets</b>	<b>1,138,297</b>	<b>1,140,454</b>
<b>Tax credits</b>	<b>36,207</b>	<b>28,709</b>
<b>Other current assets</b>	<b>89,411</b>	<b>81,667</b>
<b>Inventory</b>	<b>135,839</b>	<b>131,484</b>
<b>Trade receivables</b>	<b>349,968</b>	<b>385,207</b>
<b>Stocks and other current financial assets</b>	<b>27,223</b>	<b>31,942</b>
<b>Cash and cash equivalents</b>	<b>82,550</b>	<b>84,901</b>
<b>Total current assets</b>	<b>721,198</b>	<b>743,910</b>
<b>Assets held for sale</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>1,859,495</b>	<b>1,884,364</b>

*Consolidated balance sheet*

<b>Liabilities</b> (Euro/000)	<b>31 March 2011</b>	<b>31 December 2010</b>
<b>Share capital</b>	<b>67,452</b>	<b>67,452</b>
<b>Share premium reserve</b>	<b>286,857</b>	<b>286,857</b>
<b>Treasury shares</b>	<b>(144,968)</b>	<b>(144,968)</b>
<b>Other reserves and results carried forward</b>	<b>375,699</b>	<b>327,771</b>
<b>Profit (loss) for the period</b>	<b>5,015</b>	<b>42,101</b>
<b>Group equity, net</b>	<b>590,055</b>	<b>579,213</b>
<b>Minority share capital and reserves</b>	<b>1,950</b>	<b>1,750</b>
<b>Total equity</b>	<b>592,005</b>	<b>580,963</b>
<b>Reserves</b>	<b>39,221</b>	<b>43,416</b>
<b>Post-employment benefits</b>	<b>53,156</b>	<b>53,159</b>
<b>Non-current financial liabilities</b>	<b>389,372</b>	<b>418,468</b>
<b>Deferred tax liabilities</b>	<b>91,802</b>	<b>91,189</b>
<b>Other non-current liabilities</b>	<b>-</b>	<b>-</b>
<b>Total non-current liabilities</b>	<b>573,551</b>	<b>606,232</b>
<b>Income tax</b>	<b>25,508</b>	<b>22,619</b>
<b>Other current liabilities</b>	<b>270,837</b>	<b>250,966</b>
<b>Trade payables</b>	<b>353,510</b>	<b>380,895</b>
<b>Payables t/w banks and other financial liabilities</b>	<b>44,084</b>	<b>42,689</b>
<b>Total current liabilities</b>	<b>693,939</b>	<b>697,169</b>
<b>Liabilities held for sale or termination</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>1,859,495</b>	<b>1,884,364</b>



***Consolidated income statement***

(Euro/000)	31 March 2011	31 March 2010
<b>Revenues from sales and services</b>	<b>355,550</b>	<b>344,729</b>
Decrease (increase) in inventory	(4,376)	(1,949)
Costs for raw materials, consumables and goods	49,106	51,927
Costs for services	211,234	197,229
Cost of personnel	68,466	66,864
Other costs (income)	9,388	9,114
Income (costs) from investments booked at equity	40	(331)
<b>EBITDA</b>	<b>21,772</b>	<b>21,213</b>
Depreciation and impairment of property, plant and machinery	2,742	2,754
Amortisation and impairment of intangible assets	2,720	2,788
<b>EBIT</b>	<b>16,310</b>	<b>15,671</b>
Financial income (costs)	(5,432)	(7,105)
Income (costs) from other investments	-	-
<b>Pre-tax profit</b>	<b>10,878</b>	<b>8,566</b>
Income tax	5,663	5,966
<b>Profit from continuing activities</b>	<b>5,215</b>	<b>2,600</b>
Income (costs) from assets/liabilities held for sale or closed	-	-
Minority shareholders' profit	(200)	(217)
<b>Net profit</b>	<b>5,015</b>	<b>2,383</b>
Net earnings per share (in euro)	0.021	0.010
Net earnings per share (diluted) (in euro)	0.021	0.010

***Consolidated comprehensive income statement***

(Euro/000)	31 March 2011	31 March 2010
<b>Net profit before minority Shareholders' interest</b>	<b>5,215</b>	<b>2,600</b>
Profit (loss) deriving from the conversion of the financial statements of foreign companies	(2)	16
Other profit (loss) from companies valued at equity	(1,606)	229
Effective part of profit (loss) on cash flow hedge instruments	6,092	(614)
Profit (loss) deriving from assets held for sale (fair value)	758	(129)
Tax effect on other profit (loss)	-	-
<b>Total other profit (loss) net of tax effect</b>	<b>5,242</b>	<b>(498)</b>
<b>Comprehensive result for the period</b>	<b>10,457</b>	<b>2,102</b>
Attributable to:		
- Parent Company Shareholders	10,257	1,885
- Minority Shareholders	200	217

For the Board of Directors  
The Chairman  
Marina Berlusconi