ARNOLDO MONDADORI EDITORE S.p.A.

Share capital €67,451,756.32
Registered office in Milan
Administrative offices in Segrate (MI)

MONDADORI

Annual report 2006

Notice of shareholders' meeting

Shareholders are hereby invited to the Ordinary Meeting to be held on 23 April 2007 at 10.30 in Via Mondadori 1, Segrate, Milan, in first call and, if necessary, in second call on 24 April 2007 at the same time and place, to pass resolutions on the following:

Agenda

1 - Financial Statements at 31 December 2006, reports of the Board of Directors, the Board of Statutory Auditors and the independent auditors, related resolutions, presentation of the Consolidated Financial Statements at 31 December 2006 and related enclosures.

2 - Authorisation to effect a buy-back and utilise Company shares, as per the combined provisions of articles 2357 and 2357 ter of the Civil Code.

3 - Resolution on assigning the task of auditing the annual financial statements and the consolidated financial statements, as per article 159 of Legislative decree 58 of 24 February 1998, and for auditing the half-yearly report.

In accordance with the law and Company Statutes, Shareholders who have requested the relative communication from the intermediary where their shares are deposited at least two days before the date of the Shareholders' Meeting may attend the Meeting.

The reports of the Board of Directors on the subjects on the agenda will be deposited, for inspection by the public, at the company's head office and at Borsa Italiana S.p.A. in accordance with Ministerial Decree 437 of 5 November 1998 and Consob regulation 11971/1999 and subsequent modifications.

Shareholders have the right to obtain copies of these reports.

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

Corporate Boards

Board of Directors

Chairman
Marina Berlusconi

Deputy Chairman
and Chief Executive
Maurizio Costa

Directors
Pier Silvio Berlusconi
Pasquale Cannatelli
Bruno Ermolli
Martina Forneron Mondadori
Roberto Poli
Mario Resca
Marco Spadacini
Umberto Veronesi
Carlo Maria Vismara (*)

Board of Statutory Auditors

Chairman
Ferdinando Superti Furga

Standing Statutory Auditors
Achille Frattini
Franco Carlo Papa

Substitute Statutory Auditors
Francesco A. Giampaolo
Francesco Vittadini

Independent Auditors
Reconta Ernst & Young SpA

(*) Secretary

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Report of the Board of Directors

Report of the Board of Directors

Shareholders,

for Mondadori 2006 was an important year during which the company took a decisive step forward in its process of internationalisation, as well as consolidating its leadership position in the business sectors in which it operates.

The acquisition of one of the leading publishing groups in France (Emap France, now Mondadori France) was finalised in August, giving Mondadori access to Europe's largest magazine market, and the possibility of creating an important platform for the launch of its portfolio of titles and realising synergies, both in terms of revenues and costs.

Consolidated revenues in 2006 came to €1,750.2 million, an increase of 5.6% on the €1,657.3 million of the previous year, also thanks to the contribution of Mondadori France, fully consolidated from September (revenues of €135.5 million in the last four months).

Consolidated **gross operating profit** amounted to €240.3 million, compared with the €223.6 million of the year before, an increase of 7.5%, or 13.7% as a proportion of revenues, compared with 13.5% in 2005.

The improvement in profitability is more clearly demonstrated by excluding extraordinary elements, made up essentially, in 2005, of the government paper contribution (€20.8 million), and, in 2006, by extraordinary income deriving from the sale of a business in the Retail area (€13.1 million). Net of these items, gross operating profit shows an increase of 12.1% on the previous year (+4.1% excluding the contribution of €16.3 million from Mondadori France).

Consolidated operating profit came to €201.4 million, an increase of 7.5% on the €187.4 million of 2005, after increased amortisation and depreciations of around €2.8 million. As a proportion of revenues, a slight rise from 11.3% in 2005 to 11.5%. On a like-for-like basis there was an increase of 13.1% (+4.2% excluding Mondadori France).

Consolidated profit before taxation amounted to €189 million, an increase of 4.2% on the €181.4 million of 2005, despite an increase of financial charges due to the 2006 dividend policy and the acquisition in France.

On a like-for-like basis there was an increase of 9.6% (+4.6% excluding Mondadori France).

Consolidated net profit at 31 December 2006 came to €109 million, a fall on the €114.7 million of the previous year (-5%), largely due to the non-deductability, for IRES purposes, of the €20.8 million government paper contribution in 2005.
On a like-for-like basis there was an increase of 3.8% (+0,2% excluding Mondadori France).

The overall **net financial position** went from a surplus of €32 million on 1 January to a deficit of €554.7 million at the end of 2006. It should be noted that, during the year, Mondadori distributed €144.6 million in dividends and paid in full the acquisitions of Mondadori France (€551 million) and Messaggerie Musicali (€24 million), with a gross cash flow for the period of €147.9 million.
Other investments were made for Radio R101 (€15 million) and Mondadori Printing (€24 million), largely compensated financially by an improvement in net working capital and income from the sale of treasury stock following the exercise of stock options (€9.7 million).

The performance of the individual areas in which Mondadori operates is examined in more detail in the sections dedicated to the individual divisions of the Group. What follows is a brief outline of the highlights.

Total 2006 revenues for the **Book Division** came to €439.5 million, an increase of 3.4%, strengthening its leadership position and further improving on the already excellent figures of 2005, thanks to the success of the authors in the portfolio, the entry of new authors – who have been widely appreciated by readers – and the sale of rights and packaging for add-on sales.

Edizioni Mondadori generated revenues of €137.9 million (a slight reduction of 3%, on the €142.2 million of 2005) despite the lack of the extraordinary contribution of the Dan Brown phenomenon.

Einaudi has become Italy's second biggest publisher, in terms of market share, behind Edizioni Mondadori, with an increase in sales of 5.1%, and revenues of €47.8 million. This has been the result of a valorisation of the catalogue and a restructuring of the paperback area.

The positive performance of the Art area - thanks also to add-on sales and exhibition organisation and services – resulted in a 21.1% increase in the revenues of Mondadori Electa (€53.9 million).

Piemme – driven by the performance in the adult, junior and pocket areas – recorded revenues of €47.2 million, an increase of 13.5%. While there was sustained growth, of 16.3%, also for Sperling & Kupfer that, thanks to positive results in fiction and non-fiction, recorded revenues of €29.3 million.

In the Education area, Edumond Le Monnier saw a 4.7% increase in revenues, to €87.7 million, confirming the company's leadership position in educational publishing and establishing itself, through its web sites, as an online point of reference for teachers, students and parents.

In 2006 the Group's **Magazine Division** generated consolidated revenues of €867.2 million, an increase of 11.5%, thanks to the contribution Mondadori France (€135.5 million, September-December 2006). On a like-for-like basis, total revenues amounted to €731.7 million (-6%), with a reduction in both circulation and add-on sales in line with that of the market of reference.

The magazine market saw a fall in circulation that was common to almost all the segments (and particularly marked in TV guides) and was also due to the inevitable slowdown following the sharp upturn in 2005 that was mainly due to the launch of new titles. In this context, thanks to the strength of its portfolio, Mondadori nevertheless maintained its absolute market leadership.

In terms of add-on sales, the generalised downward trend in this area continued. Against this background, Mondadori made efforts to rationalise its activities, with the aim of maintaining an acceptable level of profitability, and, meanwhile, confirming its leading position in the market.

The advertising market in 2006 grew by 2.6% compared with 2005, and confirmed trends already observed, with higher growth in magazines, thanks to new launches, than in newspapers and television. Meanwhile, during 2006, the internet and radio emerged as attractive propositions for investors increasingly oriented towards integrated forms of communication across different platforms.

Mondadori Pubblicità closed 2006 with a like-for-like increase in revenues of +0.5% on 2005, with a positive performance in the women's and news segments, and the achievement of a doubling advertising revenues for Radio R101.

In 2006 the **Printing Division** generated revenues of €447.9 million, compared with €459.1 million in 2005, following a reduction in volumes in newspapers and magazines, particularly marked in the final quarter of the year, and a fall in revenues from the add-on sales of third-party pub-

lishers. Meanwhile, there was a positive performance in revenues from the trade sector while, despite competition from the Far East, the trend in foreign illustrated books remained stable.
Capital investments continued at the company with the completion and entry into service of the new large-format rotary printer, in line with the company's strategy of rationalising production processes and improving its competitive position.

Over the period the Direct Marketing area, after having implemented a reorganisation of both the structure and processes, Cemit Interactive Media began to offers its clients new tools able to improve its portfolio of services and face the new competitive challenges in the direct marketing sector, following the introduction of new privacy legislation. During 2006, the downward trend slowed, leading to 2006 revenues of €24 million.

During 2006, the Retail Division saw closure of the business activities in the Corporate channel – big clients, and revenues of €137.3 million, compared with €137.2 million in 2005. Net of this disposal, revenues increased by 6.9% thanks to an acceleration in the restructuring and expansion programme, with the opening of bookstores and new franchise outlets, both bookstores and the Edicolé formula.
In the context of the expansion programme of the Retail sector, at the end of 2006 Mondadori finalised the acquisition of Messaggerie Musicali SpA, giving the company access to prime locations in the centres of Rome and Milan, a strategy that will both increase the visibility of the brand and generate synergies with the new multicenter network, which will continue with the opening of a new megastore in Milan, the Duomo Center, in the spring of 2007.

Following the Mondadori Group's entry into the radio sector in January 2005, Radio R101 more than doubled its revenues during 2006 to €9.3 million, reaching a daily average of 1.5 million listeners. These results were achieved thanks to the consolidation of the schedule and an intensification of the communication campaign for both the brand and the product, along with the development of a series of successful events, such as the Summer Tour and the end of year concert in Palermo.

What follows are comments on the highlights from the consolidated financial statements for 2006.

Results for the year

Consolidated income statement

(€m)	2006	2005	Change %
Income from sales and services	1,750.2	1,657.3	5.6%
Personnel costs	302.1	268.9	12.3%
Cost of sales and management	1,216.2	1,174.4	3.6%
Income (charges) from investments accounted for using the equity method	8.4	9.6	(12.5%)
Gross operating profit	**240.3**	**223.6**	**7.5%**
-as a proportion of revenues	*13.7%*	*13.5%*	
Depreciations of property, plant and machinery	34.9	32.8	6.4%
Depreciations of intangible assets	4.0	3.4	17.6%
Operating profit	**201.4**	**187.4**	**7.5%**
-as a proportion of revenues	*11.5%*	*11.3%*	
Net financial income (charges)	(12.4)	(6.0)	106.7%
Other financial income (charges)	-	-	-
Profit before taxation	**189.0**	**181.4**	**4.2%**
Tax charges	78.9	65.5	20.5%
Minority interest	(1.1)	(1.2)	(8.3%)
Net profit	**109.0**	**114.7**	**(5.0%)**

Consolidated revenues amounted to €1,750.2 million, an increase of 5.6%. The following table illustrates the business volumes for each business area.

Revenue breakdown by business area

(€m)	2006	2005	Change %
Books	439.5	425.0	3.4%
Magazines	867.2	778.0	11.5%
Advertising services	342.9	341.0	0.5%
Printing	447.9	459.1	(2.4%)
Direct	24.0	26.4	(9.0%)
Retail	137.3	137.2	0.1%
Radio	9.3	4.3	116.3%
Corporate and other business	14.3	15.3	(6.5%)
Total revenues	**2,282.4**	**2,186.3**	**4.4%**
Intergroup revenues	(532.2)	(529.0)	0.6%
Total consolidated revenues	**1,750.2**	**1,657.3**	**5.6%**

In the following breakdown of consolidated revenues by geographical area, the figures for 2005 have been adjusted in order to isolate the figures for France (included in the year 2005 under "Other EU countries") which have become relevant as a result of the acquisition of Emap France, that contributes to the consolidated results for the period 1 September to 31 December 2006.

Revenues by geographical area

(€m)	2006	2005	Change %
Italy	1,496.4	1,546.2	(3.2%)
France	150.4	16.7	n.s.
Other EU countries	83.9	72.6	15.6%
USA	6.9	8.4	(17.9%)
Others	12.6	13.4	(6.0%)
Total consolidated revenues	**1,750.2**	**1,657.3**	**5.6%**

Book Division

Total 2006 revenues for the Book Division came to €439.5 million, an increase of 3.4% on the €425 million of the previous year. During the period, there was a marked increase in revenues from the sale of rights and packaging for add-on sales initiatives conducted by newspapers and magazines, albeit with a slowdown towards the end of the year, despite a general downturn in the add-on sales market.

The Division's book production in the period was made up of 2,787 new titles (compared with 2,728 in 2005) and 4,937 reprints (4,484 in 2005); a total of 56.4 million copies, compared with 55.3 million in 2005.

During the period the Group's Book Division strengthened its leadership position, with a value market share in Trade books (fiction and non-fiction) of 28% (+0.2% on 2005) and a volume share (copies) of 30.2% (+0.8% on 2005).

The Mondadori imprint confirmed its position of absolute leadership, followed by Einaudi, now Italy's second imprint; in the Education area the Mondadori Group, with a 14.2% market share, is now coleader in this market

(€m)	2006	2005
Book sales	432.4	418.4
Other revenues	7.1	6.6
	439.5	**425.0**
Operating costs	(352.8)	(352.4)
Gross operating profit	**86.7**	**72.6**
Amortisation & depreciation	(3.3)	(3.1)
Operating profit	**83.4**	**69.5**

The market shares indicated refer to medium-large sized bookstores, as recorded by Demoskopea, if large-scale retail sales are included, the Mondadori Group's share is estimated at more than 35%. In this context, we would point to a joint initiative, conducted with the Rizzoli Group and the Gems Group for the introduction in Italy of a more reliable and comparable system of market measurement that also includes sales through the large-scale retail channel.

2006 saw a confirmation of the equilibrium among the various areas of the Book Division: the core-business remains Trade books (fiction and non-fiction), which accounts for 60% of total revenues, followed by the Education sector, which makes up 20% of total turnover, and niche segments (Art and Architecture), that generate 12% of revenues; distribution activities for third party-publishers and other revenues make up the remaining 8% of turnover.

Of the publishing houses in the Trade area, Einaudi, Piemme and Sperling & Kupfer showed a positive trend in their market shares compared with the previous year; Electa remained unchanged, while there was a slight fall in the share of Mondadori books, due to a natural downturn in the sales of books by Dan Brown, that reached exceptional levels in 2005.

Publisher	Market share 2006	Market share 2005	Change
Mondadori	15.7	16.3	(0.6)
Einaudi	5.3	4.8	0.5
Sperling & Kupfer	2.5	2.3	0.2
Piemme	3.6	3.4	0.2
Other Mondadori Group companies	1.0	1.0	-
Total Mondadori Group	**28.1**	**27.8**	**0.3**
RCS Group	12.4	12.7	(0.3)
Gems Group	8.4	7.6	0.8
Feltrinelli	4.0	4.0	-

Source: Demoskopea, volume market share data

Books

(€m)	2006	2005	Change %
Edizioni Mondadori	137.9	142.2	(3.0%)
Einaudi	47.8	45.5	5.1%
Mondadori Electa	53.9	44.5	21.1%
Sperling & Kupfer	29.3	25.2	16.3%
Edumond Le Monnier	87.7	83.8	4.7%
Piemme	47.2	41.6	13.5%
Book distribution	33.7	39.3	(14.2%)
Total revenues	**437.5**	**422.1**	**3.6%**
Intragroup sales	(5.1)	(3.7)	37.8%
Total consolidated revenues	**432.4**	**418.4**	**3.3%**

Edizioni Mondadori

During 2006 Edizioni Mondadori books confirmed its leadership in the Italian book market, despite a slight downturn in revenues compared with 2005 due, as already stated, to a reduction of the "Dan Brown effect".

The first part of the year was characterised by the success of authors in the portfolio that confirmed their solid appeal, such as Patricia Cornwell, Fabio Volo and Andrea Camilleri. In spring the most outstanding successes were in the non-fiction area, with new books from Federico Rampini (*L'impero di Cindia* –110,000 copies) and Magdi Allam (*Io amo l'Italia* – 100,000 copies), as well as the extraordinary debut of Roberto Saviano with *Gomorra*, which by the end of the year had sold some 550,000 copies.

The new book by Dan Brown, *Crypto*, despite very positive sales (600,000 copies), did not achieve the same results as his previous titles; indeed the film of *Il Codice da Vinci* appears to have provoked a sort of saturation for the novels by the American writer, rather than to have given a further push to sales. A real revelation, meanwhile, was *Notte prima degli esami*, a title which clearly benefited from the commercial success of the film of the same title, with sales of 130,000 copies.

At the end of 2006 a number of titles got of to a very good start on publication; an authentic case history was *Inchiesta su Gesù*, by Corrado Augias and Mauro Pesce (420,000 copies), as well as a number of fiction titles that performed extremely well, including *Come Dio comanda* by Niccolò Ammaniti (270,000 copies) and *Donne informate sui fatti*, by Carlo Fruttero (165,000 copies).

In foreign fiction John Grisham sold well (*Innocente* – 270,000 copies) as did Patricia Cornwell (*A rischio* – 125,000 copies). Over the Christmas period the ongoing success of Luciana Littizzetto was confirmed by her new book *Rivergination* (470,000 copies); while significant sales were recorded for the new titles by Bruno Vespa, *L'Italia spezzata* (250,000 copies), and *Oggi cucini tu vol. III* (210,000 copies) by the duo Clerici-Moroni.

In the Children's area the most significant new titles were the fantasy novel *Grinpow*, by new author Rafael Abalos, and *La setta degli assassini* (45,000 copies), the first volume of a new trilogy by Licia Troisi, the rights to which were sold to a number of countries during the year.

In the Paperback segment, the outstanding feature of the year was the Oscar campaign, which generated a 30.8% increase in sales compared with 2005, in both the bookstore and large-scale retail channels.

Finally, in 2006 Edizioni Mondadori decided to enter the reference segment, beginning with the operation for the renovation of the *Devoto-Oli* dictionary, which was done in cooperation with Edumond Le Monnier (25,000 copies), and continued with the launch of a new line of dictionaries, following an agreement with the world leader in the sector, the German company Langenscheidt (4 compact dictionaries, 8 phrase books and the first big Italian-English dictionary, for total sales of 220,000 copies at the end of the year).

Giulio Einaudi Editore

For Einaudi there were two highly significant results in 2006, the first was becoming Italy's second-biggest book publisher, immediately after Edizioni Mondadori, and the achievement of revenues of €47.8 million, an increase on the previous year of 5.1% (sales in the bookstore channel increased by 11.5%).

This result is even more significant in that it is not due to one-off, episodic, and con-

sequently unrepeatable, successes but is the result of structural changes; on the one hand, the high average performance of new titles and, on the other, the full completion of the renovation of the paperback catalogue, which has made it possible for Einaudi to fully valorise its back list.
Among the editorial segments, Italian fiction saw very good results with the books by Rossana Rossanda, *La ragazza del secolo scorso* (published in 2005), and Pietro Ingrao, *Volevo la luna*, as well as the very good performance of the new book by Mario Rigoni Stern, *Stagioni*.
Among the leading titles in foreign fiction were those by Mark Haddon (*Una cosa da nulla*) and Jason Goodwin (*L'albero dei Giannizzeri*), as well as two books by Orhan Pamuk, winner of the 2006 Nobel Prize for Literature (*Il mio nome è rosso* and *Istanbul*): the fourth year in a row in which the prize has been awarded to an Einaudi author. Excellent initial results were also recorded for *Lettere d'amore nel frigo* by Ligabue and, among titles with a DVD, *Parole e canzoni* by Vasco Rossi, *Personaggi* by Albanese and *La smorfia* by Arena-Decaro-Troisi.

Art books and exhibition organisation

Revenues amounted to €53.9 million, an increase of 21.1% on the previous year, thanks to positive trends in both editorial activities and cultural initiatives, including the management of services for and organisation of exhibitions. The subsidiary Electa Napoli SpA also confirmed its positive results, with a marked increase in revenues.
During the year, in the Books sector, an editorial reorganisation was carried out, the aim of which was to reinforce the presence of Mondadori Electa in its two principal areas of activity, specialised art publishing (Electa) and illustrated books for the Trade segment (under the Mondadori imprint); new titles published during the year numbered 343 (250 in 2005), while reprints totalled 281 (305 in 2005).
The results of the year benefited from trends in add-on sales, which took a sharp upturn compared with 2005, one of the most important initiatives being *La storia dell'arte* for *La Repubblica*.
In the museum services management, exhibition organisation and the corresponding catalogue production areas, revenues were ahead of expectations at €23.6 million, an increase of 16.7% compared with the previous year.

In terms of services under licence, the Coliseum, with more than 4 million visitors, was confirmed as Italy's most visited monument by far. In exhibition organisation and catalogue publishing, the most significant successes of the year were the *Musa Pensosa* and *Iliade*, events organised at the Coliseum, and the exhibitions and catalogues for *Gentile da Fabriano* and *Annibale Carracci*, as well as monographic shows on *Mollino*, *Albini* and *Gardella*.

Sperling & Kupfer Group

In 2006 the Sperling & Kupfer Group generated revenues of €29.3 million, an increase of 16.3% on the previous year. Compared with the previous year, we would point out the absorption during 2006 of the business activities of Mondadori Informatica, previously directly controlled by Arnoldo Mondadori Editore SpA.

Book production in the year saw the publication of 424 new titles (4 more than in 2005) and 509 reprints (31 more than in the previous year), with an increase in average print runs, both for new titles and reprints.

During 2006, there were positive results in both fiction and non-fiction; in the fiction segment, established authors in the portfolio confirmed their success, for example Sveva Casati Modignani, with *Rosso Corallo* (200,000 copies a combination of trade and illustrated editions) and Stephen King

(210,000 copies with 2 titles), as well as the very good performance of Alessandra Appiano, with the book *Le vie delle signore sono infinite*, and the success of John Grogan *Io & Marley* (130,000 copies sold during the year). The non-fiction department had a big hit with Giampaolo Pansa, whose *La Grande bugia* sold some 320,000 copies; and a number of first-time authors, including Luca Telese with *Cuori neri*, Antonio Caprarica with *Dio ci salvi dagli inglesi*, and Nicola Rao with *La fiamma e la celtica*.

For Edizioni Frassinelli, as well as a further confirmation of the success of Nicholas Sparks, who recorded sales of some 175,000 copies, of particular note was *La danza delle grandi madri* by Clarissa Pinkola Estés; production during the year saw 43 new titles and 36 reprints.

Edumond Le Monnier

Net revenues for 2006 amounted to €87.7 million, a 4.7% increase on the previous year; consequently confirming the company's leadership in the educational sector, with a market share of 14.2%.

In the different segments of the market, Edumond Le Monnier remains leader in the primary and first level secondary school segments, and is in second place in the second level secondary school segment. In particular, the excellent performance in the primary school segment was significant, with a growth in market share from 7.4% to 12.1%.

In the first level secondary school segment, the company's market share remained stable at 14.8%, while in the second level secondary school segment, the most important in terms of size and profitability, Edumond Le Monnier confirmed its 14.5% share and position as the second biggest player.

In 2006 the company confirmed its role as a point of reference in the online area, providing teachers, students and parents with the frequently visited sites *Pianetascuola* and *Pianetino*, and developing, in the context of new technologies, new e-learning content and participating in the platform financed by CIPE for the south of Italy.

Piemme

In 2006 Piemme generated net revenues of €47.2 million, a marked increase of 13.5% compared with the previous year; growth was mainly in the books for adults area (i.e. fiction, non-fiction, pocket books and religion) which, compared with 2005, saw extraordinary growth, thanks to the exceptional success of *Il cacciatore di aquiloni* (with sales of 600,000 copies in 2006), first published in 2004.

Other successful titles included *L'ombra* by Cody McFadyen (36,000 copies), *La verità* by Annamaria Franzoni (74,000 copies) and *Il poeta è tornato* by Michael Connelly (more than 100,000 copies), a well-established author in the Piemme portfolio.

The Religion line of books saw an 8.7% downturn compared with the previous year, which was unrepeatable due to the production of books dedicated to Pope John Paul II.

The Pocket series saw a marked increase in revenues of 26.7%, thanks to the sales of *Il Diavolo veste Prada* (113,000 copies), driven by the film of the same name released during the year. A global review of the offer is currently under way.

In the Junior sector the Il Battello a Vapore line continued to perform well, with continued growth of 13.7% compared with 2005; outstanding success was also recorded for the new series of Barbapapà (with sales of more than 100,000 copies).

There was a slowdown in the Geronimo Stilton line, mainly due to a lower supply from the catalogue. Excellent results were recorded by the new Classics series, with includes titles such as *l'Isola del tesoro* (47,500 copies), *Il giro del mondo in 80 giorni* (37,000 copies) and *La spada nella roccia* (33,000 copies). Also the series aimed at a female target, Tea Stilton, produced very satisfactory results: *La montagna parlante* sold 50,000 copies, while *La città segreta* sold a total of more than 42,500 copies.

Distribution and logistics

2006 revenues came to €33.7 million, compared with €39.3 million in the previous year.
The beginning of distribution for Piemme, starting on 1 August 2006, contributed to a recovery in revenues lost from third-party publishers. Especially positive, among the latter, was the performance of Baldini Castoldi Dalai, thanks to the success of the new book by Faletti.
The focus on efficiency improvements and operational management, despite the higher volumes handled, has led to an increase in the efficiency of inventory, with an improvement in the average number of delivery days from 2.3 to 2.1.

Magazine Division

2006 consolidated revenues generated by the Magazine Division amounted to €867.2 million; on a like-for-like basis, revenues, net of the contribution of Mondadori France (September-December), came to €731.7 million, a shortfall of 6%.

(€m)	2006	2005
Magazine revenues	848.1	767.4
Other revenues	19.1	10.6
	867.2	**778.0**
Operating costs	(742.3)	(647.8)
Gross operating profit	**124.9**	**130.2**
Amortisation and depreciation	(3.7)	(3.0)
Operating profit	**121.2**	**127.2**

Italy

Circulation

Italian newsstand sales saw a generalised downturn that affected almost all segments and was also partly the result of strike action associated with the ongoing negotiations for the renewal of the national contract for journalists, while subscriptions remained more or less stable.

The biggest falls were recorded in the TV Guides segment, a return, after the boom in 2005 caused by the launch of new titles, to the circulation levels of 2004; family titles, women's service-based titles and a number of specialised monthlies. There was greater stability in newsmagazines and upscale women's magazines, both weekly and monthly. 2006 was characterised by a lower level of new launches, which in the past have driven growth in the market. The reduction in Mondadori's volumes was in line with the market, confirming the company's absolute leadership.

An examination of the main segments shows that, in the women's area, *Donna Moderna* maintained its supremacy among women's weeklies, with circulation that was in line with the previous year and *Grazia*, sustained by a relaunch, which grew by 4%, with a 7% increase in advertising revenues; *Cosmopolitan* and *Flair* maintained their levels of sales.
There were positive results for *Panorama*, which confirmed its leadership and the gap from its rival, while *Economy*, that continued its constant growth and the acquisition of new advertising clients.
In the cooking and interiors segments Mondadori's main titles, such as *Casaviva*, *Casafacile*, *Sale & Pepe* and *Cucina Moderna* showed marked increases in both circulation and advertising.
Focus remained Italy's biggest-selling monthly, also with the support of new products developed as part of a brand extension policy.

2006 was a year in which the market for television titles settled down, after a 2005 characterised by a marked upswing in competition. *TV Sorrisi e Canzoni*, in a segment that saw a 14% drop in the number of copies sold, saw a fall in its circulation of around 10%, even though it remained, by a wide margin, with average sales of 1,120,000 copies, Italy's biggest-selling weekly, and leader in its segment with an extensive lead over its nearest direct competitor.

The Mondadori TV titles launched in 2005 found a tighter space in the market, with total average weekly sales of around 100,000 copies after the launch phase.
This dynamic market has allowed the Group to maintain its absolute leadership in the television segment, with a volume market share of more than 61%.

During 2006 the internationalisation strategy saw remarkable success with *Grazia UK*, launched in the United Kingdom, thanks to a licensing agreement with Emap; reaching a circulation level of 210,000 copies, an increase of 23%, while doubling its advertising sales (more than €34 million, +126%). Moreover, a number of other editions of the title were launched during the year in Portugal, Croatia and Serbia, joining the editions of *Grazia* already published in Greece and the United Arab Emirates.

An agreement was also defined during the year with Sanoma for the launch of *Grazia* in Russia in a 50-50 joint venture.
The first issue will appear on newsstands on 1 April 2007.

The Mondadori Group's internationalisation strategy, which is based on the international development of the most representative brands of *Italian Style*, continued with the launch of an edition of *Casaviva* in Thailand.

With regard to the Group's direct presence in Greece, in a difficult year, particularly in the advertising market, Attica, the Greek publisher in which Mondadori has a 41.66% stake, confirmed its position as leader in advertising revenues.

Add-on sales

The market for add-on sales confirmed the forecast of a downward trend with a fall of 5%. The Mondadori Group, despite feeling the effects of this negative trend and an increase in competitive pressure, was nevertheless able to confirm its leadership, also with regard to the broader market including newspapers.

Although the phenomenon also saw an increase in the number of initiatives by all publishers, there was a generalised increase in prices while average sales per initiative were in marked decline.

The Mondadori Group, after the extraordinary growth in 2005 due to the success of the Garzantine initiative, and in contrast to its main competitors, focused its 2006 policy of rationalising the use of add-on sales, with the precise aim of concentrating on the level of profitability.

This policy was accompanied by actions across the entire value chain, starting with cost controls, and right up to the management of returns and the optimisation of investments in communication, making it possible not only to maintain, but even to improve margins (up by more than 3 percentage points).

The elimination of VHS (definitively obsolete), a drastic reduction in the use of women's goods, and a reduction in the use of music CDs (used in synergy and complementary with initiatives run by Radio R101) resulted in a fall in volumes and revenues.

During 2006 the sales of DVDs, an area in which Mondadori is the absolute leader, were positive; sales of editorial products were in line with expectations, even if a comparison with 2005 must take account of the previously mentioned exceptional success of the Garzantine initiative in 2005.

In line with the policy of focusing on high value added products, the weight of books and DVDs on the total increased by more than six percentage points, reaching more than 84%.

In conclusion, we would underline the performance of a number of initiatives:
– the *Great Books of Religion*, an encyclopaedia of nature and the dictionary series sold in conjunction with *TV Sorrisi e canzoni*;
– *Globus*, the atlas series sold in conjunction with *Panorama*;
– the DVDs sold with *Panorama*;
– the continuation of the *Meridiani Collezione* series.

France

Circulation

The French market, while conforming to the downward trend common to all European countries, confirmed its position as the continent's biggest market (97.2% of the population reads at least one magazine per month).

The fall mainly affected the television segment (-5.4% due to the effects of the launch in 2004 of fortnightlies), generic women's titles (-4%) and the male lifestyle segment, where many titles have been closed. The only segments that appeared to buck a trend which shows average circulation falling by 4% were women's fashion/beauty titles (+3.9%) and news-based titles, driven by people magazines.

The macro trends identified in the first four months of Mondadori's management, indicate a stabilisation in the decline of TV titles (*Télé Star*, *Télé Poche*) and particular efforts focused on reviewing both the portfolio and content. *Max* and *20Ans*, which showed no potential, either in advertising or circulation, were closed. Meanwhile, revisions were made on the content side on *Auto Plus*, *Auto Journal*, *FHM*, *Modes et Travaux* and *Biba*.

Closer (launched in 2005) performed exceptionally well, and is now the leader in its segment.

Advertising

The organisational structure of Mondadori France means that advertising sales are managed within the editorial structure, rather than using an external structure, as is the case with most Italian publishers.

Compared with 2005, gross advertising investments in France grew by 11% in 2006. In this context, traditional media grew more or less uniformly, by between 5 and 6%, with only newspapers and cinema (both +14%) growing faster.

Overall, print media in France continues to be the leading media for advertising investments with a 33% market share, ahead of television (30%), radio (15%), outdoor (12%) internet (9%) and cinema (1%).

The most dynamic sectors were clothing/apparel (+10%), financial services and insurance, retail. Magazines derived only partial advantages due to the structure of the portfolios of individual publishers. There was a concentration in a number of main areas: newsmagazines, upscale women's weeklies, and some upscale women's monthlies. In this increased competitive context.

There were particularly positive results for *Télé Star* which saw its advertising revenues grow by 2.3% in the period September-December 2006.

Among the women's titles, *Pleine Vie* grew by 15%, adding 6 percentage points to its market share in the same period.

Closer, eighteen months from the launch, saw an increase in advertising revenues of 23%.

Initial synergies with the Mondadori Group, in the last 4 months of 2006, have already generated substantial reductions in industrial costs that will be even more relevant in 2007.

Greater integration between the two countries is underway in order to coordinate development activities, especially with regard to new launches, add-on sales, subscriptions and digital areas.

There was also positive confirmation of synergies in centralised purchasing, while the programme for the centralised printing of monthly titles continued. Initial results are encouraging and indicate extensive opportunities for improvement during 2007.

In the search for synergies, an exchange of *savoir faire* and the sharing of experiences, the development of Mondadori France can count on the extensive cooperation of Mondadori.

Advertising services

The market

The total market in advertising investments in 2006 grew by 2.6%, a slight fall on the trend recorded for the first nine months of the year (+3%). A clear signal was the growing interest of investors in new media (new titles, satellite television and the internet).

As the table with Nielsen data shows, television grew more slowly than in 2005, at 0.8%, while print media grew by 3.5%, confirming the trend of 2005. Inside the print area, newspapers saw an increase in advertising of 1.7%, while magazines, thanks to the launch of new titles, recorded growth of 6.0%.

Radio, which saw 7.8% growth, and above all the Internet, which grew by 44.2%, represent new areas of development for investments, increasingly oriented to "broader" and more integrated communication; there was a downturn in Cinema and Outdoor, that saw a reduction in their share of total expenditure.

An analysis of the dynamics in each sector shows that advertising in the last quarter remained positive in the fashion, cosmetics and FMCG sectors, with a positive impact on women's and family ti-

(€m)	2006	2005
Advertising revenues	338.8	336.0
Other revenues	4.1	5.0
	342.9	**341.0**
Operating costs	(340.7)	(338.2)
Gross operating profit	**2.2**	**2.8**
Amortisation and depreciation	(0.3)	(0.3)
Operating profit	**1.9**	**2.5**

tles; while ad sales for male lifestyle titles remained stable.

The company

With no significant changes to the portfolio, the performance of Mondadori Pubblicità compared with 2005 can be read on a like-for-like basis.

The core-advertising business for Mondadori, after closing the first half with an increase of 2.1%, in the second half saw a slowdown, also due to strikes in the fourth quarter, that resulted in growth for the year of 0.8%.

The positive trend in the women's magazine segment was confirmed also for single titles, in the growth of advertising for *Chi*, thanks also to *Chi International*, and *Grazia*, confirming the trend of the first 9 months of the year. There were also positive results for *Panorama*, which benefited from the special issue of *First*, while in other segments, *TV Sorrisi e Canzoni* advertising sales remained stable, as was the case for the furnishing and design area.

In Radio, thanks to a very positive final quarter, the excellent results were confirmed, with a doubling of advertising revenues compared with 2005; the initiatives adopted confirming clients' enthusiasm for the schedule and content offered by R101, both for the special initiatives organised, such as the Summer Tour, and the end of year concert in Palermo.

The advertising market

(€m)	2006	2005	Change %
Television	4,704.8	4,668.7	0.8%
Total print media	3,096.1	2,992.0	3.5%
- Magazines	1,296.0	1,222.5	6.0%
- Newspapers	1,800.1	1,769.5	1.7%
of which: National sales	*975.6*	*951.7*	*2.5%*
Radio	440.7	408.6	7.8%
Outdoor	197.0	198.7	(0.9%)
Cinema	76.2	83.0	(8.2%)
Internet	197.6	137.1	44.2%
Total advertising market	**8,712.4**	**8,488.1**	**2.6%**

Source: Nielsen Media Research (The Advertising Market – Estimate of net investments)

Printing Division

During 2006 the Printing Division saw a fall in revenues of 2.4% compared with the previous year; with revenues of €447.9 million, compared with €459.1 in 2005.

Intragroup sales amounted to €259.3 million, a fall of 2.3%, while third-party sales, worth a total of €188.6 million, were down by 2.6%, the effect, particularly in the last quarter of the year, of a slowdown in add-on sales for third-party publishers.

This trend in sales is confirmed by the figures net of the cost of paper: overall, printing revenues (net of paper and transport costs) were down by 2.7% compared with 2005.

The market for hardback and paperback books, conditioned by the initiatives of newspapers and magazines, saw a decline compared with the previous year, particularly marked in the latter part of the year, due to a fall in revenues from the add-on sales of third-party publishers. Meanwhile, there was a positive performance in the revenues from the trade sector while, despite competition from the Far East, the trend in foreign illustrated books remained stable.

In fact, during the year positive commercial relations were developed with foreign publishers, resulting in excellent results from the sale of products created by Electa.

(€m)	2006	2005
Printing revenues	447.9	459.1
Other revenues	-	-
	447.9	**459.1**
Operating costs	(413.5)	(419.8)
Gross operating profit	**34.4**	**39.3**
Amortisation and depreciation	(24.8)	(23.2)
Operating profit	**9.6**	**16.1**

Towards the end of 2006 signs of a recovery in the foreign markets for rotary products continued; in this area Mondadori Printing has consolidated its position with its main clients, despite a highly competitive scenario in Europe characterised by aggressive pricing.

The company's restructuring plan, which began in 2005 continued during 2006, with a specific focus on the staff structure and with the desired benefits.

The amount of paper handled during the year amounted to 333,658 tonnes, compared with 337,729 in 2005, a fall of 1.2%. In line with expectations, there was a slight increase in the cost of paper, confirming the trend first noted both in the previous year and the first nine months of 2006. Of particular significance during 2006 was the increase in energy costs (electricity and gas), determined by world oil prices and the euro/dollar exchange rate.

In June, in line with the project's timing, investments in the rotary area of the Verona plant were completed, and relative to the new integrated rotary printing system. The benefits, in terms of efficiency and increased competitiveness will have a positive impact during 2007.

Printing revenues (net of paper costs)

(€m)	2006	2005	Change %
Magazines	127.1	131.1	(3.1%)
Books	80.6	85.9	(6.2%)
Catalogues and promotional materials	36.1	32.4	11.4%
Directories	1.4	2.5	(44.0%)
Total printing revenues (net of paper costs)	245.2	251.9	(2.7%)

Direct Marketing

During 2006, the Direct Marketing area, through the activities of **Cemit Interactive Media**, recorded 9% fall in revenues, to €24 million compared with the €26.4 million of the previous year.

Over the period Cemit Interactive Media, after having implemented a reorganisation of both the structure and processes, began to offers its clients new tools able to improve its portfolio of services and face the new competitive challenges in the direct marketing sector, following the introduction of new privacy legislation.

Such initiatives have made it possible to slow down the fall in sales, thanks both to the development of new products and an increased focus on the markets of reference.

(€m)	2006	2005
Revenues	24.0	26.4
Other revenues	-	-
	24.0	**26.4**
Operating costs	(20,2)	(21.7)
Gross operating profit	**3.8**	**4.7**
Amortisation and depreciation	(0,3)	(0.4)
Operating profit	**3.5**	**4.3**

Retail

Total revenues from Mondadori's Retail Division amounted to €137.3 million, in line with the figure for 2005 (€137.2 million).

Mondadori Retail SpA generated revenues of €90 million, a fall of 9.2% on 2005. The reduction was the consequence of the closure of the business activities in the Corporate channel – big clients; net of this disposal, revenues increased by 6.9%.

(€m)	2006	2005
Revenues	137.3	137.2
Other revenues	-	-
	137.3	**137.2**
Operating costs	(121.9)	(134.6)
Gross operating profit	**15.4**	**2.6**
Amortisation and depreciation	(2.1)	(2.2)
Operating profit	**13.3**	**0.4**

A contribution was made to this result by an acceleration in the restructuring and expansion programme, with the opening of bookstores in large shopping malls (Bellinzago, Sesto S. Giovanni and Limbiate in the province of Milan, and Florence, Mantua and Ferrara in the rest of the country). Other openings are planned for 2007.

At the end of 2006 Mondadori Retail SpA finalised the acquisition of Messaggerie Musicali SpA, reinforcing its presence in Milan and Rome, with a network of stores that will occupy in the two cities, a total area of more than 25,000 square metres: this operation is part of a more extensive strategy for growth in the retail sector, reinforcing the visibility of the Mondadori brand and creating synergies with the existing multicenters.

Alongside this operation, Mondadori, within the context of a plan to optimise its presence in the centre of Milan, sold its historic bookstore in Corso Vittorio Emanuele. Meanwhile, in the spring of 2007 the new 4,000m² megastore Duomo Center, on five levels, will open, featuring a wide range of customer services and an extensive assortment.

Mondadori Franchising SpA, with an increase of 24.2%, recorded revenues of €47.3 million, compared with €38.1 million in 2005. This result was made possible thanks to a marked increase in the number of outlets (the number of franchised bookstores rose from 170 to 189 and the number of Edicolè outlets from 33 to 77).

Given the pronounced development capacity, the structure is under continuous reorganisation, with particular attention being given to to the selection of franchisee candidates, with an emphasis on increasingly larger-size outlets.

In December an agreement was signed with Centostazioni to open bookstores at 14 Italian railway stations, giving Mondadori a new and interesting channel that has the capacity to meet the needs of the millions of passengers that use the train network every day.

Radio Division

The activities developed by Radio R101 during 2006 were initially focused on the consolidation of the schedule, alongside an intensive communication campaign to build the brand and promote the content, in particular in support of the morning show *La carica di 101* and the prize-game show *Sbanca 101*, the first radio quiz show with prizes in gold tokens, presented by Gerry Scotti.

Communication efforts were further intensified during the summer with an advertising campaign mainly planned on Mondadori magazines and focused on the music that characterises Radio R101.

Marketing activities were characterised by a wide range of events, in particular the Summer Tour, with 11 stops around the country at the leading seaside resorts, and the end-of-year concert in Palermo, activities aimed at building the R101 audience in the centre and south of Italy, areas that are considered strategic. These activities have made it possible to consolidate ratings, as recorded by Audiradio: Radio R101 had a daily average of around 1.5 million listeners (+30% in the 4th cycle of measurement 2006 vs 2005) and around 6.7 million listeners per week (+21% in the 4th cycle of measurement 2006 vs 2005).

(€m)	2006	2005
Revenues	8.7	4.3
Other revenues	0.6	-
	9.3	**4.3**
Operating costs	(20.8)	(16.1)
Gross operating profit	**(11.5)**	**(11.8)**
Amortisation and depreciation	(1.0)	(0.7)
Operating profit	**(12.5)**	**(12.5)**

At the same time, efforts to secure new frequencies, along with the relevant infrastructure, continued, making it possible to reach more than an 85% coverage of the population and an extremely broad reach across the country, particularly in Sicily, which has become the second biggest region in terms of average daily listeners (source: Audiradio).

Net revenues for 2006 of Radio R101 more than doubled, reaching €9.3 million (€4.3 million in 2005), of which net advertising revenues for the company came to €8.7 million, on gross revenues of €14.1 million.

Corporate and other business

The Corporate sector includes, in addition to the structure that manages the Group's financial activities, the functions of the Parent Company engaged in service activities for the companies of the Group and the Business Divisions.
Such services involve mainly ITC services, accounting, management control and planning, treasury and finance activities, human resources, legal and corporate affairs, and communications.
Revenues derive essentially from charges made to subsidiaries, associated companies and other users of the aforementioned services.

Financial situation

The Mondadori Group's financial situation as of 31 December 2006 showed a deficit of €554.7 million, as illustrated in the following table:

Net financial position

(€m)	**2006**	**2005**
Cash and cash equivalents	105.5	73.1
Financial assets at *fair value*	152.5	442.9
Assets (liabilities) from derivative instruments	(35.5)	2.0
Other financial assets (liabilities)	(11.0)	(29.6)
Borrowings (short and medium/long-term)	(401.3)	(57.5)
Bonds	(259.0)	(295.3)
Convertible bonds	(105.9)	(103.6)
Net financial position	**(554.7)**	**32.0**

The change in the net financial position takes account, among other things, of dividend payments of €144.6 million and the financial outlay of €551 million for the acquisition of Emap France.

It should be noted that, if outlined as per Consob recommendations, see note 13, the deficit would amount to €556.2 million, in that it would not include the item "Non-current financial assets".

Trends in interest and exchange rates

The growth phase in the world economy, that began in recent years, continued in 2006 (+3.7%) thanks to the significant, even if differing, contributions of the countries that are the protagonists of global economic development.
In Europe the year was characterised by substantial growth (+2.8%), upheld by a growth in internal demand and so less dependent on export fluctuations, and it is this that suggests a structurally positive phase.

Expectations for 2007 are consequently positive and tend to confirm current trends, with perhaps slightly lower rates of growth.

In this context, the monetary policy of the European Central Bank and banking regulatory bodies have been generally restrictive. In particular, the Federal Reserve with a succession of measures has brought American short-term interest rates back to 5.25%. In Europe, the ECB has continued to raise base rates since December 2005, up to the current level of 3.50%. Further increases will depend on market and macroeconomic figures. In Japan, for the first time in five years, the Central Bank intervened in September to fix the official rate at 0.25%.

During 2006 the €/$US exchange rate strengthened, going from a minimum of 1.1820 (at the beginning of the year) to a maximum of 1.3326 (towards year-end), the average rate over the year was 1.2564. Meanwhile, the €/£ sterling rate went from a minimum in mid-November of 0.6685 to a maximum at the beginning of April of 0.7013 (the average rate was 0.6818). At year end, the €/£ sterling rate stood at 0.6739.

In terms of market interest rates, 3-month Euribor (Act/360) rose from 2.488% at the end of December 2005 to 3.725% at the end of December 2006 (an average of 3.078%) as a result of measures taken by the European Central Bank on base rates. In the same period, the average cost of money for the Mondadori Group was 3.145%.

The overall credit lines available to the Group at 31 December 2006 came to more than €1.5 billion.

Around €70 million of the Group's short-term borrowing facilities, worth more than €500 million, were used as at 31 December 2006, through self-liquidating credit lines (advances on invoices) and stand-by loans with a duration of less than 18 months minus one day.

Medium-long-term lines of around €1 billion are made up of:

– €296.4 million from a private placement in dollars in the U.S.A., over three tranches expiring in 2013/2015/2018, reserved exclusively for institutional investors. For the Private Placement, a cross-currency swap is in place to cover exchange and interest rate risks;

– €109.9 million in convertible bonds, guaranteed by Mondadori shares, expiring in 2008 also reserved for institutional investors; €51.4 in subsidised loans for publishing, mainly as per Law no. 62/01;

– €500 million for a five-year (pooled) bank loan, expiring in July 2011 from a pool of leading international banks for the acquisition of the French publishing company Emap France, concluded on 31 August 2006. The multi-borrower loan (Mondadori International and Arnoldo Mondadori Editore) is made up of a Term Loan tranche of €300 million and a Revolving Credit Facility of €200 million; as of 31 December 2006 that latter was not utilised. On 50% of the Term Loan part, a swap was applied on fixed and variable interest rates.

Mondadori International

Mondadori International, the company that manages the Group's foreign financial assets, closed the financial year 2006 with a surplus of €168.9 million (€430 at the end of 2005).

The reduction in the financial surplus under management and the consequent final result is a direct result of the €260 million capitalisation operation for the Mondadori France subsidiary. In fact, Mondadori France is the company that bought 100% of the French group Emap France, making use of financial resources obtained from Mondadori International, partly in cash (€260 million) and partly in the form of a loan (€300 million).

At the end of the year the portfolio was made up as follows:

– cash products and bonds at variable rates: €144.9 million;

– hedge fund investments for €24.0 million (widely diversified by management and strategy).

Asset allocation is characterised by an average volatility of 0.70% (across 2006); corresponding to 75% of the volatility of short-term (from one to three years) eurozone government bonds.

The average overall return of the Group's liquidity in 2006 was 3.27%.

The entire portfolio can be converted rapidly to cash, and in any case, in not more than three months for the component invested in Hedge Funds.

Personnel

As of 31 December 2006 Group companies employed 5,668 people (4,450 at 31 December 2005), while the average number of personnel during the period amounted to 4,799 (4,518 in the same period in 2005).

As a result of the acquisitions of the Emap France Group (1,140 people) and Messaggerie Musicali SpA (147 people), these figures are not like-for-like and are therefore not significant.

Taken on a like-for-like basis, the total figure would be 4,381, and the average figure would be 4,408, both showing a slight fall compared with 31 December 2005.

The following table shows details of Group personnel as of 31 December 2006:

Personnel	31 December 2006	31 December 2005
Arnoldo Mondadori Editore SpA:		
- Managers, journalists and office staff	1,477	1,488
- Manual workers	101	107
	1,578	**1,595**
Italian subsidiaries:		
- Managers, journalists and office staff	1,706	1,576
- Blue-collar staff	1,098	1,134
	2,804	**2,710**
Foreign subsidiaries:		
- Managers, journalists and office staff	1,181	42
- Blue-collar staff	105	103
	1,286	**145**
Total	**5,668**	**4,450**

The cost of personnel amounted to €302.1 million (€268.9 million in 2005), an increase of 12.3%.
This change is due to the acquisition of Emap France; on a comparable basis personnel costs showed a fall of around 2.2%.

As of 31 December 2006, the following contracts had expired:
– the remuneration component of the national contract for executives;
– the remuneration component of the national contract for commercial trades;
– the remuneration component of the national contract for journalists.

Capital investments

During 2006 the Group made investments in capital for a total of €39.3 million, of which €29.7 million are already operational.

The area most affected by such investments was, as usual, the printing area, which accounted for €23.5 million. €17.3 million of which is already operational and involves investments in plant and machinery for printing and industrial infrastructure.

Disinvestments during 2006, which amounted to €2 million, concerned, for €0.7 million for industrial property not in direct use, while the remainder was made up of other assets divested in the normal order of business.

Results of Arnoldo Mondadori Editore SpA

On 31 December 2006, the balance sheet of the parent company, Arnoldo Mondadori Editore SpA, prepared in line with IAS/IFRS standards, showed a net profit of €90.2 million, a reduction on the same period of the previous year (€101.3).

This reduction was essentially the result of the non-renewal of government contributions for the cost of paper, the effect of which on the net profit was partially mitigated by an improved balance from the management of assets.

Reconciliation of the net assets and profit of the parent company and consolidated net assets and profit

The following table makes it possible to compare the net assets and results of Arnoldo Mondadori Editore SpA in 2006 with those of the consolidated Group.

(in €,000)	Net assets	Net profit for the period
As per the Parent Company's statutory accounts	**435,576**	**90,240**
Dividends paid to the Parent Company by subsidiary and associated companies		(32,122)
Elimination of intragroup profits	(6,797)	(485)
Contribution of associated companies	(33,641)	8,416
Contribution of subsidiary companies, net of aforementioned items	87,275	42,911
As per consolidated accounts	**482,413**	**108,960**

Forecast for the current year

The broadening of the Group's business and initial indications from the market mean that, barring unexpected changes in the market, the Group expects to improve on the results obtained in 2006.

Significant events after the end of the year

Press-Di, the Mondadori Group's new distribution company

On 1 January 2007, Arnoldo Mondadori Editore SpA, through the contribution of an existing business activity Mondadori Sistemi di Comunicazione Srl, established Press-Di Distribuzione Stampa e Multimedia Srl, which has been created with the aim of further developing the Group's presence in the press distribution and logistics sector.

This operation will allow Press-Di to expand its portfolio of titles under management, which already includes, in addition to the magazines of the Mondadori Group, daily newspapers.

In fact, the new company has signed with Editoriale Libero S.r.l. an agreement for the distribution of the daily newspaper *Libero* across the entire country from 1st March.

Libero, with more than 442,000 readers (Audipress 2006/II) and average circulation in continuous growth, of 123,611 copies (Ads December 2005/November 2006), is an authentic case history in recent Italian publishing, in particular for the results that it has achieved.

With a 15% market share, Press-Di offers its customers not only the effective management of the newsstand channel, but also the large-scale retail and subscription channels. The company's objectives include the development of advanced IT systems that will provide publishers with real-time up-to-date information on the distribution and sales of their titles.

The redesign of *Panorama*

With the 9 March 2007 issue, *Panorama*, the newsmagazine edited by Pietro Calabrese, hit the newsstands with a completely new look, starting from the "weight" of the logo on the cover, that captures attention for its modernity, clarity and accessibility. This profound change, conducted internally, has been organised along three main lines, each of which guides each of the three main sections into which the new *Panorama* has been configured.

The first is **selected information**: in times such as ours, in which every moment of the day we are bombarded with often indigestible amounts of information, the role of a newsmagazine has to be that of selector and synthesiser. The first section of the new *Panorama* does exactly this: "*our age*" selects items, whether political, foreign, business, science, cultural etc. news and presents the facts of the week in a brief and accessible manner.

The second section is dedicated to "*background*", because, if we are to understand how the world is changing we need **reflection**: the most pressing issues in current affairs will be covered in wide-ranging reports and high-quality journalism, creating the most original part of the new *Panorama*, a part dedicated to detail and surveys, dossiers and big interviews.

Panorama will continue to deal with society, lifestyle and culture. Consequently, the last part of the magazine, built around the concept of **evasion** and re-named "*the pleasures of living*", will be for readers an up-to-date and organised guide, that is also clear and simple, to everything that is new in terms of trends, fashion and lifestyle.

This redesign of *Panorama* also affects the new release of the *Panorama.it* web site, that has been redesigned and reconfigured to take account of the rapid and profound changes that have taken place in the digital world and the way of delivering online news. The content of the print version of *Panora-*

ma will be available in a digital newsstand section, in complete form and the channels of *Panorama.it* will be supplied by a dedicated staff, that will work on a newsblog platform. All of the content of *Panorama.it* can be commented on by users and *blue zones* will exist to gather contributions from users (comments, articles, contributions to forums and reactions to the galleries).

Alongside the renovation of *Panorama* and of the "system" that surrounds the title (brand extensions, web site, special initiatives) the end of March, will see the publication of *First* which, after the success of the initial experimental issues, will become monthly, remaining a supplement to *Panorama*, but with a new layout and editorial structure. *First* will be a unisex lifestyle title, marked by its international outlook and strongly characterised by its image and attention to presenting, above all, celebrities, cultural and lifestyle phenomena.

Radio R101 in the top ten of national radio networks

Radio R101, after a little over a year since the launch, has reached, according to Audiradio figures in the first two months of 2007, an average daily audience of 1,762,000, an increase of 31% on the same period of the previous year and 28% on the average figure for 2006.
Listeners, across 7 days, meanwhile, average 7,469,000, positioning Radio R101 for the first time among the top ten national radio networks (in 6th place among commercial broadcasters).
This further jump means that the Mondadori Group's radio network is now among the best-known and most listened to stations in the country.

Grazia International Network

The development of the Grazia International Network continued with the publication, in the last week of March 2007, of the Mondadori title in Russia, the result of an agreement with Independent Media Sanoma Magazines, one of Europe's biggest publishing groups. Significant growth in the magazine sector is expected in Russia, not only in terms of circulation, but also for advertising.

Other information

The following section deals with information about the items indicated:

Related party transactions

Information is hereby given, as per Consob communications 97001574 of 20 February 1997 and 98015375 of 27 February 1998, that no operations of an atypical or unusual nature were carried out during the year.
The operations carried out between related parties of the Group are based on normal market conditions: those carried out with companies of the Mondadori Group are of a commercial or financial nature and are accounted for through the intragroup current account managed by Arnoldo Mondadori Editore SpA, in which the various subsidiaries and associated companies take part, leading to a series of intercompany receivable and payable balances.

For more detailed information reference should be made to the notes to the Group's consolidated financial statements.

Tax consolidation

As a consequence of the introduction of new legislation – pursuant to articles 117 and following of DPR no. 917/1986 – Arnoldo Mondadori Editore S.p.A. has elected to take part in the tax consolidation of Fininvest S.p.A. in view of its position as a jointly consolidated entity with that company.

The election of the companies of the Mondadori Group to participate in the "tax consolidation of Fininvest" was subordinate, in the consolidation agreement, to a clause safeguarding the Mondadori Group from being obliged to pay income taxes for amounts greater than that which the Group would have made if Arnoldo Mondadori Editore S.p.A. had opened its own tax consolidation position.
Moreover, on the basis of the transferred taxable income of all of the companies of the Fininvest Group included in the fiscal consolidation, the contract recognises that a part of the fiscal advantage pertaining to Fininvest S.p.A. is due to Arnoldo Mondadori Editore S.p.A. in view of the Mondadori Group's participation in the consolidation.

Payables and receivables deriving from the consolidation are recognised as payables to and receivables from parent companies.

Fiscal transparency

Arnoldo Mondadori Editore S.p.A. and the following companies have jointly adopted the "fiscal transparency option" pursuant to article 115 of DPR no. 917/1986:

- Gruner & Jahr Mondadori SpA
- Harlequin Mondadori SpA
- Bol-Books on Line Italia SpA in liquidation
- Press TV SpA

As a result of this, the taxable income and tax losses of these companies are included on a pro-rata basis in the taxable income of Arnoldo Mondadori Editore S.p.A.

Management and coordination (article 2497 and following of the Civil Code)

In line with legal requirements and given that the Board of Directors of Arnoldo Mondadori Editore S.p.A. determines, in general terms, the strategic and organisational guidelines also for subsidiary companies, the Board has confirmed that the company carries out management and coordination activities, as per articles 2497 and following of the Civil Code, for the following companies, as per article 2359 of the Civil Code:
Cemit Interactive Media SpA
Edizioni Frassinelli Srl

Edizioni Piemme SpA
Edumond Le Monnier SpA
Fied SpA
Giulio Einaudi Editore SpA
Mondadori Electa SpA
Mondadori Franchising SpA
Mondadori Printing SpA
Mondadori Pubblicità SpA
Mondadori Retail SpA
Press-Di Distribuzione Stampa
Multimedia Srl
Sperling & Kupfer Editori SpA
Monradio Srl

These companies have consequently implemented the necessary disclosure requirements envisaged by article 2497 bis of the Civil Code.

Acquisition of Emap France

On 31 August 2006, following antitrust authorisations from the competent European bodies, the agreement, reached in June with Emap Plc, for the acquisition of the Emap France Group was formalised.
The transaction was based on an enterprise value of €545 million, to which was added €6 million relating to contractually foreseen adjustments.

Emap France, which in September 2006 changed its name to Mondadori France, is France's third largest publisher in terms of volume (with a market share of 10%, compared with the 13% of Prisma Press and the 25% of Hachette); in terms of value, the three players are much closer: with Hachette and Prisma Press with a share of 13% each, and Emap France on 12%. In terms of advertising revenues the figures are: 17% for Hachette, 11% for Prisma Press and 10% for Emap France.

In the calendar year 2006 Emap France, with 1,140 employees, generated net revenues of around €400 million, almost equally distributed between circulation, subscriptions and advertising.
Among the more than 40 titles published are television/entertainment titles (including *Télé Star* and *Télé Poche*), women's magazines (including *Top Santé*, *Biba*), male lifestyle titles (including *FHM*), "senior" (*Pleine Vie*) and specialised titles (Emap France is leader in a number of segments, including the car segment).

The acquisition of Emap France is of considerable strategic importance for Mondadori as it gives the company access, in a significant role, to Europe's biggest magazine market and offers the opportunity to develop synergies on both the revenue and cost sides.

The operation is a decisive step forward in the Mondadori Group's international development, which began in recent years with important partnerships with leading international publishing groups, investments in Spain and Latin America and the Balkans region, up to the more recent licensing agreements for Mondadori titles in Europe and Asia.

With the acquisition of Emap France, the "new" Mondadori – that will concentrate even more strongly on high value-added publishing activities – is now one of Europe's biggest consumer magazine publishers.

Acquisition of Messaggerie Musicali SpA

In December Mondadori Retail SpA, a wholly-owned subsidiary of Arnoldo Mondadori Editore SpA, concluded the acquisition, from Sugar Group, of the entire share capital of Messaggerie Musicali SpA.

Messaggerie Musicali operates in the retail of editorial and multimedia products with marked know-how in the music and video sector, through the management of two megastores, in Milan and Rome.

In the last year, ended on 30 June 2006, the company generated revenues of €30.8 million, of which €19.4 million from the megastore in Milan and €11.4 million from the store in Rome.

The two multicenters, both of which a centrally located with very high flows, are large-scale outlets: the megastore in Milan in Galleria del Corso has a sales area of around 4,000 square metres over four floors; while the Rome outlet, in Via del Corso, has a sales area of some 2,000 square metres.
The value of the transaction was €24 million.

The acquisition of Messaggerie Musicali will allow Mondadori to add to its existing network the two megastores – which will be managed directly by Mondadori – in Via del Corso in Rome and Corso Vittorio Emanuele/Galleria del Corso in Milan, further developing its position in two cities of particular relevance and expanding its assortment of books and multimedia products.

In the context of the Group's development plan in the retail sector and the optimisation of its presence in the Milan area, Mondadori Retail has also reached an agreement for the sale, to Corso Vittorio Emanuele 2428 Retail S.r.l., at a price of €14.25 million, of the business activity in the retail space currently occupied by the Libreria Mondadori bookstore in Largo Corsia dei Servi in Milan.
The activities of the bookstore will move to the nearby Messaggerie Musicali store in Corso Vittorio Emanuele, and will provide customers with an expanded offer along with a marked continuation of service.

In addition, Milan will also see the opening in the spring of 2007 of a new megastore - the *Duomo Center* - in Piazza del Duomo, in a prestigious location of architectural value. The inclusion of this new multicenter and the store in Corso Vittorio Emanuele in the Mondadori chain of outlets will result in a significant increase in the sales space dedicated to books and multimedia products, which, including the existing Multicenter in Via Berchet, in the centre of Milan alone will rise from 2,500 to over 10,000 square metres.
Overall the network of retail outlets operated by Mondadori in Milan and Rome will amount to a floor space of over 25,000 square metres.

Security Procedural Document (privacy)

In regard to Legislative Decree no. 196/2003, the holder, Arnoldo Mondadori Editore SpA, being obliged, declares and guarantees that it has prepared a Security Procedural Document as required by rule no. 19 of the norm regarding minimum security measures (enclosure B, Legislative Decree no. 196/2003), as per the terms and according to the procedures laid out in the norm.

Share buy-backs

On 26 April 2006, shareholders in general meeting passed a resolution, following the expiry of the previous authorisation granted by shareholders in general meeting on 20 April 2005 and in accordance with article 2357 of the Civil Code, to renew the authorisation to purchase the company's own shares up to the limit of 10% of the share capital allowed by law (taking into account the number of company shares already held in the portfolio and any shares held by subsidiary companies). This authorisation will expire on the date of the AGM fixed to approve the financial statements for the year to 31 December 2006.

Given that 10% of the share capital is made up of 25,942,983 ordinary shares and that the company, on the date of the shareholders' resolution, already held, directly or indirectly through its subsidiary Mondadori International S.A., a total of 19,034,067 such shares, the new authorisation consequently allows the Board of Directors to buy on the market a maximum of 6,908,916 additional ordinary shares.

The corresponding minimum and maximum purchase prices were established as being the same as those contained in the previous shareholders' authorisation and in particular at an individual price not less than the official stock exchange price quoted on the day before the purchase operations, minus 20%, and not more than the official stock exchange price quoted on the day before the purchase operations, plus 10%.

Shareholders also authorised the Board of Directors to use the company's own shares purchased or those already held in portfolio to:

- take advantage, where and when considered strategic for the company, of investment opportunities, also in relation to available liquidity;
- use company shares, either bought or in the portfolio, as part or whole payment in any eventual acquisitions or equity investments that fall within the company's stated investment policy;
- use company shares for the exercise of options for the purchase of shares assigned to participants in the stock option plans put in place by the Shareholders;
- use company shares, either bought or in the portfolio, for the exercise of rights, also conversion rights, deriving from financial instruments issued by the company, its subsidiaries or third parties.

During 2006 Arnoldo Mondadori Editore acquired on the market 453,624 company shares. In the same period Arnoldo Mondadori Editore sold, within the context and under the conditions established by the stock option plan, 533,206 shares at a unit price of €6.85, 1,400,000 shares at a unit price of €6.471 and 30,000 shares at a unit price of €7.749.

As of 31 December 2006, the number of company shares in the portfolio amounted to 18,492,691 (or 7.12% of the share capital) of which 13,975,205 are directly held in the portfolio of Arnoldo Mondadori Editore S.p.A. and 4,517,486 are held by the subsidiary Mondadori International S.A.

The creation of a stock option plan for the three-year period 2006/2007/2008

The AGM of 26 April 2006 approved, the previous three-year (2003/2004/2005) plan having expired, to establish a stock option plan for the three-year period 2006/2007/2008 for individuals, to be identified by the Board of Directors from among: executives of the company and its subsidiaries whose functions have a determining impact on the achievement of the Group's strategic objectives; directors of the company and its subsidiaries; contract journalists of the company and its subsidiaries with the position of editor or co-editor; executives with the role of director of the parent company whose functions are conducted in the interests of the Group.

The Stock Option Plan is intended to give the company and its subsidiaries an effective tool to sustain management loyalty, as well as offering a reward for the achievement of results.

In response to the resolution of the Shareholders, the Board of Directors approved, in July, the Rules Governing the Stock Option Plan.

For each year the rules governing the plan foresee the annual allocation to the participants in the plan of options, which are personal and non-transferable, for the acquisition of Mondadori ordinary shares, held in the portfolio or through subsidiary companies. Options may be exercised on a one-to-one ratio, at a price of not less than the average reference price of Mondadori shares (as recorded in the period from the date of allocation and the same day of the previous month). The exercise of options may be made in a single operation in the three-year period, between the 1st January of the third year and the 31st December of the fifth successive year from each year of the allocation dates.

On 28 March 2007, the Board of Directors, on the proposal of the Remuneration Com-

mittee, approved modifications to the above rules for the stock option plan.
With regard to the rules already approved by the Board, the modifications exclusively pertain to intervening normative changes, in particular Legislative Decree 262/2006, to redefine the periods for the exercise of option rights for options allocated in 2006; the period of exercise, previously established as between 1st January 2009 and 31st December 2011, has now been established as between the first day of the 37th month and the last day of the 72nd month following the date of the allocation of options. Given that the options for shares relative to 2006 were allocated on 17th July, these may consequently be exercised from 18th July 2009 and 17th July 2012.

A similar modification was applied to options allocated on 23rd June 2005, the exercise period for which was previously established between 1st January 2008 and 31st December 2010. The new period for exercise is consequently between 24th June 2008 and 23rd June 2011.

The rules also foresee that the Board of Directors will identify the conditions under which allocated options may be exercised on the basis of the attainment of the company's annual performance objectives. Verification of the conditions for the exercise of such rights will be made by the Board for each year of the plan, within the first half of the year following the allocation of options.

In line with the approved rules, regarding 2006, the Board of Directors has consequently determined the allocation of 2,630,000 share options for participants from the categories identified by the AGM resolution. The allocated shares amount to a total of 1.01% of the company's share capital.

The Board also established, as a condition for the exercise of such options, the attainment of the performance indicators relating to ROE and free-cash flow.

Shares held by Directors, Statutory Auditors and General Managers

In accordance with article 79 of CONSOB resolution 11971 of 14 May 1999, and with reference to the year 2006, we disclose the following shares held in Arnoldo Mondadori Editore S.p.A. and subsidiary companies by the company's Directors and Statutory Auditors. The same information, in aggregate form, is also supplied for executives with strategic responsibilities as identified by the Group's Management Committee.

Name	Company shares	Number of shares owned at end of previous year	Number of shares bought	Number of shares sold	Number of shares owned at end of current year
Berlusconi Marina	Arnoldo Mondadori Editore	-	-	-	-
Costa Maurizio	Arnoldo Mondadori Editore	324,700	110,000 (1)	110,000 (1)	324,700
Barbaro Francesco (*)	Arnoldo Mondadori Editore	57,800	70,000 (1)	70,000 (1)	57,800
Berlusconi Pier Silvio	Arnoldo Mondadori Editore	172,000	-	-	172,000
Cannatelli Pasquale	Arnoldo Mondadori Editore	-	-	-	-
Confalonieri Fedele (*)	Arnoldo Mondadori Editore	-	-	-	-
Ermolli Bruno	Arnoldo Mondadori Editore	-	-	-	-
Forneron Mondadori Martina	Arnoldo Mondadori Editore	167,127	-	-	167,127
Poli Roberto	Arnoldo Mondadori Editore	-	-	-	-
Puerari Giovanni (*)	Arnoldo Mondadori Editore	59,100	-	-	59,100
Resca Mario	Arnoldo Mondadori Editore	-	-	-	-
Spadacini Marco	Arnoldo Mondadori Editore	4,000 (2)	-	-	4,000
Veronesi Umberto (**)	Arnoldo Mondadori Editore	-	-	-	-
Vismara Carlo Maria (**)	Arnoldo Mondadori Editore	-	-	-	-
Frattini Achille	Arnoldo Mondadori Editore	-	-	-	-
Superti Furga Ferdinando	Arnoldo Mondadori Editore	-	-	-	-
Aiello Antonio (*)	Arnoldo Mondadori Editore	-	-	-	-
Papa Franco Carlo (**)	Arnoldo Mondadori Editore	-	-	-	-
Vittadini Francesco	Arnoldo Mondadori Editore	-	-	-	-
Executives with strategic responsibilities	Arnoldo Mondadori Editore	66,600	470,000 (3)	535,600 (4)	1,000

(*) in office from 01/01/2006 to 26/04/2006
(**) in office from 26/04/2006 to 31/12/2006
(1) shares from exercising stock-options
(2) shares held by spouse
(3) share bought in the exercise of stock-options
(4) of which 470,000 from exercising stock-options

Proposals of the Board of Directors

Resolution proposal

The financial statements at 31 December 2006 closed with a net profit for the year of €90,239,564.31.

We submit the following text to you for the motion:

"The ordinary Shareholders' General Meeting of Arnoldo Mondadori Editore S.p.A., having taken note of the Report of the Board of Statutory Auditors and the Report of the Independent Auditors,

resolves

1. *to approve the Report of the Board of Directors on the company's performance and the financial statements at 31 December 2006, together with the notes, in all their parts and findings;*

2. *to distribute to shareholders a dividend of €0.35, stated gross of taxes, for each ordinary share (excluding treasury shares) in circulation at the date of coupon detachment, using the residual profit and, if and where necessary, from the extraordinary reserve (as per the item "Other reserves") (*).*

   The dividend will be paid in accordance with the provisions of the "Regulations for markets organised and managed by Borsa Italiana S.p.A." in a single sum as follows: detachment date 21 May 2007, with payment from 24 May 2007.

3. *to allocate to the extraordinary reserve (as per the item "Other reserves") a sum equal to the residual amount for dividend distribution as at 2 (above);*

4. *to reclassify an amount of €13,806.28 from the reserve for exchange gains to the extraordinary reserve (article 2426 no. 8 bis of the Civil Code); the reserve for exchange gains is consequently reduced to zero."*

(*) It should be noted that, on the basis of the number of ordinary shares in circulation on the date of the approval of this Report by the Board of Directors, the dividend would be paid exclusively from the residual profit for the year.

On behalf of the Board of Directors
Chairman
Marina Berlusconi

Financial Statements of Arnoldo Mondadori Editore S.p.A. at 31 December 2006

Balance Sheet

ASSETS (in €)	Note	31 December 2006	31 December 2005
INTANGIBLE ASSETS	1	91,717,602	92,793,201
INVESTMENT PROPERTY	2	1,578,985	1,891,672
Land and buildings		18,894,051	17,254,750
Plant and machinery		5,373,942	5,688,699
Other tangible fixed assets		6,072,412	5,664,390
PROPERTY, PLANT AND EQUIPMENT	3	**30,340,405**	**28,607,839**
INVESTMENTS	4	748,353,069	712,580,941
NON-CURRENT FINANCIAL ASSETS		0	0
DEFERRED TAX ASSETS	5	16,521,073	16,023,118
OTHER NON-CURRENT ASSETS	6	1,291,702	1,686,193
TOTAL NON-CURRENT ASSETS		**889,802,836**	**853,582,964**
TAX RECEIVABLES	7	16,757,397	23,005,445
OTHER CURRENT ASSETS	8	43,584,215	41,891,692
INVENTORIES	9	43,908,158	42,183,781
TRADE RECEIVABLES	10	241,197,579	232,238,022
OTHER CURRENT FINANCIAL ASSETS	11	54,671,265	100,921,560
CASH AND CASH EQUIVALENTS	12	73,598,492	43,444,028
TOTAL CURRENT ASSETS		**473,717,106**	**483,684,528**
ASSETS HELD FOR SALE		0	0
TOTAL ASSETS		**1,363,519,942**	**1,337,267,492**

LIABILITIES AND SHAREHOLDERS' EQUITY (in €)	Note	31 December 2006	31 December 2005
Share capital		67,451,756	67,451,756
Share premium reserve		285,466,652	283,746,863
Treasury shares		(93,160,114)	(102,823,631)
Other reserves and retained earnings		85,578,060	128,292,181
Profit (loss) for the year		90,239,564	101,290,135
TOTAL SHAREHOLDERS' EQUITY	13	435,575,918	477,957,304
PROVISIONS	14	10,466,676	10,740,110
EMPLOYEES' LEAVING ENTITLEMENT AND TERMINATION INDEMNITIES	15	45,164,931	43,802,801
NON-CURRENT FINANCIAL LIABILITIES	16	296,255,728	296,045,710
DEFERRED TAX LIABILITIES	5	13,866,856	11,708,483
OTHER NON-CURRENT LIABILITIES		0	0
TOTAL NON-CURRENT LIABILITIES		365,754,191	362,297,104
INCOME TAXES PAYABLE	17	36,272,309	18,357,383
OTHER CURRENT LIABILITIES	18	98,509,753	103,570,753
TRADE PAYABLES	19	208,129,995	204,952,637
PAYABLES TO BANKS AND OTHER FINANCIAL LIABILITIES	16	219,277,776	170,132,311
TOTAL CURRENT LIABILITIES		562,189,833	497,013,084
LIABILITIES HELD FOR SALE		0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,363,519,942	1,337,267,492

Income Statement

(in €)	Note	2006	2005
REVENUES FROM SALES AND SERVICES	**20**	**1,021,548,997**	**1,047,179,331**
DECREASE (INCREASE) IN INVENTORIES	9	(1,724,377)	(6,111,392)
COST OF RAW MATERIALS AND CONSUMABLES AND GOODS FOR RESALE	21	232,366,970	227,787,296
COST OF SERVICES	22	542,809,434	575,543,240
PERSONNEL COSTS	23	128,367,700	131,455,616
OTHER INCOME (EXPENSE)	24	(8,232,435)	(25,841,798)
GROSS OPERATING PROFIT		**127,961,705**	**144,346,369**
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	2/3	4,792,485	5,420,720
AMORTISATION AND WRITEDOWNS OF INTANGIBLE ASSETS	1	1,339,665	2,028,336
OPERATING PROFIT		**121,829,555**	**136,897,313**
FINANCIAL INCOME (EXPENSE)	25	(12,831,285)	(12,589,892)
INCOME (EXPENSE) FROM INVESTMENTS	26	29,185,972	25,011,670
PROFIT BEFORE INCOME TAXES		**138,184,242**	**149,319,091**
INCOME TAXES	27	47,944,678	48,028,956
NET PROFIT		**90,239,564**	**101,290,135**

On behalf of the Board of Directors
Chairman
Marina Berlusconi

Changes in shareholders' equity at 31 December 2006

(€,000)	Note	Share capital	Share premium reserve	Treasury share reserve	Treasury shares	Stock option reserve	Fair value reserve	Other reserves	Profit (loss) for the year	Total share holder's equity
At 1/1/2005		**67,452**	**175,575**	**108,172**	**0**	**2,374**	**0**	**140,401**	**93,040**	**587,014**
Changes:										
- Adoption of IAS 32 and IAS 39			108,172(*)	(108,172)	(108,172)		(12)	(25,335)		(133,519)
- Allocation of net profit								7,659	(7,659)	
- Dividends paid									(85,381)	(85,381)
- Treasury share operations	13				5,348			852		6,200
- Stock-options	23					2,341				2,341
- Others							12			12
- Net profit for the year									101,290	101,290
At 12/31/2005		**67,452**	**283,747**	**0**	**(102,824)**	**4,715**	**0**	**123,577**	**101,290**	**477,957**

(€,000)	Note	Share capital	Share premium reserve	Treasury share reserve	Treasury shares	Stock option reserve	Fair value reserve	Other reserves	Profit (loss) for the year	Total share holder's equity
At 12/31/2005		**67,452**	**283,747**	**0**	**(102,824)**	**4,715**	**0**	**123,577**	**101,290**	**477,957**
Changes:										
- Adoption of IAS 32 and IAS 39										
- Allocation of net profit								33	(33)	0
- Dividends paid								(43,380)	(101,257)	(144,637)
- Treasury share operations	13				9,664			(26)		9,638
- Stock-options	23		1,720			658				2,378
- Net profit for the year									90,240	90,240
At 12/31/2006		**67,452**	**285,467**	**0**	**(93,160)**	**5,373**	**0**	**80,204**	**90,240**	**435,576**

(*) Formerly Treasury Share Reserve, originally made up of transfers from the Share Premium Reserve.

Cash flow statement

Cash flow statement (€,000)	Note	31 December 2006	31 December 2005
Net profit for the year		90,240	101,290
Adjustments			
Depreciation, amortisation and impairment		9,025	18,956
Stock-options	23	1,730	1,615
Charges to provisions, employees' leaving entitlement and termination indemnities		8,869	5,527
Capital (gains) losses on disposal of intangible assets, property, plant and equipment		(481)	(631)
Income from investments – dividends	26	(32,122)	(24,936)
Cash from operating activities		**77,261**	**101,821**
(Increase) decrease in trade receivables		(10,642)	(977)
(Increase) decrease in inventories		(1,324)	(6,112)
Increase (decrease) in trade payables		2,786	(9,249)
Net change in income tax receivables/payables	7-17	24,163	(16,410)
Net changes in other assets/liabilities		(6,328)	161
Net changes in deferred tax assets and liabilities	5	1,660	6,121
Increase (decrease) to provisions, employees' leaving entitlement and termination indemnities		(6,121)	(7,090)
Cash flow from (used in) investing activities		**81,455**	**68,265**
(Investments in) disposals of intangible assets		(264)	(348)
(Investments in) disposals of property, plant and equipment		(6,996)	2,852
(Investments in) disposals of equity investments		(52,043)	15,970
Income from investments – dividends	26	32,122	36,443
(Investments) disposals of shares and other financial assets	11	46,249	(17,217)
Cash flow from (used in) investing activities		**19,068**	**37,700**
Increase (decrease) in payables to banks		64,394	(4,833)
(Purchase) disposal of treasury stock	13	9,664	6,200
Net change in other financial assets/liabilities	16	210	(24,947)
Dividends paid	13	(144,637)	(85,381)
Cash flow from (used in) financing activities		**(70,369)**	**(108,961)**
Increase (decrease) in cash and cash equivalents		**30,154**	**(2,996)**
Cash and cash equivalents at beginning of year	**12**	**43,444**	**46,440**
Cash and cash equivalents at end of year	**12**	**73,598**	**43,444**
Composition of cash and cash equivalents			
Cash, cheques and valuables in hand		16	12
Bank and post office deposits		73,582	43,432
	12	**73,598**	**43,444**

Balance sheet as per Consob deliberation n. 15519 of 27 July 2006

Assets (€,000)	Note	2006	Including correlated part (note 30)	2005	Including correlated part (note 30)
Intangible assets	**1**	**91,718**		**92,794**	
Investment property	**2**	**1,579**		**1,891**	
Land and buildings		18,894		17,255	
Plant and machinery		5,374		5,689	
Other tangible fixed assets		6,072		5,664	
Property, plant and equipment	**3**	**30,340**		**28,608**	
Investments	4	748,353		712,581	
Non-current financial assets		0		0	
Advance tax assets	5	16,521		16,023	
Other non-current assets	6	1,292		1,686	
Total non-current assets		**889,803**	**0**	**853,583**	**0**
Tax receivables	7	16,757		23,005	
Other current assets	8	43,584		41,892	
Inventories	9	43,908		42,184	
Trade receivables	10	241,198	148,727	232,238	148,384
Other current financial assets	11	54,671	54,230	100,922	45,874
Cash and cash equivalents	12	73,599	0	43,444	
Total current assets		**473,717**	**202,957**	**483,685**	**194,258**
Assets held for sale		0		0	
Total assets		**1,363,520**	**202,957**	**1,337,267**	**194,258**

Liabilities and shareholders' equity (€,000)	Note	2006	Including correlated part (note 30)	2005	Including correlated part (note 30)
Share capital		67,452		67,452	
Share premium reserve		285,467		283,747	
Treasury shares		(93,160)		(102,824)	
Other reserves and retained earnings		85,577		128,292	
Profit (loss) for the year		90,240		101,290	
Total shareholders' equity	**13**	**435,576**	**0**	**477,957**	**0**
Provisions	14	10,467		10,740	
Employees' leaving entitlement and termination indemnities	15	45,164		43,803	
Non-current financial liabilities	16	296,256	296,256	296,046	296,046
Deferred tax liabilities	5	13,867		11,708	
Other non-current liabilities		0		0	
Total non-current liabilities		**365,754**	**296,256**	**362,297**	**296,046**
Income tax payables	17	36,272	36,272	18,357	18,061
Other current liabilities	18	98,510	0	103,571	0
Trade payables	19	208,130	126,494	204,953	104,537
Payables to banks and other financial liabilities	16	219,278	137,269	170,132	135,475
Total current liabilities		**562,190**	**300,035**	**497,013**	**258,073**
Liabilities held for sale		0		0	
Total liabilities and shareholders' equity		**1,363,520**	**596,291**	**1,337,267**	**554,119**

Income statement as per Consob deliberation n. 15519 of 27 July 2006

(€,000)	Note	2006	Including correlated part (note 30)	Including non-recurring charges (income) (note 29)	2005	Including correlated part (note 30)	Including non-recurring charges (income) (note 29)
Revenues from sales and services to third parties	**20**	**1,021,549**	**320,680**	**0**	**1,047,179**	**312,800**	**0**
Decrease (increase) in inventories	9	(1,724)			(6,111)		
Purchase of raw materials and consumables and goods for resale	21	232,367	170,611		227,787	145,632	
Purchase of services	22	542,809	265,417		575,543	284,428	
Personnel costs	23	128,367			131,456		
Other (income) expense	24	(8,232)	(21,108)		(25,842)	(22,252)	16,310
Gross operating profit		**127,962**	**(94,240)**	**0**	**144,346**	**(95,008)**	**16,310**
Depreciation and impairment of property, plant and equipment	2/3	4,792			5,421		
Amortisation and impairment of intangible assets	1	1,340			2,028		
Operating result		**121,830**	**(94,240)**	**0**	**136,897**	**(95,008)**	**16,310**
Financial income (expenses)	25	(12,831)	(16,640)		(12,590)	(15,552)	
Income (expenses) from other investments	26	29,186	32,122		25,012	38,051	
Results before taxes		**138,185**	**(78,758)**	**0**	**149,319**	**(72,509)**	**16,310**
Income taxes	27	47,945			48,029		(693)
Net result		**90,240**	**(78,758)**	**0**	**101,290**	**(72,509)**	**15,617**

Report on performance for the year

The “Report of the Board of Directors on 2006” contains details of the business activities and the results of Arnoldo Mondadori Editore S.p.A., information on the workforce, a forecast of business activities for the current year and details of the significant events that occurred after the end of the year.

Accounting principles and notes to the financial statements

1. General information

The main corporate purpose of Arnoldo Mondadori Editore S.p.A. is to carry out business activities connected with the book and magazine publishing sectors and the sale of advertising.

Arnoldo Mondadori Editore S.p.A. has its registered office in via Bianca di Savoia 12, in Milan, Italy, while the main administrative offices are in Segrate, Milan, in Strada privata Mondadori.

Arnoldo Mondadori Editore S.p.A., is listed on the MTA (automated stock market) of Borsa Italiana S.p.A.

The values shown in the tables and in the notes are expressed in thousands of euros unless otherwise indicated.

The financial statements of Arnoldo Mondadori Editore S.p.A. for the year ended 31 December 2006 was approved by the Board of Directors on 28 March 2007.
The financial statements will be published by depositing them at the companies registry office within 30 days of the Shareholders’ meeting of 23 April 2007 called to approve the financial statements for 2006.

2. Form and content

The financial statements as of 31 December 2006 have been drawn up in conformity with the International Accounting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and approved by the EU and in conformity with the interpretations of the International financial Reporting Interpretations Committee (SIC/IFRIC).

Arnoldo Mondadori Editore S.p.A. adopted the body of the principles as of 1 January 2005, following the introduction of European Regulation 1606 of 19 July 2002.

The information required by IFRS concerning the impact of the first adoption of International Accounting Standards was included in the attachment “Transition to IAS/IFRS accounting standards” to the six-month Report for 2005 and to the Consolidated Financial Statements of 31 December 2005.

The financial statements as of 31 December 2006 have been drawn up in conformity with the accounting standards used for preparing the IAS/IFRS consolidated financial statements as of 31 December 2005, taking into account the amendments and new principles that came into force as of 1 January 2006, which are referred to in note 3.25.

Some of the comparative data referring to 2005 included in the cash flow statement has been reclassified.

The financial statements have been prepared in the following way:

- current and non-current assets and current and non-current liabilities are shown separately in the balance sheet;
- in the income statement, the analysis of costs is carried out on the basis of the nature of the costs, since the Group has decided that this method is more representative than an analysis by function;
- the cash flow statement has been prepared using the indirect method.

With reference to the requirements of Consob Resolution 15519 of 27 July 2006 concerning the tables used in financial statements, specific supplementary tables have been included that highlight relations with “Related parties” and “Non-current operations”.

The amounts shown in the tables and in the notes are expressed in thousands of euros unless specifically indicated.

3. Accounting principles and policies

The following is a description of the principles and policies adopted by the company in preparing its IAS/IFRS consolidated financial statements as of 31 December 2006.

3.1 Intangible assets

When it is probable that costs will generate future economic benefits, intangible assets include the cost, including accessory charges, of the purchase of assets or resources, without any physical form, used in the production of goods or in the supply of services, to rent to third parties or for administrative purposes, on condition that the cost is quantifiable in a reliable manner and that the goods are clearly identifiable and controlled by the company that owns them.

Any costs incurred after the initial purchase are included in the increase of the cost of intangible assets in direct relation to the extent to which those costs are able to generate future economic benefits.

Internal costs for producing mastheads and for the launch of newspapers, magazines or other journals are recognised in the income statement for the year in question.

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any accumulated impairment losses.

Intangible assets purchased separately and those purchased as part of business combinations that took place before the adoption of IAS/IFRS are initially booked at cost, while those purchased as part of business combination operations that took place after the adoption of IAS/IFRS are initially recognised at their fair value.

Intangible assets with a finite useful life

The cost of intangible assets with a finite useful life is systematically amortised over the useful life of the asset from the moment the asset is available for use. The amortisation criteria depend on how the company will receive the relative future economic benefits.

The amortisation rates that generally reflect the useful lives attributed to intangible assets with a finite life are as follows:

Intangible assets with a finite useful life	Amortisation period
Goods under concession or licence	Term of franchise or licence
Software	Straight-line over 3 years
Patents and rights	Straight line over 3 – 5 years
Other intangible assets	Straight line over 3 – 5 years

Intangible assets with a finite useful life are subject to an impairment test every time there is an indication of a possible loss of value. The period and method of amortisation applied is reviewed at the end of each year or more frequently if necessary.

Variations in the expected useful life or in the way future economic benefits linked to intangible assets are expected to be earned by the company are recognised by modifying the period or method of amortisation, and are treated as changes in accounting estimate.

Intangible assets with an indefinite useful life
Intangible assets are considered to have an indefinite useful life when, on the basis of a thorough analysis of the relevant factors, there is no foreseeable limit to the length of time the assets may generate income for the company.

The intangible assets identified by the company as having an indefinite useful life are shown in the following table:

Intangible assets with an indefinite useful life
Titles
Trade marks
Goodwill

Goodwill represents the excess of the cost of a business combination over the share purchased by the Group of the fair value of the assets, liabilities and contingent liabilities acquired, identifiable at the time of purchase. Goodwill and the other intangible assets with an indefinite useful life are not subject to amortisation but to an impairment test of their carrying value. This test concerns the value of the individual assets or of the business unit that generates the financial income (the cash generating unit) and is carried out whenever it is believed that the value has decreased, and in any case at least once a year.

In cases where goodwill is attributed to a cash generating unit (or to a group of units) whose assets are partially disposed of, the goodwill associated with the asset disposed of is reviewed in order to determine any capital gains or capital losses resulting from the operation. In these circumstances the goodwill disposed of is measured on the basis of the value of the assets disposed of compared with the asset still included in the cash generating unit in question.

3.2 Investment property
A property investment is considered an asset when it is held in order to earn income from its rental or in order for the invested capital to increase, on condition that the cost of the asset can be reliably measured and that future economic benefits will flow to the company.

Real estate investments are stated at cost, which includes the purchase cost and all accessory charges directly connected to the purchase.

Costs which arise after the initial purchase are included in the increase of the cost of the property investment in direct relation to how much those costs are able to generate future economic benefits higher than those originally assessed.

The cost of real estate investments, except for that part pertaining to the cost of the land, is systematically amortised during the useful life of the asset. The depreciation criteria depend on the how the relative future economic benefits arrive at the company.

The depreciation rates that reflect the useful life attributed to the company's investments are as follows:

Investment property	Depreciation rate
Buildings not used in business activities	3%

Both the useful life and the depreciation criteria are constantly reviewed and if any significant changes are found in the assumptions previously adopted, the depreciation rate for the period in question and for successive periods is adjusted.

Gains and losses deriving from the disposal of real estate investments are recognised in the income statement in the year the operation takes place.

Investment property is reclassified when there is a change of use highlighted by specific events.

3.3 Property, plant and equipment

Any costs attributable to the purchase of property, plant and equipment are recognised as assets, on condition that the cost of the asset can be reliably calculated and any related future economic benefits will flow to the company.

Assets booked to property, plant and equipment are valued at cost, including any accessory charges, and are stated net of accumulated depreciation and any loss in value.

Costs which arise after the initial purchase are recognised as an increase in cost in direct relation to the extent that these costs are able to improve the performance of the asset.

Assets booked to property, plant and equipment purchased as part of acquisitions and business combinations are initially recognised at their fair value at the time of their purchase and subsequently at cost.

Assets recognised as property, plant and equipment, with the exception of land, are depreciated during the useful life of the asset from the moment the assets are available for use.

If the assets include more than one significant component and the components have different useful lives, each individual component is depreciated separately.

The depreciation rates that generally reflect the useful lives attributed to the company's property, plant and equipment are as follows:

Property, plant and equipment	Depreciation rate
Buildings used in business activities	3%
Plant	10% - 25%
Equipment	15,5%
Machinery	25%
Electronic office equipment	30%
Furniture and fixtures	12%
Motor vehicles and transport vehicles	20% - 30%
Other assets	20%

The residual value of assets, useful lives and the depreciation criteria applied, are reviewed on an annual basis and adjusted, if necessary, at the end of every year.

Leasehold improvements are booked to fixed assets and depreciated over the lower of the residual useful life of the fixed asset and the residual term of the lease contract.

3.4 Assets acquired under finance leases

Assets acquired under finance leases, which transfer all the risks and benefits connected with the asset to the company, are booked at their market value or, if lower, at the present value of the minimum lease payments, including the amount to be paid for exercising any purchase option.

Liabilities arising from leasing contracts are recognised as financial liabilities.

These assets are booked under their respective categories in the item property, plant and equipment and depreciated over the lower of the contract term and the useful life of the asset in question.

A lease where the lessor retains substantially all the risks and benefits linked to the property is classified as an operating lease and the relative costs are recognised in the income statement over the contract term.

3.5 Borrowing costs

The company does not capitalise any financial charges connected with the purchase, construction or production of assets that can be capitalised. These charges are booked to the income statement in the year in which they are incurred.

3.6 Loss in value of assets (*impairment*)

The carrying value of intangible assets, investment property and property, plant and machinery is subject to an impairment test whenever it is believed that it may have decreased.

Impairment tests are carried out at least once a year on goodwill, other intangible assets with an indefinite useful life and on other assets that are not available for use, and are performed by comparing the carrying value with whichever is higher between the fair value less the sales cost and the value in use of the asset.

If no binding sales agreement or an active market for an asset exist, the fair value is calculated on the basis of the best information available concerning the amount the Group could obtain, at the balance sheet date, from the disposal of an asset in a free transaction between informed and willing parties, after the costs of disposal have been deducted.

The value in use of an asset is determined by calculating the amount of income expected from the use of the asset, basing the forecasts of financial income on reasonable, plausible assumptions that represent the best estimates carried out by management of a series of economic conditions that exist for the remainder of the life of the asset, giving more importance to external indicators.

The pre-tax discount rate used reflects the current market value of money and the specific risks connected to the asset.

The valuation is carried out either for each individual asset or for the smallest cash generating unit of assets that generate income from the use of the assets in question.

If the value calculated by the impairment test is lower than cost, the loss is recognised as a reduction of the asset and as a cost in the income statement.

If during the subsequent financial years, when the impairment test is repeated, the reasons for the writedown no longer exist, the value of the asset, with the exception of the goodwill, is reinstated to take into account the new recoverable value which does not, however, exceed the value that would have been calculated had no loss in value been recognised.

3.7 Investments in subsidiaries, joint-ventures and associated companies

Subsidiary companies are companies where the company has the power to determine, either directly or indirectly, administrative and management decisions and obtains the relative benefits. Generally it is presumed that a company has control of another when the company holds, either directly or indirectly, more than half of the voting rights at ordinary shareholders' meetings, including potential voting rights deriving from convertible shares.

Joint ventures are companies where the company has joint control, with one or more parties, of the economic activities. Joint control presupposes that strategic, financial and management decisions are taken with the unanimous consent of the parties who exercise control.

Associated companies are companies where the company has a significant influence in determining administrative and management decisions, even though it does not have control. Generally significant influence is presumed to mean that the company holds, either directly or indirectly, at least 20% of the voting rights at ordinary shareholders' meetings.

Investments in subsidiary companies, joint ventures and associated companies are valued at cost and subsequently adjusted as a consequence of changes in the value if, after a suitable impairment test, it is found that the conditions for adjusting the carrying value to the effective economic value of the investment exist. The original cost is restored in subsequent years if the reasons for carrying out the adjustments no longer exist. Adjustments and any reinstatements of value are booked to the income statement.

The risk deriving from any losses that exceed cost are booked to liabilities, for the amount that the company is legally or constructively liable for.

3.8 Inventories

Inventories are valued at the lower of cost and net realisable value. Inventory cost includes the purchase cost, the transformation cost and the other costs involved in bringing an item to the location and condition necessary without taking into consideration financial charges.

The calculation of cost is based on the weighted average cost of raw and consumable materials and of finished products purchased for resale, while the FIFO method is used for finished products.

The valuation of goods under construction and semi-finished products and work in progress to order is based on the cost of the materials and other costs incurred, taking into account the progress of the production process.

The presumed net value for raw, subsidiary and consumer materials is represented by replacement cost while for semi-finished and finished products by the normal estimated sales price net of, respectively, the estimated cost to completion and the sales cost.

3.9 Financial assets

Financial assets are initially measured at cost, plus the accessory purchase charges that represent the fair value of the amount paid. The purchase and sale of financial assets are valued as of the trading date, which is the date the company agreed to purchase the asset in question. After initial measurement, financial assets are valued according to their classification as outlined below:

Financial assets at fair value with changes recognised in the income statement (“at fair value through profit and loss”)

This category includes financial assets held for trading that have been acquired with the intention of selling them in the short term. Derivatives are classified as financial instruments held for trading, with the exception of effective hedge derivatives.

Profits and losses deriving from measuring assets held for trading at fair value are recognised in the income statement.

Held-to-maturity investments

When the Group intends to hold financial assets in its portfolio to maturity, it classifies these assets, which have fixed or determinable payments with fixed maturity, as “held-to-maturity investments”.

Long-term financial investments that are held to their maturity, such as bonds, are valued after the initial valuation using the amortised cost method based on the effective interest rates, which represent the rates that will apply to the future payments or returns estimated for the entire life of the financial instrument.
The amortised cost is calculated taking into consideration any eventual discounts or premiums that will be applied during the entire period of time up to maturity.

Those financial assets that the Group decides to keep in its portfolio for an indefinite period do not come into this category.

Loans and receivables
This item includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

These assets are valued at amortised cost method using the effective discount rate method. Profits and losses are recognised in the income statement when the loans and receivables are eliminated or when a loss of value occurs, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets consist of all of those assets that do not fall into any of the categories mentioned above.

After being initially measured at cost, available-for-sale financial assets are measured at fair value. The profits and losses resulting from valuations are recognised in a separate item in shareholders' equity for as long as the assets are held in the portfolio and for as long as there is no loss of value.

In the case of shares widely traded on regulated markets, fair value is determined by referring to the value established at the close of trading on the balance sheet date.

For investments where an active market does not exist, fair value is determined by valuations based on recent trading prices between independent parties, on the basis of the current market value of a financial instrument that is substantially similar or from an analysis of up-to-date cash flows or of option pricing models.

Available-for-sale financial assets also include shares in other companies.

3.10 Trade receivables and other receivables

Trade receivables and other receivables are initially measured at cost, or at the fair value of the amount received during the transaction. Receivables are measured at their present values when the financial effect linked to the collection date forecast is significant and the collection date can be reliably estimated.
Receivables are subsequently recognised in the financial statements at their estimated realisable value.

3.11 Treasury shares

Treasury shares are booked in shareholders' equity in the relative reserve.
No profit or loss is recognised in the income statement on the purchase, sale, issue, cancellation or any other operation concerned with treasury shares.

3.12 Cash and cash equivalents

The item cash and cash equivalents includes liquid financial assets and financial investments with due date falling within three months and which are subject to a minimal risk of variation in their face value.

3.13 Financial liabilities

Financial liabilities include financial payables, derivative instruments, payables linked to financial leasing contracts and trade payables. All financial liabilities, unlike derivative financial instruments, are initially valued at fair value as increased by any cost of the related transaction and are subsequently valued at amortised cost using the effective interest rate method.

Financial liabilities hedged by derivative instruments against the risk of changes in value (fair value hedges) are measured at fair value in accordance with the methodology outlined in IAS 39 for hedge accounting. Profits and losses resulting from subsequent variations in fair value are recognised in the income statement. The portions of these changes linked to the efficient portion of the hedge are compensated for by changes in value of derivative instruments.

Financial liabilities hedged by derivative instruments against the risk of changes in the cash flow (cash flow hedges), are measured at amortised cost in accordance with the methodology outlined in IAS 39 for hedge accounting.

3.14 Derecognition of financial assets and liabilities

A financial asset or, where applicable, a part of a financial asset or parts of a group of similar financial assets, is derecognised when:

- the right to receive cash flows from the asset has been extinguished;
- the company still has the right to receive cash flows from the asset but has taken on a contractual obligation to transfer the entire cash flow immediately to a third party;
- the company has transferred the right to receive cash flows from an asset and has transferred substantially all the risks and benefits deriving from the ownership of the financial asset or has transferred control of the financial asset.

A financial asset is derecognised from the balance sheet when the obligation relating to the asset is discharged, is cancelled or expires.

3.15 Loss in value of financial assets (impairment)

The company performs a review to determine whether a financial asset or group of financial assets has undergone a loss of value every time the financial statements are prepared.

Financial assets measured at amortised cost

If there is objective evidence that there is a reduction in the value of loans and receivables, the amount of the loss is booked to the income statement and is calculated as the difference between the asset's carrying value and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the loss of value decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised loss of value is reversed up to the amount the asset would have had, taking into account the amortisation, at the date of the reversal.

Available-for-sale financial assets

If an available-for-sale financial asset suffers an effective reduction in value, the accumulated loss is recognised in the income statement. The reversal of values relative to equity instruments classified as available-for-sale are not recognised in the income statement. The reversal of values relative to debt instruments are recognised in the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the loss was recognised in the income statement.

Financial assets measured at cost

If there is objective evidence that a loss of value has been incurred on an unquoted equity instrument that is not booked at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and settled by delivery of that unquoted equity instrument, the amount of the loss of value is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

3.16 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value at the date they are stipulated. When a hedge operation is entered into, the company designs and formally documents the hedge relationship to which it intends to apply the hedge accounting, its objectives in managing the risk and the strategy carried out. The documentation includes the identification of the hedging instrument, element or operation that is being hedged, the nature of the risk and the way the company intends to evaluate the effectiveness of the hedge in compensating the exposure to the variations of the fair value of the element hedged or of the cash flows linked to the risk hedged.

It is expected that this hedge is sufficiently effective to compensate for the exposure of the element hedged to variations in fair value or in cash flows attributable to the risk hedged. The evaluation of whether or not this hedge is in reality sufficiently effective is carried out on a continuous basis during the year.

Operations that satisfy the criteria of hedge accounting are accounted for as follows:

Fair value hedge

If a derivative financial instrument is designated as a hedge for the exposure to variations in the fair value of an asset or liability attributable to a particular risk, the profit or loss deriving from subsequent variations in the fair value of the hedge instrument is recognised in the income statement. The profit or loss deriving from the adjustment of the fair value of the item hedged, for the part attributable to the risk hedged, modifies the carrying value of the item and is recognised in the income statement.

Cash flow hedge

If a derivative financial instrument is designated as an instrument for hedging the exposure to variations in cash flows of an asset or of a liability included in the financial statement or of a highly probable forecast transaction, the effective portion of the assets or of the losses deriving from the adjustment of the fair value of the derivative instrument is recognised in a special reserve in equity. The accumulated profit and loss is transferred from the equity reserve and recognised in the income statement when the results of the hedge operation are recognised in the income statement. The profit or loss associated with the ineffective part of a hedge is recognised in the income statement. If a hedging instrument is terminated but the hedging operation has not yet been carried out, the accumulated profits and losses remain in the reserve in the equity and are reclassified to the income statement when the relative operation is carried out. If the hedging operation is no longer considered probable, the profits and losses not yet realised and recognised in equity are recognised in the income statement.

If hedge accounting cannot be applied, profits and losses resulting from the valuation at fair value of the derivative financial instrument are recognised in the income statement.

3.17 Provisions

Provisions against significant losses or liabilities that are certain or probable but whose amount or date of occurrence is impossible to establish when the financial statements are prepared, are recognised when it becomes probable that a present, legal or constructive obligation exists as the result of events that happened in the past, when the obligation in question is onerous and when the amount can be reliably estimated.

Provisions are valued at fair value for each obligation. When the time value of money linked to a forecast of when the payment will be made is significant and the payment date can be reliably estimated, the provision includes the financial component which is recognised in the income statement under financial income (expense).

3.18 Employees' leaving entitlement

Benefits due to employees on leaving a company may be separated into defined contribution plans and defined benefit plans. In defined contribution plans, the legal or constructive obligation of a company is limited to the amount of the contributions it has paid to the plan, and as a result the actuarial risk and the investment risks fall on the employee. In defined benefit plans, the obligation of a company consists in granting and guaranteeing agreed benefits to employees, therefore the actuarial and investment risks fall on the company itself. In accordance with IAS 19, the Italian employees' leaving entitlement (the "trattamento di fine rapporto" or "TFR") is classified as a defined benefit plan.

The TFR obligation is determined using an actuarial method, based on demographic assumptions taking into account mortality rates and the turnover of the workforce, and on financial assumptions, taking into account the discount rate that reflects the time value of money, the inflation rate and future salary and wage levels.
The amount recognised as a liability for defined benefit plans is represented by the present value of the obligation at the balance sheet date, net of the present value of any plan assets. The amount that is recognised as costs in the income statement also includes the following:

– social security costs relative to the current work;
– interest costs;
– actuarial gains or losses;
– the return expected from any plan assets.

The company does not apply the corridor method and therefore recognises all actuarial gains and losses directly in the income statement.

The charge for the amount accruing to employees during the year and the actuarial gains or losses are booked under personnel costs, while the financial component, which represents the cost the company would have to incur if it were to seek a loan on the market

for the amount of the obligation, is booked under financial income (expense).
The termination indemnity for agents is also determined on an actuarial basis. The charge for the estimated amount accruing to agents during the year, which becomes payable only under certain conditions if the agency relationship is terminated, is booked under other income (expense).

3.19 Stock-options

The company grants additional benefits to certain directors and managers who carry out functions that are relevant for the attainment of the company's strategic results, through equity-settled stock option plans. In accordance with IFRS 2, these stock options are measured at their fair value at the time they are granted. Fair value is determined on the basis of a binomial model, taking into consideration the regulations of the individual plans.

The company applies the provisions of IFRS 2 for all stock option plans granted after 7 November 2002.

The cost of these benefits is booked during the period of service to personnel costs and is recognised over the vesting period from the date the options are granted, with an equal amount being recognised in the "Reserve for stock options" in shareholders' equity.

Benefits which are directly granted by the parent company Arnoldo Mondadori Editore S.p.A. to the employees or directors of subsidiary companies, are recognised as an increase in the cost of the relative investment, with an equal amount recognised in the "Reserve for stock options".

After the grant date, any variation in the number of options results in an adjustment to the overall cost of the plan, which is then made in accordance with the method referred to above. At the end of every year, the previously calculated fair value of every option is neither reviewed nor updated, but remains unchanged in shareholders' equity, although the estimate of the number of options that mature up to the expiry date (and therefore the number of employees who have the right to exercise these options) is updated at that time. Any change in this estimate is recognised in the "Reserve for stock options" and in personnel costs in the income statement.

When the option is exercised, the part of the "Reserve for stock options" relating to the exercised options is reclassified under "Share premium reserve" while the part of the "Reserve for stock options" relating to cancelled or expired options is reclassified under "Other reserves".

3.20 Recognition of revenues and costs

Revenues earned from the sale of goods are recognised net of discounts, allowances and returns when it is probable that the economic benefits arising from the sale will flow to the company and when the amount of the revenues can be reliably determined.

Revenues earned from the sale of magazines and the relative advertising space are recognised on the basis of the date of publication of the magazines.

Revenues deriving from services are recognised on the basis of the time the services are completed, when it is probable that the economic benefits arising from the sale will flow to the company and when the amount of the revenues can be reliably calculated.

Revenues from interest are recognised on a temporal basis using the method of effective interest; royalties are recognised on an accrual basis and on the basis of the details of the respective agreements; dividends are recognised when the shareholder's right to receive payment has been established.

Costs are recognised in the same way as income and on an accrual basis.

3.21 Current and deferred taxation

Current taxes are calculated on the basis of an estimate of taxable income and in accordance with the laws prevailing in the country in which the company is resident.

Deferred tax assets and liabilities are calculated on all the temporary differences between the tax base of assets and liabilities and their relative carrying values in the financial statements, with the exception of the following:

- temporary taxable differences deriving from the initial recognition of goodwill;
- temporary taxable or deductible differences resulting from the initial recognition of an asset or a liability in an operation that is not a business combination and which does not influence either the result or the taxable income at the time of the operation in question;
- for investments in subsidiary, associated and jointly-controlled companies when:
  - the company is able to control the timing of the reversal of temporary taxable differences and it is probable that these differences will not reverse in the foreseeable future;
  - it is not probable that deductible temporary differences will reverse in the foreseeable future and that taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at the end of every period and is reduced if it is no longer probable that sufficient taxable profit will be available in the future for realising all or part of the assets.
Deferred tax assets and liabilities are calculated on the basis of the tax rates that are expected to apply to the period when the assets are realised or the liabilities settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Taxation relating to items recognised directly in equity is recognised directly in equity and not in the income statement.

3.22 Operations in foreign currencies

Revenues and costs relating to operations in foreign currencies are expressed in the money of account using the exchange rates ruling on the day the operation was carried out. Monetary assets and liabilities in foreign currencies are converted at the exchange rate ruling at the balance sheet date and any exchange differences are recognised in the income statement, with the exception of those deriving from loans in foreign currencies that are

hedged by a net investment in a foreign company, which are recognised directly in equity until the net investment is disposed of.
Non-monetary items valued at historical cost in foreign currencies are converted using the exchange rates ruling at the time the transaction was carried out. Non-monetary items booked at fair value in foreign currencies are converted using the exchange rates ruling at the time that fair value was calculated.

3.23 Grants and contributions

Grants and contributions are recognised if there is a reasonable certainty that they will be received and if all the conditions referring to them are satisfied. When the grants are linked to cost items, they are recognised as income and recognised on a systematic basis so that they are in proportion to the costs they are intended to set off or partially set off. In the cases where a grant is linked to an asset, the relative fair value is deferred in long-term liabilities and is recognised in the income statement at a constant rate over the useful life of the asset in question.

3.24 Assets and liabilities held for sale (*discontinued operations*)

Non-current assets and groups of assets and liabilities whose carrying value will be mainly recovered through disposal instead of continuous use, are presented separately from other assets and liabilities in the balance sheet. These assets and liabilities are classified as "assets and liabilities held for sale" and are measured at the lower of their carrying value and their fair value less probable disposable costs. Gains and losses, net of their relative fiscal effects, resulting from the valuation or disposal of the assets or liabilities in question are recognised in a specific item in the income statement.

3.25 Accounting standards and interpretations adopted by the European Union with effect from 1 January 2006 and applicable to Arnoldo Mondadori S.p.A.

Amendment to IAS 19 – Employee benefits
This amendment, adopted by the European Union in November 2005 (EC Regulation 1910-2005), provides the option to immediately recognise actuarial gains and losses in the financial year they arise, not in the income statement but directly in a specific item in equity. Arnoldo Mondadori Editore S.p.A. has elected to not adopt this option.

IFRIC Interpretation 4 - Determining whether an Arrangement contains a Lease
This interpretation, adopted by the European Union in November 2005 (EC Regulation 1910-2005), states that agreements that do not take the legal form of a lease but contain the right to use an asset must be classified as a finance lease or an operating lease as per IAS 17. Arnoldo Mondadori Editore S.p.A. applied this interpretation as from 1 January 2006, without any significant impact being noted.

Amendment to IAS 39- Financial instruments: analysis and evaluation
The amendments adopted by the European Union with effect from 1 January 2006 concern:
– financial guarantee contracts,
– hedge accounting for forecast intragroup operations,
– utilisation of fair value options.
Arnoldo Mondadori Editore S.p.A. adopted these amendments with effect from 1 January 2006, without noting any significant impact.

3.26 New standards and interpretations adopted by the European Union but not yet effective and applicable to Arnoldo Mondadori Editore S.p.A.

As required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the possible impact of new standards or interpretations on the financial statements in their first year of application are listed below.
Those standards and interpretations which came into effect after 31 December 2006 are indicated and briefly illustrated.

IFRS 7 - Financial instruments: disclosures
This principle, adopted by the European Union in January 2006 (EC Regulation 108/2006) assimilates the disclosures section contained in IAS 32 *Financial Instruments: Disclosure and Presentation* with modifications and integrations. As a consequence, the title of IAS 32 was changed to "Financial Instruments: Presentation".
In particular, the new principle requires information about the exposure to risks deriving from the utilisation of financial instruments and the procedures adopted by the management to deal with these risks.

IAS 1 – Presentation of the financial statements: information about the capital
The modification issued by the IASB in August 2005 introduced the requirement to provide information about a company's capital.

IFRIC 9 – Evaluation of implicit derivatives
The interpretation issued by the IFRIC in March 2006 requires the evaluation of the existence of derivatives implicit in the primary contract to be revealed and entered separately. Subsequently, the company cannot carry out this evaluation unless there are significant changes made to the contract that affect the cash flow.

IFRS 8 – Operational segment
The new principle, which replaced IAS 14, requires the company to identify the operational segments on the basis of the internal reporting regulations used by the management for analysing performances.

IFRIC 11 – Treasury stock transactions
This interpretation requires stock-based payment plans, where the company receives services in exchange for treasury stock, to be booked as capital instruments.

Arnoldo Mondadori Editore S.p.A. is evaluating the impact of the standards and interpretations referred to above, all of which came into effect on 1 January 2007.

4. Use of estimates

In preparing the attached tables and the relative notes, it has been necessary to use estimates and assumptions in order to calculate, in particular, the provision for returns for published products, provisions for the writedowns of assets, for risks, employee benefits and taxation, and the value of intangible assets (including goodwill).

These estimates are constantly reviewed and any effects are recognised in the income statement.

5. Business combinations
Business combinations are recognised using the purchase method envisaged by IFRS 3. Under the purchase method, cost is determined as the sum of the fair values of the assets and liabilities acquired, including any contingent liabilities assumed and equity instruments issued at the date of the operation, plus any costs directly attributable to the purchase.

Any excess of purchase cost over the Group's share of the fair value of the assets, liabilities and contingent liabilities acquired and identifiable at the time of purchase is booked as goodwill under assets. If this difference is negative it is recognised directly in the income statement.

6. Risk management
The company is responsible for managing the financial risks of all the Italian subsidiaries in the Mondadori Group. A more detailed analysis of the Group's financial risks is contained in the relevant section of the consolidated financial statements.

Details of the items in the financial statements

In the part of the notes that follows all amounts are expressed in thousands of euros, with the exception of certain amounts expressed in millions of euros. Amounts in brackets refer to the corresponding amounts for 2005.

Balance sheet
Assets

1- Intangible assets

Intangible assets and their changes are described and commented on below:

Intangible assets (€,000)	31 December 2006	31 December 2005
Intangible assets with a finite useful life	364	540
Intangible assets with an indefinite useful life	91,353	92,253
Total intangible assets	**91,717**	**92,793**

The following two tables show the changes in intangible assets in 2005 and 2006.

There is no restriction on the availability or use of intangible assets.

Intangible assets with finite useful lives (€,000)	Software	Selling rights	Total
Cost at 1 January 2005	5,493	650	6,143
Investments	348		348
Disposals	(33)		(33)
Other changes			
Cost at 31 December 2005	5,808	650	6,458
Accumulated amortisation and impairment losses at 1 January 2005	4,459	589	5,048
Amortisation	859	31	890
Writedowns/reinstatement of value			
Disposals	(20)		(20)
Other changes			
Accumulated amortisation and impairment losses at 31 December 2005	5,298	620	5,918
Net book value at 1 January 2005	1,034	62	1,096
Net book value at 31 December 2005	**510**	**30**	**540**

Intangible assets with finite useful lives (€,000)	Software	Selling rights	Total
Cost at 1 January 2006	5,808	650	6,458
Investments	264		264
Disposals	(1)		(1)
Other changes			
Cost at 31 December 2006	6,071	650	6,721
Accumulated amortisation and impairment losses at 1 January 2006	5,298	620	5,918
Amortisation	422	18	440
Writedowns/reinstatement of value			
Disposals	(1)		(1)
Other changes	0	0	0
Accumulated amortisation and impairment losses at 31 December 2006	5,719	638	6,357
Net book value at 31 December 2005	510	30	540
Net book value at 31 December 2006	**352**	**12**	**364**

Investments during the year of €264 thousand refer to the purchase of software.

The following two tables present the changes in intangible assets with indefinite useful lives in 2005 and 2006.

As can be seen from the tables, the year was characterised by the writedown of certain imprints following an impairment test.

Intangible assets with indefinite useful lives (€,000)	Titles	Publishing imprints	Goodwill	Total
Cost at 1 January 2005	93,031	7,966	731	101,728
Investments	0	14	0	14
Disposals	0	0	0	0
Other changes	0	0	0	0
Cost at 31 December 2005	93,031	7,980	731	101,742
Impairment at 1 January 2005	(8,331)	(20)	0	(8,351)
Writedowns/reinstatement of value	(1,123)	(15)	0	(1,138)
Impairment at 31 December 2005	(9,454)	(35)	0	(9,489)
Net book value at 1 January 2005	84,700	7,946	731	93,377
Net book value at 31 December 2005	**83,577**	**7,945**	**731**	**92,253**

Intangible assets with indefinite useful lives (€,000)	Titles	Imprints	Goodwill	Total
Cost at 1 January 2006	93,031	7,980	731	101,742
Investments	0		0	0
Disposals	0	0	0	0
Other changes	0	0	0	0
Cost at 31 December 2006	93,031	7,980	731	101,742
Impairment at 1 January 2006	(9,454)	(35)	0	(9,489)
Writedowns/reinstatement of value	0	(900)	0	(900)
Impairment at 31 December 2006	(9,454)	(935)	0	(10,389)
Net book value at 31 December 2005	83,577	7,945	731	92,253
Net book value at 31 December 2006	**83,577**	**7,045**	**731**	**91,353**

Intangible assets with indefinite useful lives relate mainly to magazines (including, in particular, *TV Sorrisi e Canzoni* and *Chi*) included in the purchase of the SBE business in 1994.

Amortisation, impairment and reinstatement of value of intangible assets

The following table summaries the amounts charged to the income statement, under the item "Amortisation and impairment of intangible assets", for the amortisation of intangible assets with definite useful lives and the writedown and restoration of value of intangible assets with indefinite lives.

Amortisation and impairment of intangible assets (€,000)	31 December 2006	31 December 2005
Software	422	859
Selling rights	18	31
Total amortisation and impairment of intangible assets	440	890
Writedowns of intangible assets	900	1,138
Reinstatement in value of intangible assets	0	0
Total writedowns (reinstatement) of intangible assets	900	1,138
Total amortisation and impairment of intangible assets	1,340	2,028

When carrying out the annual impairment test for magazine titles, imprints and goodwill, the recoverable amount of an asset was estimated by determining its value in use and, where possible, its fair value.

When estimating the value in use, use was made of the forecast data included in the 2007-2009 three-year plan approved by the management, which expresses the best forecast based on the financial conditions that exist for the remaining useful life of the asset.
The cash flow was considered to be constant for the period beyond the forecast.

The calculation of the cash flow relating to the individual assets or cash generating units included in the impairment test was based on a rate of between 7.41% and 8.41%, which also took into account the Capital Asset Pricing Model.

2- Investment property

The composition of and changes in investment property are described and commented on below.

Investment property (€,000)	Land	Non-business buildings	Total
Cost at 1 January 2005	2,128	8,179	10,307
Investments	0	267	267
Disposals	(1,670)	(5,939)	(7,609)
Other changes	0	0	0
Cost at 31 December 2005	458	2,507	2,965
Accumulated depreciation and impairment losses at 1 January 2005	0	2,076	2,076
Depreciation	0	142	142
Writedowns/reinstatement of value	0	0	0
Disposals	0	(1,144)	(1,144)
Other changes	0	0	0
Accumulated depreciation and impairment losses at 31 December 2005	0	1,074	1,074
Net book value at 1 January 2005	2,128	6,103	8,231
Net book value at 31 December 2005	**458**	**1,433**	**1,891**

Investment property (€,000)	Land	Non-business buildings	Total
Cost at 31 December 2005	458	2,507	2,965
Investments	0	0	0
Disposals	0	0	0
Other changes	0	(254)	(254)
Cost at 31 December 2006	458	2,253	2,711
Accumulated depreciation and impairment losses at 31 December 2005	0	1,074	1,074
Depreciation	0	59	59
Writedowns/reinstatement of value	0	0	0
Disposals	0	0	0
Other changes	0	0	0
Accumulated depreciation and impairment losses at 31 December 2006	0	1,133	1,133
Net book value at 31 December 2005	458	1,433	1,891
Net book value at 31 December 2006	**458**	**1,120**	**1,578**

The fair value of investment property amounted to approximately €7 million.

Depreciation of investment property

The depreciation charge for the year amounted to €59 thousand, classified under the item "Depreciation of property, plant and equipment", compared to €142 thousand in 2005.

There are no restrictions on the use of assets classified as investment property.
Land is not depreciated.

3- Property, plant and equipment

The composition of and changes in property, plant and equipment are described and commented on

Property, plant and equipment (€,000)	Land	Business buildings	Plant and equipment	Other tangible assets	Total
Cost at 1 January 2005	1,114	27,684	16,532	41,257	86,587
Investments	0	136	1,234	2.980	4,350
Disposals	0	0	(87)	(1,392)	(1,479)
Other changes	0	0	0	0	0
Cost at 31 December 2005	1,114	27,820	17,679	42,845	89,458
Accumulated depreciation and impairment losses at 1 January 2005	0	10,847	10,900	35,126	56,873
Depreciation	0	832	1,134	3,312	5,278
Writedowns/reinstatement of value	0	0	0	0	0
Disposals	0	0	(44)	(1,253)	(1,297)
Other changes	0	0	0	(4)	(4)
Accumulated depreciation and impairment losses at 31 December 2005	0	11,679	11,990	37,181	60,850
Net book value at 1 January 2005	1,114	16,837	5,632	6,131	29,714
Net book value at 31 December 2005	**1,114**	**16,141**	**5,689**	**5,664**	**28,608**

Property, plant and equipment (€,000)	Land	Business buildings	Plant and equipment	Other tangible assets	Total
Cost at 1 January 2006	1,114	27,820	17,679	42,845	89,458
Investments	0	2,610	1,196	2,415	6,221
Disposals	0	0	0	(790)	(790)
Other changes	0	(88)	(373)	761	300
Cost at 31 December 2006	1,114	30,342	18,502	45,231	95,189
Accumulated depreciation and impairment losses at 1 January 2006	0	11,679	11,990	37,181	60,850
Depreciation	0	882	1,139	2,713	4,734
Writedowns/reinstatement of value	0	0	0	0	0
Disposals	0	0	0	(736)	(736)
Other changes	0	0	0	0	0
Accumulated depreciation and impairment losses at 31 December 2006	0	12,561	13,129	39,158	64,848
Net book value at 31 December 2005	1,114	16,141	5,689	5,664	28,608
Net book value at 31 December 2006	**1,114**	**17,781**	**5,373**	**6,073**	**30,341**

Other tangible fixed assets consist of the following:

Other tangible fixed assets (€,000)	31 December 2006	31 December 2005
Industrial and commercial equipment	533	614
Electronic office machines	2,343	3,047
Furniture and fixtures	1,122	1,034
Motor vehicles and transport vehicles	771	837
Leasehold improvements	47	132
Other assets	0	0
Assets under construction and advances	1,257	0
Total other tangible fixed assets	**6,073**	**5,664**

Investments during the year refer to:
– the updating of technology in the book and magazine offices;
– the updating of data processing systems (personal computers and local networks) and the purchase of transportation vehicles.

Investments during the year, including other tangible fixed assets, of €7,479 thousand (€1,257 thousand of which was for assets that had not entered into use at 31 December 2006) refer to:
– the Verona factory (Publishing Warehouse plant/Magazine Distribution and buildings) .... €4,394 thousand
– the Milan head office (office automation, furniture/fixtures and vehicles) .... €3,085 thousand

Disposals, including those relating to other tangible fixed assets, for a total of €791 thousand, mainly relate to the disposal of office equipment (furniture, fixtures, electronic office machinery) and vehicles.

Depreciation of property, plant and equipment
The depreciation charge for the year, classified as "Depreciation and impairment of property, plant and equipment", amounted to €4,792 thousand, and was made up as follows:

Depreciation of property, plant and equipment (€,000)	31 December 2006	31 December 2005
Business buildings	882	832
Plant and machinery	1,138	1,135
Equipment	199	197
Electronic office machines	1,808	2,268
Furniture and fixtures	233	206
Motor vehicles and transport vehicles	388	395
Leasehold improvements	85	246
Other fixed assets	0	0
Total depreciation of property, plant and equipment	**4,733**	**5,279**

No impairment losses or reinstatements of value were recognised in 2006 as a result of impairment tests.

There is no restriction on the availability or use of property, plant and equipment.

Leased assets
The following table shows the value of leased assets at 31 December 2006 and booked under fixed assets.

(€,000)	31 December 2006 Gross value	Accumulated depreciation	Net book value	31 December 2005 Gross value	Accumulated depreciation	Net book value
Business buildings	0	0	0	0	0	0
Non-business buildings	2,148	806	1,342	2,148	741	1,407
Plant and machinery	0	0	0	0	0	0
Other assets	0	0	0	0	0	0
Total leased assets	**2,148**	**806**	**1,342**	**2,148**	**741**	**1,407**

The above amounts relate to assets acquired in previous years under bargain purchase options for which the lease agreements had terminated by the balance sheet date.

4- Investments

The composition of and changes in investments amounting to €748,353 thousand (€712,581 thousand) are described and commented on below.

Total investments, net of accumulated depreciation and impairment losses of €19.739 thousand, consist of *shares and quotas in limited liability companies* for an amount of €699,776 thousand and capital contributions of €46,415 thousand.

Investments also include the effect of €2,163 thousand resulting from the application of IFRS 2 to the Stock Options granted by Arnoldo Mondadori Editore S.p.A. to managers and directors of subsidiary companies who carry out functions that are important for the attainment of the Group's results. The details of each subsidiary and associated company are included in attachments A and B, which also contain a comparison between the amounts stated in the financial statements and the relative share of net equity.

Shares and joint ventures in companies
The most important operations that took place during the year are outlined below:

Balance at 31 December 2005	**698,849**
Increases:	
– Purchases, establishment of companies and capital increases	3,917
– Payments for cover for losses	480
Decreases:	
– Writedowns	(754)
– Cover for losses	(480)
– Other changes	(503)
Value of shares and joint ventures	**701,509**
Loss/writedown provision:	
– provisions	(8,931)
– utilisations/reclassifications	7,198
Net value of shares and joint ventures at 31 December 2006	**699,776**

Increases refer to:

- the purchase of additional shares in Edizioni Piemme S.p.A. for €2,500 thousand;
- the transfer of the "computer books" segment to Sperling & Kupfer Editori S.p.A. for €1,167 thousand;
- the increase of the share capital of Press Tv S.p.A. for €250 thousand.

Decreases include a hedge loss in Press Tv S.p.A. for €480 thousand.

In accordance with IAS/IFRS, if there are indications of a potential loss of value the carrying amount of investments is reviewed. Their carrying value was compared with either the relative fair value or the reinstated value represented by the estimated future cash flows for each individual subsidiary and associated company with reference to company plans. This examination resulted in writedowns for a total of €8,931 thousand (relating to investments in Monradio S.r.l. for €8,505 thousand and in Press Tv S.p.A. for €426 thousand).

A comment on the main differences that emerged between the carrying values of the investments and the Group's share of net equity is given below.

The excess of the carrying values of the investments in Cemit Interactive Media S.p.A., Edumond Le Monnier S.p.A., Mondadori Printing S.p.A. and Sperling & Kupfer Editori S.p.A., compared with a corresponding valuation based on the net equity of these companies, represents the value of their production and commercial potential as supported by the three-year plans for 2007-2009.

For Fied S.p.A., the carrying value of €4,447 thousand was maintained unchanged, confirming the increased value of the investment in the capital of Società Europea di Edizioni S.p.A., publishers of the newspaper *Il Giornale*. In determining the valuation of that investment using the equity method, the higher value attributed to that newspaper was taken into consideration.

The higher carrying value of Random House Mondadori S.A. compared with the Group's share of its net equity is attributable to the publishing potential and income prospects of the "Random House Mondadori Group" in the Spanish language book market, as supported by the three-year plan for 2007-2009.

For Arnoweb S.A. and Prisco Spain S.A., the higher carrying value compared with a valuation using the equity method represents the value of the investment in Random House Mondadori S.A.

For Edizioni Piemme, the higher carrying value of the investment is due to the income generating capacity of publishing production supported by the company's three-year plans.

For Monradio S.r.l. the higher carrying value of the investment is due to the value of the frequencies, the fair value of which, established by the management, has been confirmed by independent experts.

Capital contributions
The balance at 31 December 2006 of €46,415 thousand (€12,217 thousand), refers to

Monradio S.r.l. for €39,700 thousand, Mondadori Retail S.p.A. for €3,339 thousand, Mondadori Franchising S.p.A. for €2,001 thousand, Hearst Mondadori Editoriale S.r.l. for €49 thousand, Press TV S.p.A. for €700 thousand and Società Europea Edizioni S.p.A. for €626 thousand.
The variation is essentially due to capital contributions of €31,200 thousand in favour of Monradio S.r.l. and €2,000 thousand in favour of Mondadori Retail S.p.A.

5- Deferred tax assets and liabilities

Deferred tax assets of €16,521 thousand (€16,023 thousand) and deferred tax liabilities of €13,867 thousand (€11,708 thousand) are calculated on the basis of the temporary differences between the book values and tax bases of assets and liabilities as shown in the table below:

(€,000)	31 December 2006	31 December 2005
Deferred tax assets - IRES	15,292	14,856
Deferred tax assets - IRAP	1,229	1,167
Total deferred tax assets	**16,521**	**16,023**
Deferred tax liabilities - IRES	12,540	10,618
Deferred tax liabilities - IRAP	1,327	1,090
Total deferred tax liabilities	**13,867**	**11,708**

Deferred tax assets and liabilities are calculated on the basis of the tax rates expected to apply when the temporary differences reverse (currently 33% for IRES and 4.25% for IRAP).

The following tables set out the temporary differences between the book values and tax bases of assets and liabilities that generated deferred tax assets and liabilities.

Description of temporary differences that led to the recognition of deferred tax assets

(€,000)	31 December 2006 Amount of temporary difference	Tax rate	Deferred tax assets	31 December 2005 Amount of temporary difference	Tax rate	Deferred tax assets
Difference between book value and tax basis of non-current assets	8,382	33%	2,766	9,583	33%	3,162
Provision for bad debts	6,997	33%	2,309	5,821	33%	1,921
Inventory provision	3,173	33%	1,047	3,573	33%	1,179
Other provisions	22,682	33%	7,485	22,890	33%	7,554
Other temporary differences	5,105	33%	1,685	3,150	33%	1,040
Total for IRES purposes	46,339		15,292	45,017		14,856
Difference between book value and tax basis of non-current assets	8,376	4.25%	356	9,324	4.25%	396
Inventory provision	3,173	4.25%	135	3,573	4.25%	152
Other provisions	13,153	4.25%	559	13,151	4.25%	559
Other temporary differences	4,216	4.25%	179	1,414	4.25%	60
Total for IRAP purposes	28,918		1,229	27,462		1,167

Description of temporary differences that led to the recognition of deferred tax liabilities

(€,000)	31 December 2006 Amount of temporary difference	Tax rate	Deferred tax assets	31 December 2005 Amount of temporary difference	Tax rate	Deferred tax assets
Difference between book value and tax basis of non-current assets	22,424	33%	7,400	13,773	33%	4,545
Employee's leaving entitlement	3,552	33%	1,172	3,551	33%	1,172
Application IAS 17 Leasing	1,345	33%	444	1,409	33%	465
Other temporary differences	10,679	33%	3,524	13,443	33%	4,436
Total for IRES purposes	38,000		12,540	32,176		10,618
Differences between book value and tax basis of non-current assets	22,424	4.25%	953	13,773	4.25%	585
Application IAS 17 Leasing	1,345	4.25%	57	1,412	4.25%	60
Other temporary differences	7,455	4.25%	317	10,470	4.25%	445
Total for IRAP purposes	31,224		1,327	25,655		1,090

Net changes in deferred tax assets and liabilities resulted in a charge of €1,650 thousand for the year, as described in note 28.

Deferred tax liabilities have not been recognised for temporary differences arising from investments in joint ventures, subsidiaries and associated companies as the company is able to control the timing of the reversal of such differences and it is not probable that those differences will reverse in the foreseeable future.

6. Other non-current assets

The composition of and changes in other non-current assets, which amounted to €1,292 thousand at 31 December 2006 (€1,686 thousand), are described and commented on below.

Other non-current assets (€,000)	31 December 2006	31 December 2005
Guarantee deposits	155	155
Earnest money	0	0
Advance IRE withholding tax on the employees' leaving entitlement	575	1,160
Trade receivables	366	147
Others	196	224
Total other non-current assets	**1,292**	**1,686**

Trade receivables of €366 thousand (€147 thousand) refer to bookshop customers.

The balance of €575 thousand (€1,160 thousand) refers to advance withholding tax on the employees' leaving entitlement pursuant to Law no. 140 of 28 May 1997 and the relative index linking; this advance will be recovered when the withholding tax on the employees' leaving entitlement becomes due.

7. Tax receivables

The composition of and changes in tax receivables which amounted to €16,757 thousand (€23,005 thousand) are described and commented on below.

Receivables from tax authorities for VAT include VAT of €14,873 thousand (€1,295 thousand) which include accrued interest, requests for reimbursements relating to prior years and €1,098 thousand (€10,214 thousand at 31/12/2005) for VAT credits relating to 2006 to carry forward.
During the year €701 thousand was reimbursed for capital and interest relating to 1984.

Tax receivables (€,000)	31 December 2006	31 December 2005
Receivables from tax authorities for IRES	9	9
Receivables from tax authorities for VAT to be recovered	15,971	11,509
Receivables from tax authorities for tax reimbursements	247	205
Tax credits for the purchase of paper	0	11,282
Receivables from tax authorities for IRAP	530	0
Total tax receivables	**16,757**	**23,005**

8. Other current assets

The composition of and changes in other current assets which amount to €43,584 thousand (€41,892 thousand) are described and commented on below.

Other current assets (€,000)	31 December 2006	31 December 2005
Advances to agents	267	267
Advances to authors	30,713	29,589
Advances to suppliers	2,710	1,347
Advances to personnel	477	593
Receivable for deposits	0	0
Earnest money	413	413
Prepayments	6,711	7,458
Other	2,293	2,225
Total other current assets	**43,584**	**41,892**

Prepayments of €6,711 thousand (€7,458 thousand) refer to:

(€,000)	31 December 2006	31 December 2005
Third-party editions for issues sold in 2007	6,588	7,421
Rental agreements	36	4
Other prepayments (rents, subscriptions)	87	33
Total prepayments	**6,711**	**7,458**

9. Inventories

The composition of and changes in inventories which amounted to €43,908 thousand (€42,184 thousand) are described and commented on below.

Inventories (€,000)	31 December 2006	31 December 2005
Raw materials and consumables	82	113
Provision for raw materials and consumables	0	0
Total raw materials and consumables	**82**	**113**
Work in progress and semi-finished goods	31,159	27,314
Provision for work in progress and semi-finished goods	(516)	(516)
Total work in progress and semi-finished goods	**30,643**	**26,798**
Finished products and goods for resale	16,451	18,942
Provisions for finished products and goods for resale	(3,268)	(3,669)
Total finished products and goods for resale	**13,183**	**15,273**
Total inventories	**43,908**	**42,184**

The increase of €1,724 thousand is essentially due to publishing products not yet finished, which refer to initiatives in the newspaper sector connected to add-on sales of publishing and/or other products.

Inventories – Provisions (€,000)	Raw materials	Work in progress and semi-finished goods	Finished products and goods for resale
Balance at 1 January 2005	0	516	3,669
Movements during period:			
– provisions	0	0	0
– utilisations	0	0	0
– other movements	0	0	0
Balance at 31 December 2005	**0**	**516**	**3,669**

Inventories – Provisions (€,000)	Raw materials	Work in progress and semi-finished goods	Finished products and goods for resale
Balance at 31 December 2005	0	516	3,669
Movements during period:			
– provisions	0	0	0
– utilisations	0	0	(400)
– other movements	0	0	0
Balance at 31 December 2006	**0**	**516**	**3,269**

Decrease (increase) in inventories

The following table summaries the changes in inventories recognised in the income statement for the year.

Decrease (increase) in inventories (€,000)	31 December 2006	31 December 2005
Changes in finished products	(2,491)	(600)
Charge to finished products provision	0	0
Utilisation of finished products provision	400	0
	(2,091)	**(600)**
Changes in semi-finished products	3,845	(5,515)
Charge to finished products provision	0	0
Utilisation of finished products provision	0	0
	3,845	**(5,515)**
Changes in raw material and goods	(31)	4
Charge to finished products provision	0	0
Utilisation of finished products provision	0	0
	(31)	**4**
Total decrease (increase) in inventories	**1,724**	**(6,111)**

There are no inventories used to secure liabilities.

10. Trade receivables

The composition of and change in trade receivables which amounted to €241,198 thousand (€232,238 thousand) are described and commented on below. These receivables increased by €8,960 thousand and consist of:

Trade receivables (€,000)	31 December 2006	31 December 2005
Receivables from customers	92,999	84,022
Receivables from associated companies	28,145	27,597
Receivables from subsidiaries	120,048	120,619
Receivables from parent company	6	0
Total trade receivables	**241,198**	**232,238**

There are no trade receivables with a due date over five years; the average collection period during 2006 was 71.50 days (68.20 days in 2005).

Details by geographical area are contained in the supplementary schedules.

Receivables from subsidiaries of €120,048 thousand (€120,619 thousand) and receivables from associated companies of €28,145 thousand (€27,597 thousand) refer to commercial transactions carried out at market prices. The details of each company and the variations compared with 2005 are contained in appendix C1.

Receivables from customers include receivables from Fininvest Group companies for €528 thousand (€168 thousand) and mainly refer to Publitalia '80 S.p.A., for €90 thousand (€144 thousand), RTI S.p.A., for €408 thousand (€11 thousand) and other companies for a total of €30 thousand. Trading relations with the Fininvest Group are carried out under normal market conditions.

Trade receivables, amounting to €92,999 thousand (€84,022 thousand), increased by €8,977 thousand and are made up as follows:

Trade receivables - Receivables from customers (€,000)	31 December 2006	31 December 2005
Receivables from customers	220,854	211,407
Customers - returns to be received	(113,504)	(114,716)
Provision for bad debts	(9,351)	(7,668)
Contract risk provision	(5,000)	(5,001)
Total receivables from customers	**92,999**	**84,022**

Movements in the provision for bad debts for the year, which amounted to €9,351 thousand (€7,688 thousand), were as follows:

Trade receivables - Receivables from customers – Provision (€,000)	31 December 2006	31 December 2005
Balance at beginning of year	7,668	11,319
Movements during period:		
– provisions	2,449	2,308
– utilisations	(766)	(5,959)
– other movements	0	0
Total receivables from customers	**9,351**	**7,668**

The provision is considered adequate to cover any expected risk of insolvency and is determined by analysing doubtful receivables and, for other receivables, by assessing the likelihood of non-recovery.

11. Other current financial assets

The composition of and changes in other current financial assets which amounted to €54,671 thousand (€100,922 thousand), are described and commented on below.

Other current financial assets (€,000)	31 December 2006	31 December 2005
- Financial receivables from subsidiaries	44,969	42,659
- Financial receivables from associated companies	9,260	3,215
- Other financial receivables	442	333
Total financial receivables	**54,671**	**46,207**
Financial assets at fair value with changes through the income statement	0	2,780
Securities and financial investments	0	51,935
Total current financial assets	**54,671**	**100,922**

Financial receivables from subsidiaries of €44,969 thousand (€42,659 thousand) and those from associated companies of €9,260 thousand (€3,215 thousand) mainly refer to current accounts bearing interest in line with market rates.

The details for each company and the changes with 2005 are provided in appendix C1.

Other financial receivables include:
– accrued income/prepaid expenses of €141 thousand (€200 thousand) regarding financial items referring to 2007;
– financial receivables from Bol Books On Line S.p.A. (in liquidation) for €170 thousand;
– other financial receivables of €131 thousand (€133 thousand) mainly referring to current accounts with third party companies at market conditions.

Assets and liabilities resulting from derivative instruments

The following table illustrates the assets and liabilities resulting from derivative instruments held at 31 December 2006.

Assets and liabilities resulting from derivative instruments – Details (€,000)	Type of derivative	Fair value at 12/31/2006	Fair value at 12/31/2005
Non-current financial assets			
– Tax derivatives	*Cash flow hedge*	950	-
Current financial assets			
– Exchange rate derivatives	*Trading*	24	-
– Options purchased for 2003 stock option plan	*Trading*	-	2,780
Non-current financial liabilities			
– *Cross currency swap*	*Fair value hedge*	(36,435)	(766)
Current financial liabilities			
– Exchange rate derivatives	*Trading*	-	(4)
– Options sold for 2003 stock option plan	*Trading*	-	(8)

Cross currency swap

This refers to an operation set up in 2003 to cover exchange rate risks linked to the US Private Placement debenture loan taken out in that year.

The loan of $350 million is made up of three tranches of $215 million, $40 million and $95 million with fixed rates of, respectively, 5.42%, 5.57% and 5.85% and expiry dates of 2013, 2015 and 2018.

The cross currency swap derivative made it possible to transform the notional into euro and the interest rates from fixed to floating. The floating interest rates obtained for the three tranches are equal to the three-month Euribor rate plus, respectively, 0.66%, 0.59% and 0.60%.

In accordance with international accounting standards, the profit (loss) from the variations in value of this derivative instrument are recognised in the income statement in line with the variation of an equal amount recognised together with the debt.

At 31 December 2005 there were derivatives on stock option relating to 1,960,000 call options on the options assigned to employees. The purchase of these purchase options was financed by the sale of put options with the same expiry date. The derivatives in question were underwritten in order to neutralise the risk deriving from fluctuations in the price of Mondadori shares to be bought as part of the stock option plan. At 31 December 2005 the fair value of the call option and the put option amounted, respectively, to a positive total of €2,780 and a negative total of €4 thousand. The options in question, with an expiry date of January 2006, were extinguished with a net profit slightly in excess of the net fair value as of 31 December 2005.

12. Cash and cash equivalents

The composition of and changes in cash and cash equivalents, amounting to €73,598 thousand (€43,444 thousand), are described and commented on below.

The balance consist of money held in post office accounts for €522 thousand (€770 thousand) and in bank accounts for €73,060 thousand (€42,662 thousand), together with €16 thousand (€12 thousand) in cheques and petty cash.

Cash and cash equivalents (€,000)	31 December 2006	31 December 2005
Cash and cheques	16	12
Bank deposits	73,060	42,662
Post office deposits	522	770
Total cash and cash equivalents	**73,598**	**43,444**

Short-term deposits mainly have expiry dates of between one week and three months, in keeping with the financial needs of the company, and mature interest at the respective short-term rates. The fair value of cash and cash equivalents at 31 December 2006 is equal to their carrying value at that date.

There are no restrictions on the use of cash and cash equivalents.

Liabilities

13. Shareholders' equity

Share capital of €67,452 thousand, fully subscribed and paid up, is represented by 259,429,832 ordinary shares each with a par value of €0.26.
Changes over the last two years in shareholders' equity are set out below:

(€,000)	Share capital	Share premium reserve	Treasury shares reserve	Treasury shares	Stock option reserve	Fair value reserve	Other reserves	Profit (loss) of the year	Total shareholders equity
As of 1 January 2005	**67,452**	**175,575**	**108,172**	**0**	**2,374**	**0**	**140,401**	**93,040**	**587,014**
Changes:									
– Adoption of IAS 32 and IAS 39		108,172(*)	(108,172)	(108,172)		(12)	(25,335)		(133,519)
– Allocation of net profit							7.659	(7,659)	
– Dividend payment								(85,381)	(85,381)
– Operations in treasury shares				5,348			852		6,200
– Stock options					2,341				2,341
– Other						12			12
- Net profit for the year								101,290	101,290
At 31 December 2005	**67,452**	**283,747**	**0**	**(102,824)**	**4,715**	**0**	**123,577**	**101,290**	**477,957**

(€,000)	Share capital	Share premium reserve	Treasury shares reserve	Treasury shares	Stock option reserve	Fair value reserve	Other reserves	Profit (loss) of the year	Total shareholders equity
As of 31 December 2005	**67,452**	**283,747**	**0**	**(102,824)**	**4,715**	**0**	**123,577**	**101,290**	**477,957**
Changes:									
– Adoption of IAS 32 and IAS 39									
– Allocation of net profit							33	(33)	0
– Dividend payment							(43,380)	(101,257)	(144,637)
– Operations in treasury shares				9,664			(26)		9,638
– Stock options		1,720			658				2,378
– Net profit for the year								90,240	90,240
At 31 December 2006	**67,452**	**285,467**	**0**	**(93,160)**	**5,373**	**0**	**80,204**	**90,240**	**435,576**

(*) Formerly Treasury Shares Reserve, originally formed with transfers from the Share Premium Reserve.

Following the adoption of IAS 32 and IAS 39 on 1 January 2005, treasury shares held in portfolio are recognised as a deduction from shareholders' equity. This portfolio, equal to 5.39% of the share capital, consists of:

- 1,957,332 ordinary shares (1,221,726 of which came from the conversion of savings shares resolved by shareholders on 29 April 1999) with a par value of €0.26 each for a total of €3,519 thousand, resulting from buy-backs exercised by shareholders of the former AMEF following the change in corporate purpose as a result of the merger with the former AME;

- 12,017,873 ordinary shares with a par value of €0.26 each purchased for €89,641 thousand in accordance with the resolutions of various shareholders' meetings, the last of which took place on 26 April 2004. During the year, 453,624 ordinary shares were purchased and 1,963,206 treasury shares were disposed of in operations connected with the exercising of options by beneficiaries of the stock-option plan.

The average carrying value is equivalent to €6.67 per share compared with the current stock market quotation (at 27 March 2007) of €7.975 per share.

The following table provides an analysis of shareholders' equity, showing the origin, availability and distribution of each item.

(€,000)				Summary of utilisations carried out in past years	
Nature/description	Amount	Possibility of utilisation	Portion available	for distribution of profits	for other reasons
Share capital	**67,452**	--			
Capital reserves:					
– from share premium	258,488	A,B,C	155,664		
– from conversion of saving shares	26,978	A,B,C	26,978		
– capital grants reserve	5,335	B			
Revenue reserves:					
– revaluation reserves					
• law no. 72 of 19/3/1983	12,022	A,B			
• law no. 413 of 30/12/1991	4,689	A,B			
– legal reserve	13,490	B			
– extraordinary reserve	55,848	A,B,C	25,443	195,426	784
– reserve law no. 675 of 12/8/1977	351	A,B			
– reserve law no. 904 of 16/12/1977	751	A,B			3,329
– reserve article 13 of law no. 124/93	159	A,B			
– merger reserve	478	A,B,C	478		
– reserve law no. 576 of 2/12/1975	—	—			3,128
– reserve for unrealised exchange gains	14	—			
– reserve for unclaimed dividends	2,710	B	2,710		
IAS/IFRS transactions:					
– positive reclassifications	10,943	—	4,622		
– negative reclassifications	(21,212)	—			
Treasury shares	**(93,160)**	—			
Total	**345,336**		**215,895**	**195,426**	**7,241**
Non-distributable portion (1)			**7,332**		
Distributable portion			**208,563**		

Key: A: for increases in capital - B: for covering losses - C: for distribution to shareholders.

(1) Represents the non-distributable portion determined in accordance with Legislative Decree no. 38/2005.

Details of the changes in the individual components of shareholders' equity are shown in the statement of changes in shareholders' equity, which shows in particular:

The ***share premium reserve and the reserve for the conversion of savings shares*** of €285,467 thousand (€283,747 thousand) includes:

- €15,289 thousand, of which €13,278 thousand resulting from the conversion into shares of the debenture loan 6.5% 1987/1991of the former AMEF and €2,011 thousand from the merger of the former AMEF on 29 November 1991;
- €238,603 thousand resulting from the €17,043 thousand increase in capital completed on 27 June 1994 in conformity with a resolution of the extraordinary shareholders' meeting of 30 May 1994 that provided for the issue of 33,000,000 ordinary shares with a par value of €0.52 (1,000 lire) at a price of €7.75 (15,000 lire) per share, €7.23 (14,000 lire) of which was share premium;
- €384 thousand resulting from the increase in capital completed on 23 November 1998;
- €692 thousand resulting from the increase in capital completed on 17 September 1999;
- €1,801 thousand resulting from the increase in capital completed on 18 July 2000;
- €26,978 thousand generated from the conversion into ordinary shares of 13,929,942 savings shares, in conformity with a resolution of the shareholders' meeting of 30 May 1994 that enabled holders of savings shares to convert these into ordinary shares in the ratio of one to one with a par value of €0.52 (1,000 lire), to be exercised during the period 16 June to 31 July 1994 with payment of a balance of €1.94 (3,750 lire) for every share converted
- €1,720 thousand resulting from the stock-option plan agreed on by the company and assigned to the management.

The ***capital grants reserve*** of €5,335 thousand (€5,335 thousand) includes €1,148 thousand for amounts paid out by the Agenzia per la Promozione dello Sviluppo del Mezzogiorno (Ministerial Decrees of 28 June 1979 and 3 May 1989) for the purposes of industrial investments carried out at the plant in Pomezia (RM) and, for a total amount of €4,187 thousand (including €283 thousand conferred by Mondadori Electa S.p.A. following the separation of the "magazines" division), the amounts for grants paid out by the State in previous years pursuant to Publishing Law no. 416 of 5 August 1981. The accounting treatment of these latter two items follows the requirements of ministerial provisions which recognise these as capital grants. Under this treatment, tax is not payable on these grants unless they are used for purposes other than for covering losses.

Reserves are classified as follows for tax purposes:

(€,000)		a	b	c	Total
Share	- Premium reserve	-	-	258,488	258,488
	- Conversion of savings shares	-	-	26,978	26,978
					285,466
Legal reserve 72 of 19 March 1983		-	12,022	-	12,022
Legal reserve 413 of 30 December 1991		-	4,689	-	4,689
					16,711
Legal reserve		13,490	-	-	13,490
Treasury shares reserve		-	-	-	-
Extraordinary reserve		55,848	-	-	55,848
Reserve law 675 of 12 August 1977		-	351	-	351
Reserve law 904 of 16 December 1977		-	751	-	751
Capital grants reserve		-	5,335	-	5,335
Reserve law 124/93 article 13		-	159	-	159
Merger reserve		478	-	-	478
Reserve for unrealised exchange gains		14	-	-	14
Reserve for unclaimed dividends		2,710	-	-	2,710
					65,646
Total reserves		**72,540**	**23,307**	**285,466**	**381,313**
Total bonus increases in capital from the utilisation of reserves		**784**	**6,457**	-	**7,241**

a. Reserves that, if distributed, do not form part of shareholders' taxable income for 95% of the total (art.89 D.P.R. no. 917/86 as modified by Legislative Decree no. 344/2003 which established IRES – corporate income tax).
b. Reserves that, if distributed, form part of the company's taxable income.
c. Reserves that, if distributed, do not form part of shareholders' taxable income.

Details of the reserves utilised for bonus increases in share capital in previous years are as follows:

Reserves utilised (€)	Date of shareholders' resolution	Amount transferred to capital
Legal reserve no. 576 of 2 December 1975	4/30/1980	1,292,433
Legal reserve no. 576 of 2 December 1975	5/25/1981	1,291,142
Legal reserve no. 576 of 2 December 1975	4/30/1982	543,943
Legal reserve no. 904 of 16 December 1977	4/30/1982	3,329,483
		6,457,001
Reserve for stock options	9/25/1998	66,365
Reserve for stock options	7/7/1999	105,873
Reserve for stock options	5/12/2000	152,045
Extraordinary reserve (conversion of share capital into euros)	4/24/2001	459,593
		783,876

14. Provisions

The composition of and changes in provisions, amounting to €10,466 thousand (€10,740 thousand), are described and commented on below:

Provisions (€,000)	31 December 2005	Charge	Utilisations	Other movements	31 December 2006
Various collection risks	1,356		(230)		1,126
Litigation	6,557	1,147	(1,191)		6,513
Dispute over INPGI contributions	1,000				1,000
Tax disputes	1,827				1,827
Returns provision and other provisions	0				0
Total provisions	**10,740**	**1,147**	**(1,421)**	**0**	**10,466**

The purpose of these balances is to provide against probable liabilities resulting from litigation, various collection risks, contract commitments and commitments and disputes over social security payables.

The long-term portion of provisions, whose payment date can be reliably estimated, has been discounted to take account of implicit interest.

15. Employees' leaving entitlement and termination indemnities

The composition of and changes in of the employees' leaving entitlement and termination indemnities are described and commented on below:

Leaving entitlements and termination indemnities (€,000)	31 December 2006	31 December 2005
Employees' leaving entitlement (TFR)	43,406	42,025
Agents' termination indemnity (FISC)	1,082	1,057
Termination indemnity for journalists (IFGP)	677	721
Total leaving entitlements and termination indemnities	**45,165**	**43,803**

Changes in the two years are due to the following:

Employees' leaving entitlement – Details (€,000)	TFR	FISC	IFGP	Total
Balance at 31 December 2005	**42,025**	**1,057**	**721**	**43,803**
Changes during 2006:				
- provisions	7,333	175	11	7,519
- utilisations	(6,490)			(6,490)
- reversals	-			-
- discounting	342			342
- others	196	(150)	(55)	(9)
Balance at 31 December 2006	**43,406**	**1,082**	**677**	**45,165**

The 2006 government Budget and its relative decrees introduced important modifications to employees' leaving entitlements (TFR) as from 1 January 2007. The uncertainty regarding the interpretation of this law means that it is premature to make any forecast about actuarial modifications of the leaving entitlements (TFR) that matured as of 31 December 2006.

The employees' leaving entitlement and the agents' termination indemnity are determined, in accordance with IAS 19 and IAS 37, by applying an actuarial method.

The following assumptions were used when determining the actuarial value of the employees' leaving entitlement:

Actuarial assumptions used for the employees' leaving entitlement	31 December 2006	31 December 2005
Economic assumptions:		
- increase in cost of living	1.5%	1.5%
- discount rate	4.0%	4.0%
- salary increases	3.0%-4.0%	3.0%-4.0%
Demographic assumptions:		
- probability of death	IPS 55 tables	IPS 55 tables
- probability of disability	INPS 2000 tables	INPS 2000 tables
- probability of leaving for other reasons	From 6.07% to 7.20%	From 0.50% to 7.20%
- pensionable age	Current regulations	Current regulations

The following assumptions were used when determining the agents' termination indemnity:

Assumptions for actuarial calculation of supplementary indemnities for agents reserve (FISC)	31 December 2006	31 December 2005
Economic assumptions:		
– discount rate	4.0%	4.0%
Demographic assumptions:		
– probability of death/disability	1.0%	1.0%
– probability of leaving service	1.0%	0.5%
– probability of voluntary resignation	1.5%	1.5%
– average age of terminating the agency agreement	65	65

The other termination liabilities were not discounted as the effects would not be significant.

Charges to the income statement for the employees' leaving entitlement were as follows:

Cost of employees' leaving entitlement (€,000)	31 December 2006	31 December 2005
Current cost of employees' the leaving entitlement	7,333	5,964
Actuarial (gains) losses	1,271	2,110
	6,062	**8,074**
Interest charge	1,613	1,528
Total cost of employees' leaving entitlement	**7,675**	**9,602**

The "current cost of the employees' leaving entitlement" together with the "actuarial (gain)/loss" are booked in the income statement under "personnel costs" while the financial component is booked under financial expense for the year.

16. Financial liabilities

The composition of and changes in financial liabilities, amounting to €296,256 thousand (€296,046 thousand), are described and commented on below.

Non-current financial liabilities				
(€,000)	Effective interest rate	Due after 5 years	12/31/2006	12/31/2005
Bonds	Eur3M+0.667%	x	259,821	295,280
Liabilities from derivative instruments	-	x	36,435	766
Other financial liabilities	-	-		0
Total non-current financial liabilities	-	-	**296,256**	**296,046**

The carrying value of €259,821 thousand of the non-convertible bonds of US$350 million, whose issue on 23 June 2004, was determined using the amortised cost method in accordance with IAS/IFRS.

The valuation of the bonds was made in line with the cross currency swap taken out to hedge foreign exchange and interest rate risks. The average spread paid on three-month EURIBOR was 0.636%, which corresponds to an effective three-month EURIBOR spread of 0.667%.

The features of the bonds are as follows:

- the bonds were offered to and reserved for the subsidiary Mondadori International S.A.;
- the loan consists of 3,500 bonds having a total nominal value of US$100,000, each issued at par;
- repayment at par on consignment of bonds on the following due dates :
  – "tranche A", US$ 215 million on 18 December 2013
  – "tranche B", US$ 40 million on 18 December 2015
  – "tranche C", US$ 95 million on 18 December 2018
- annual fixed gross interest, calculated on the par value of the bonds, payable on 18 June and 18 December of every year of the loan:
  – 5.42 % per year up to due date of "tranche A"
  – 5.57 % per year up to due date of "tranche B"
  – 5.82% per year up to due date of "tranche C"

The fair value of the cross currency swap derivative acquired as a hedge on the debt is €36,435 thousand.

Amounts due to banks and other financial payables amount to €219,278 thousand (€170,132 thousand) and include:

Amounts due to banks and other financial payables - Effective interest rate

(€,000)	31 December 2006	31 December 2005
Amounts due to banks	12,603	2
Amounts due to associated companies	13,553	16,948
Amounts due to subsidiaries	123,716	118,527
Liabilities resulting from derivative instruments	0	4
Other financial payables	69,382	34,451
Accrued expenses and deferred income	24	200
Total amounts due to banks and other financial payables	**219,278**	**170,132**

Amounts due to banks of €12,603 thousand (€2 thousand) consist of current account overdrafts.

Amounts due to subsidiary companies of €123,716 thousand (€118,527 thousand) and those due to associated companies of €13,553 thousand (€16,948 thousand) mainly refer to current accounts bearing interest in line with market rates.
Details by company and the changes compared with 31 December 2005 are contained in appendix “D1”.

Other financial payables of €69,406 thousand (€34,451 thousand) include €50 million of short-term credit lines and €15,129 thousand obtained for the purchase of shares in Monradio S.r.l. from Radio Milano International S.p.A., from Beta S.r.l. and from One O One Radio Service S.r.l. (discounted to present value).

Accrued liabilities and deferred income of €24 thousand (€200 thousand) refer to interest on overdrawn current accounts.

The company's overall financial situation at 31 December 2006, as set out in the table below, shows net debt of €387,265 thousand (€321,812 thousand)

Net financial position (€,000)		31 December 2006	31 December 2005
A.	Cash	16	12
	– Bank deposits	73,060	42,662
	– Post office deposits	522	770
B.	Other cash and cash equivalents	73,582	43,432
C.	**Cash and cash equivalents and other financial assets (A+B)**	**73,598**	**43,444**
D.	Stocks held for negotiation	-	-
	– Financial receivables from subsidiaries	44,969	42,659
	– Financial receivables from associated companies	9,260	3,214
	– Financial assets measured at fair value	-	51,935
	– Derivative instruments and other financial assets	442	3,113
E.	Receivables and other current financial assets	54,671	100,921
F.	**Current financial assets (D+E)**	**54,671**	**100,921**
G.	Current bank payables	12,603	2
	– Bonds	-	-
	– Mortgages	-	-
	– Loans	50,000	-
H.	Current part of non-current payables	50,000	2
	– Payables due to subsidiaries	123,716	118,527
	– Payables due to associated companies	13,553	16,949
	– Derivatives instruments and other financial payables	19,406	34,654
I.	Other current financial payables	156,675	170,130
L.	**Payables to banks and other current financial payables (G+H+I)**	**219,278**	**170,132**
M.	**Current net financial position (C+F-L)**	**(91,009)**	**(25,767)**
	– Bonds	259,821	295,279
	– Mortgages	-	-
	– Loans	-	-
N.	Part of non-current payables	259,821	295,279
O.	Other non-current financial payables	36,435	766
P.	**Non-current financial payables (N+O)**	**296,256**	**296,045**
Q.	**Net financial position (M-P)**	**(387,265)**	**(321,812)**

An analysis of the net financial position of the company and of the relative movements is given in the cash flow statement included in the financial statements for the year and in the comment on the Group's financial position, which is included in the Report of the Board of Directors.

17. Income taxes payable

The composition of and changes in income tax payables, amounting to €36,272 thousand (€18,357 thousand), is described and commented on below.

Income tax payables (€,000)	31 December 2006	31 December 2005
Payables due to tax authorities for IRAP	0	296
Payables due to Fininvest for IRES	36,272	18,061
Total income tax payables	**36,272**	**18,357**

Payables to Fininvest S.p.A. represent the amounts due from Mondadori for IRES as a result of the tax consolidation introduced by Legislative Decree no. 344/2003 as a modifi-

cation of the regulations concerning income taxes, in which the company has elected to participate.
The tax consolidation provides the parent company and its subsidiary companies with the option of choosing a consolidated tax system headed by the parent company. The system has a single taxable base as far as IRES is concerned, that is calculated as the sum of the taxable income and the tax losses of the Group companies that take part in the consolidation. The parent/consolidating company therefore presents, on the basis of the returns supplied by the individual companies taking part in the consolidation, a consolidated income tax return and is responsible for the payment of the total amount of tax due. The individual companies involved in the consolidation then pay the amount of IRES due, where applicable, to the parent company, and not to the tax authorities as in the past, which subsequently is responsible for paying the total amount of consolidated tax due.
The company's taxable income has been finalised, and all taxes paid, up to 2001, with the exception of the following:

- 1979: the case before the Central Tax Commission is pending after the Second Grade Tax Commission accepted the Company's defence and declared the additional taxable income deemed by the tax authorities to be illegitimate;
- 1991: the position taken by the authorities that the company should have paid tax on the difference that arose on the merger of Arnoldo Mondadori Editore S.p.A. into AME Finanziaria (AMEF), that was used to re-value a number of shares held by the merged company, is challenged.
  The Regional Tax Commission has concluded that the company acted correctly, but the tax authorities have appealed against this decision to the High Court.
- 1996-1997-1998-1999: following an inspection by the National Journalists' Social Security Association, the company has been notified that it is being investigated and that it may be sanctioned for failure to apply withholding tax. The company has appealed to the Provincial Tax Commission. This investigation is part of a wider investigation being carried out by the Financial Police dealing with:
  - withholding taxes for the years 1995 to 1999. At the present date a decision has been reached in the company's favour regarding the investigation concerning 1995, but decisions on the years from 1996 to 1998 are still pending. An appeal has been launched for 1999 in the Regional Tax commission following the favourable result in the Regional Tax commission.
  - VAT for the years 1997 to 1999 (the company was notified of an investigation into 1997 which was subsequently closed following a settlement through the payment of reduced fines).

For those years still open for fiscal purposes, taxes have been accrued and paid on the basis of the taxable income and the tax regulations prevailing at the time the provisions were made.

18. Other current liabilities

The composition of and changes in other current liabilities, amounting to €98,509 thousand (€103,571 thousand), are described and commented on below.

Other current liabilities (€,000)	31 December 2006	31 December 2005
Customer advances	26,439	26,456
Income tax payables	5,281	5,267
Amounts due to pension funds and social security institutions	9,435	10,181
Other payables	51,839	56,360
Accrued expenses and deferred income	5,515	5,307
Total other current liabilities	**98,509**	**103,571**

Customer advances of €26,439 thousand (€26,456 thousand) include subscriptions of €25,545 thousand (€25,443 thousand), advance shipping expenses from foreign subscribers of €98 thousand (€102 thousand) and advance payments from various customers on account of future supplies for €796 thousand (€911 thousand).

Income tax payables of €5,281 thousand (€5,267 thousand) refer to withholding tax on employee wages and salaries and on consultant's fees which were paid in January 2007.

Amounts due to pension funds and social security institutions of €9,435 thousand (€10,181 thousand) refer for €5,337 thousand (€5,373 thousand) to social contributions relating to wages and salaries for December and for the thirteenth month's salary, paid in January 2007, and for €4,098 thousand (€4,808 thousand) to accruals for contributions relating to deferred remuneration.

Other payables of €51,839 thousand (€56,360 thousand) refer to:

Other current liabilities - Other payables (€,000)	31 December 2006	31 December 2005
Payroll and other amounts due to employees	15,013	17,461
Due to authors and collaborators	23,661	25,838
Due to agents	1,411	1,371
Due to subscription and instalment customers	9,892	10,240
Due to shareholders for dividends	177	168
Due to directors and statutory auditors	1,267	754
Due to others	418	528
Total other payables	**51,839**	**56,360**

Payables to subscription customers of €9,892 thousand (€10,240 thousand) relate to subscriptions taken out but not yet collected at the balance sheet date. Subscriptions that have been taken out and paid, amounting to €25,545 thousand (€25,443 thousand), are shown under customer advances.

Accrued expenses and deferred income, amounting to €5,515 thousand (€5,307 thousand), are made up as follows:

(€,000)	31 December 2006	31 December 2005
Deferred remuneration and relative charges	1,722	1,722
Insurance, association fees and other fees	652	531
Total accrued expenses	**2,374**	**2,253**
Magazine advertising revenues relating to 2006 editions	1,967	1,928
Rent payable	654	818
Other	520	308
Total deferred income	3,141	3,054
Total accrued expense and deferred income	**5,515**	**5,307**

19. Trade payables

The composition of and changes in trade payables is described and commented on below:

Trade payables (€,000)	31 December 2006	31 December 2005
Suppliers	86,329	102,247
Subsidiaries	107,948	90,554
Associated companies	13,836	12,110
Parent companies	17	42
Total trade payables	**208,130**	**204,953**

Trade payables amounted to €86,329 thousand (€102,247 thousand) and include amounts for the purchase of assets for €2,322 thousand (€1,996 thousand).

This item includes:

– Trade payables to various affiliated companies for €139 thousand (€228 thousand), including Editrice Portoria S.p.A.for €120 thousand (€120 thousand).
– Trade payables to Fininvest Group companies for a total of €4,692 thousand (€1,831 thousand), the most significant of which concern Publitalia '80 S.p.A. for €1,839 thousand (€1,275 thousand), Medusa Video S.r.l. for €760 thousand (€407 thousand), R.T.I. S.p.A. for €1,994 thousand (€39 thousand) and other minor payables for a total of €99 thousand (€110 thousand).

Payables to affiliated companies refer to commercial transactions carried out at market prices.

Trade payables to subsidiaries for €107,948 thousand (€90,554 thousand) and those payable to associated companies of €13,836 thousand (€12,110 thousand) refer to commercial transactions carried out at market rates.

Details for each company and the variations compared with 2005 are contained in appendix “D1”, while information by geographical area is contained in the supplementary tables in the appendix.

There are no trade payables with a due date of more than 5 years and the average payment period in 2006 was 106.00 days (105.37 days in 2005).

(Details of intragroup transactions with related parties in 2006 are provided in appendices "C2" and "D2").

20. Revenues from sales and services

Details of sales in the individual sectors are given in the report on operations.

An analysis of revenues is set out in the following table:

Revenues from sales and services (€,000)	2006	2005	Change %
Revenues from the sale of goods:			
– books	261,095	241,709	8.02
– magazines/publications	450,702	500,290	(9.91)
– magazines/subscriptions	49,468	48,255	2.51
– corporate and other business			
Reproduction rights	8,720	8,095	7.72
Commercial articles and special initiatives	2,818	2,526	11.56
By-products and recovered products	1,609	1,767	(8.94)
Warehouse materials and various others	10	111	(90.99)
Revenues from services:			
– advertising services	216,213	216,694	(0.22)
– corporate and other business:			
On-line income, content deals, management of websites	1,231	1,133	8.65
Various services, consultation and assistance	29,683	26,516	11.94
Courses and conventions	0	83	-
Total revenues	**1,021,549**	**1,047,179**	**(2.45)**

Revenues by geographical area are set out as follows:

Geographic area	Books	Magazines	Rights	Advertising and other	2006	2005
Italy	238,038	509,189	7,819	248,313	1,003,359	1,035,005
Other EU countries	691	4,350	722	2,360	8,123	6,522
U S A	84	278	0	125	487	414
Switzerland	1,157	2,694	0	218	4,069	4,121
Other countries	1,359	3,425	179	548	5,511	1,117
Total	**241,329**	**519,936**	**8,720**	**251,564**	**1,021,549**	**1,047,179**

21. Cost of raw materials and consumables and goods for resale

The composition of this item is illustrated in the following table:

Cost of raw materials and consumables and goods for resale (€,000)	2006	2005
Paper for special initiatives	39	65
Electricity, water, gas, fuel	1,946	1,610
Total cost of raw materials	**1,985**	**1,675**
Goods for resale	214,188	201,744
Consumption and maintenance materials	16,194	24,368
Total cost of consumables and goods for resale	**230,382**	**226,112**
Total cost of raw materials and consumables and goods for resale	**232,367**	**227,787**

22. Cost of services

The composition of this item is illustrated in the following table:

(€,000)	2006	2005
Rights and royalties	106,863	112,786
Third party collaboration	24,497	25,703
Consultancy	10,988	10,791
Commissions	7,717	8,424
Contracted-out printing:		
– printing, packaging and other	154,006	159,212
– paper	108,535	114,805
Transport and shipping	41,929	42,991
Advertising services	46,292	60,435
Other services	13,530	13,660
Travel and other expense reimbursements	6,358	5,371
Maintenance	2,888	2,571
Postal and telephone	3,929	3,681
Canteen and cleaning services	3,326	3,347
Market research	4,309	4,843
Insurance	1,942	2,235
Subscription management	2,375	1,950
Information agency	1,040	770
Expenses for company boards:		
– Chairman and Board of Directors (*)	2,163	1,859
– Board of Statutory Auditors (*)	122	109
Total cost of services	**542,809**	**575,543**

(*) Details on an individual basis of remuneration for the year
is given in appendix H (CONSOB decree n. 11971 of 14 May 1999).

23. Personnel costs

The composition of this item is described and commented on below:

Personnel costs (€,000)	2006	2005
Salaries and wages	94,278	94,872
Stock-options	1,729	1,615
Social charges	26,289	26,895
Leaving entitlements, termination indemnities and pensions	7,343	7,492
Discounting (excluding interest costs)	(1,271)	582
Total personnel costs	**128,368**	**131,456**

Cost per category may be analysed as follows:

(€,000)	2006	2005
Managers	26,213	25,209
White-collars	43,245	45,175
Journalists	55,194	57,163
Blue-collars	3,716	3,909
Total	**128,368**	**131,456**

The company employed 1,578 people at 31 December 2006, a decrease of 17 compared with 31 December 2005, as illustrated in the table below.

Personnel	31 December 2006	31 December 2005	Average 2006	Average 2005
Managers	89	88	89	87
Journalists	453	454	459	455
White-collars and intermediates	935	946	933	947
Blue-collars	101	107	102	109
Totale	**1,578**	**1,595**	**1,583**	**1,598**

The average number of employees for the year was 1,583 (1,598 in 2005).

Information about stock option plans

Following the expiry of the stock option plan for the period 2003-2004-2005, the shareholders' meeting of Arnoldo Mondadori Editore S.p.A. of 26 April 2006 resolved to set up a new three-year Stock Option Plan regarding the company's shares commencing in 2006. The Plan is directed at managers of the company and its subsidiaries whose activities have a determining impact on the attainment of the Group's strategic objectives, together with directors of the company and of associated companies, journalists employed by the company and its subsidiaries who are editors or deputy editors of titles and managers of the parent company who carry out their activities in favour of the company.

The shareholders' meeting entrusted the Board of Directors with the task of managing the plan, granting the Board all the powers necessary for identifying the participants, establishing performance objectives, allocating option rights and carrying out the plan itself in all its aspects. Shareholders also entrusted the Board with the task of defining the Regulations for implementing the Stock Option Plan.

In particular, the regulations for the plan for 2006/2007/2008, approved by the Board of Directors in July 2006, provide, for every year the Plan is in force, for the allocation to the participants in the Plan of rights to options, which are personal and not transferable, for the purchase of ordinary Arnoldo Mondadori S.p.A. shares in the ratio of one share, with regular dividend, for every option exercised, at a price not less than the average official price for Mondadori shares in the period from the grant date of the options to the same day in the previous calendar month. The option can only be exercised, in a single act, during the period between 1 January of the third year and 31 December of the fourth year after the year of each grant date, except for the variations in the starting date for the period for exercising the options assigned in 2005 and 2006 by the Board of Directors and described in the report.

In 2006 the period for exercising the options relatives to the Stock Option Plans approved by the shareholders' meeting for the three-year periods 2000/2001/2002 and 2003/2004/2005 was established:
– options assigned in 2002 can be exercised between 1 January 2005 and 30 June 2006;
– options assigned in 2003 can be exercised between 1 January 2006 and 31 December 2007.

The Regulations further specify that the Board identifies the conditions for exercising the options granted to the participants with reference to the performance parameters of an economic and/or financial nature on an annual basis; the fulfilment of the conditions for exercising the options is verified by the Board, for each year in which the Plan is in force, by the end of the first half of the year after that in which the options are granted.

As with the Plans referring to previous years, the Board has identified the performance parameters of an economic and/or financial nature for the Stock Option Plan 2006-2007-2008 as being ROE and Free-cash flow, since in the light of past experience, these indicators also respond to market expectations and those of institutional investors, who have shown their appreciation of them.
No provision was made for granting loans or other subsidies for the purchase of shares, in accordance with article 2358, paragraph 3 of the Civil Code.

The following table illustrates the situation at 31 December 2006 regarding the total number of options that have been granted and can still be exercised, the price and the exercise term:

Stock options	2002	2003	2004	2005	2006
In circulation at 1/1/2006	533,206	1,945,000	2,170,000	2,595,000	-
– granted during year	-	-	-	-	2,630,000
– cancelled during year	-	-	(30,000)	(30,000)	-
– exercised during year	(533,206)	(1,400,000)	(30,000)	-	-
– expired during year	-	-	-	-	-
In circulation at 12/31/2006	-	545,000	2,110,000	2,565,000	2,630,000
Exercise term	1/1/2005-30/06/2006	1/1/2006-31/12/2007	1/1/2007-31/12/2008	24/6/2008-23/6/2011	18/7/2009-17/7/2012
Exercise price in €	-	6.471	7.749	7.87	7.507
Exercisable at 12/31/2006		545,000			

The weighted average price of the shares at the exercise date for the options exercised during the period was €7.648.

Those options assigned after 7 November 2002 have been measured at their fair value on the basis of a numerical calculation using binomial trees based on the following parameters:

Parameters for option measuring model	2003	2004	2005	2006
Exercise price of the option	6.471	7.749	7.87	7.507
Option term (residual period)	1	2	4	5
Market price of the underlying shares at the grant date in euros	6.234	7.793	7.865	7.415
Expected volatility of share price	30.00%	20.00%	18.45%	19.45%
Dividend yield	4.00%	4.00%	4.45%	4.72%
Risk free interest rate for the option term	2.80%	3.50%	2.65%	4.00%

The cost in the income statement, booked under “Personnel costs”, relating to operations with payment based on shares amounted to €1,729 thousand.

24. Other (income) expense

This item is made up as follows:

Other (income) expense (€,000)	2006	2005
Other revenues and income	(35,397)	(55,252)
Cost of use of third party assets	12,508	11,990
Various operating costs	14,657	17,420
Total other (income) expense	**(8,232)**	**(25,842)**

"Other revenues and income", amounting to €35,397 thousand (€55,252 thousand), refers to:

Other (income) expense - Other revenues and income (€,000)	2006	2005
Grants for paper consumption	0	16,310
Capital gains and prior year items	914	2,696
Supplier rebates and other third party contributions	238	356
Recovery of expenses from third parties:		
– development and distribution expenses	8,848	8,499
– expenses for producing advertising	5,463	5,571
– cost of work for personnel loans	4,174	3,981
– other costs and expenses	12,369	13,167
Company rent	35	35
Others (promotional sales, publishing subsidies)	3,356	4,637
Total other revenues and income	(35,397)	(55,252)

"Other (income) expense" decreased mainly as a result of the failure on the part of the government to renew its contribution to the cost of paper for 2006, which in 2005 amounted to approximately €16.3 million.

The cost of third party assets, amounting to €12,508 thousand (€11,990 thousand), consists of:

Other (income) expense - Cost of third party assets (€,000)	2006	2005
Rental expense	8,483	8,454
Hire of vehicles and other hire	2,912	2,644
Printing machinery rental and other rentals	1,113	892
Total cost of third party assets	12,508	11,990

Other charges, amounting to €14,657 thousand (€17,420 thousand), include:

	2006	2005
Compensation, settlements and discounts	2,601	5,757
Bad debts	1,411	6,842
Contributions and grants	1,882	2,083
Personnel on loan	443	487
Information material	1,204	1,195
Entertainment expenses	1,348	1,545
Others and various	1,399	476
Capital losses/prior year costs	95	2,231
Charge to/utilisation of bad debt provisions	1,684	(3,651)
Charge to/utilisation of provisions for legal risks	(45)	500
Charge to/utilisation of provisions for other risks	1,145	(903)
Council property tax	169	148
Taxes dues	1,321	710
Total	14,657	17,420

25. Financial income (expense)

This item, amounting to net expense of €-12,831 thousand (net expense of €-12,590 thousand) consists of the following:

Financial income (expense) (€,000)	2006	2005
Interest from banks and post offices	605	358
Interest from associated companies	188	59
Interest from subsidiaries	1,573	1,742
Financial income from derivative instrument operations	6,164	9,948
Other interest and financial income	2,082	1,911
Total interest and other financial income	**10,612**	**14,018**
Interest to banks	(2,373)	(2,575)
Interest to associated companies	(322)	(251)
Interest to subsidiaries	(18,068)	(17,578)
Financial expense from derivative instrument operations	(414)	(2,935)
Financial expense from discounting assets/liabilities	(1,613)	(2,651)
Other interest paid and financial expense	(679)	(429)
Total interest paid and other financial expense	**(23,469)**	**(26,419)**
Realised foreign exchange differences	52	(202)
Unrealised foreign exchange differences	(26)	13
Total gains (losses) on foreign exchange operations	**26**	**(189)**
Income from securities included in current assets	0	0
Total financial income (expense) resulting from the management of securities	**0**	**0**
Total financial income (expense)	**(12,831)**	**(12,590)**

Net income from derivatives mainly refers to cross currency swap operations for the purpose of hedging exchange and interest rate risks on the company's bond. The relative financial expense is included as "Interest to subsidiaries".

The rates applied to receivables from and payables to subsidiary and associated companies are in line with Mondadori's average borrowing cost.

Financial charges represented 1.04% of turnover in 2006, as illustrated in the following table:

(€,000)		2006	2005
Interest and financial expense on short-term loans		20,949	20,581
Other financial expense (commission/bank charges, cover for exchange/interest rate risks, discounting expense)		2,520	5,838
		23,469	26,419
Interest on loans		+2,434	+2,217
Other financial income (receivables/securities as non-current assets, hedging of exchange/interest rate risks)		+8,178	+11,801
Total	(A)	**12,857**	**12,401**
Revenues from sales	(B)	**1,021,549**	**1,047,179**
Percentage	(A/B)	**1.25%**	**1.20%**

26. Income (expense) from investments

The details of this item are illustrated in the following table:

Income (expense) from other investments (€,000)	2006	2005
Dividends	32,122	36,443
Writedowns	(3,373)	(11,507)
Capital losses/gains on corporate operations	437	77
Total income (expense) from investments	**29,186**	**25,012**

Dividends received during the year were as follows:

(€,000)	2006	2005
Subsidiary companies:		
Mondadori International S.A.	6,500	12,885
Mondadori Pubblicità S.p.A.	1,020	2,460
Giulio Einaudi Editore S.p.A.	5,520	4,600
Sperling & Kupfer Editori S.p.A.	2,022	2,255
Edumond Le Monnier S.p.A.	7,752	2,448
Cemit Interactive Media S.p.A.	1,622	3,540
Mondadori Electa S.p.A.	1,103	0
Edizioni Piemme S.p.A.	0	996
Mondadori Franchising S.p.A.	1,964	1,505
Total	**27,503**	**30,689**
Associated companies:		
Gruner und Jahr/Mondadori S.p.A.	2,525	2,536
Mondolibri S.p.A.	575	750
Società Europea di Edizioni S.p.A.	-	-
Mondadori Rodale S.r.l.	639	469
Harlequin Mondadori S.p.A.	225	268
Mach 2 Libri S.p.A.	300	260
Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l.	65	180
Hearst Mondadori S.r.l.	290	670
Bol Books On Line Italia S.p.A.	-	621
Total	**4,619**	**5,754**
Total dividends	**32,122**	**36,443**

Writedowns of €3,373 thousand (€11,526 thousand) refer to the impairment test carried out to adjust the cost of investments to their recoverable value.

Details are given in the balance sheet item "Investments", while the table below sets out the nature of the writedowns.

(€,000)	2006	2005
Cover for losses	480	19
Reduction of capital and reserves	755	0
	1,235	19
Provisions for losses/write-downs		
– provisions	8,931	11,507
– utilisations	(6,793)	0
	2,138	11,507
Other		
Total	**3,373**	**11,526**

Capital gains of €437 thousand on company operations refers to profits from the liquidation of Bol Books On Line Italia S.p.A.

27. Income taxes

"Income taxes" amounted to €47,945 thousand (€48,029 thousand). The main components of income taxes for the years ended 31 December 2006 and 2005 were as follows:

Income taxes (€,000)	2006	2005
IRES tax on income for the year	35,198	19,320
IRAP tax for the year	11,097	11,491
Total current taxes	**46,295**	**30,811**
Deferred tax (income) expense - IRES	1,475	18,218
Deferred tax (income) expense - IRAP	175	(1,000)
Total deferred tax (income) expense	**1,650**	**17,218**
Other tax expense (income)	0	0
Total income taxes	**47,945**	**48,029**

Reconciliation between the tax charge in the financial statements and the theoretical tax charge

	2006			2005		
(Amounts expressed in €,000)	Profit before taxes	Taxes	Current tax rate	Profit before taxes	Taxes	Current tax rate
Theoretical IRES tax charge	138,184	45,601	33.00%	149,319	49,275	33.00%
Theoretical IRAP tax charge		5,873	4.25%		6,346	4.25%
Total theoretical tax charge /rate	**138,184**	**51,474**	**37.25%**	**149,319**	**55,621**	**37.25%**
Actual IRES tax charge	138,184	36,673	26.54%	149,319	37,538	25.14%
Actual IRAP tax charge		11,272	8.16%		10,491	7.03%
Actual tax charge/effective tax rate	**138,184**	**47,945**	**34.70%**	**149,319**	**48,029**	**32.17%**
Theoretical tax charge/rate	**138,184**	**51,474**	**37.25%**	**149,319**	**55,621**	**37.25%**
Dividend effect	(30,654)	(10,116)	(7.32%)	(37,133)	(12,254)	(8.21%)
Tax credits on paper consumption	-	-	-	(16,310)	(5,382)	(3.60%)
Effect of provisions for investment losses	10,166	3,355	2.43%	11,526	3,803	2.55%
Effect of tax for transparency	(3,915)	(1,292)	(0.93%)	(974)	(321)	(0.21%)
Net effect of other permanent IRES differences	9,130	3,014	2.18%	7,333	2,555	1.71%
Effect of different IRAP tax base (cost of labour, collaboration, financial and extraordinary income/expense, losses on receivables)	127,039	5,399	(3.91%)	124,471	5,290	3.54%
Other	(11,781)	(3,889)	(2.81%)	(30,183)	(1,283)	(0.86%)
Actual tax charge/effective tax rate		**47,945**	**34.70%**		**48,029**	**32.17%**

28. Commitments and contingent liabilities

The composition of commitments and contingent liabilities is described and commented on below.

"Commitments" are made up as follows:

(€,000)	Sureties	Others guarantees	Total 12/31/2006	Total 12/31/2005
Guarantees, sureties and endorsements				
– in favour of subsidiaries	0	60,562	60,562	75,203
– in favour of associated companies	1,005	1,575	2,580	2,580
– in favour of other companies	49,435	0	49,435	48,822
	50,440	62,137	112,577	126,605
Other commitments			20,749	11,344
Total			**133,326**	**137,949**

Guarantees, sureties and endorsements

– ***in favour of subsidiaries:*** €60,562 thousand (€75,203 thousand) refers to undertakings given to the Milan VAT office on behalf of subsidiary companies, in respect of their VAT credits offset in the Group settlement;.

– *in favour of associated companies:* €2,580 thousand (€2,580 thousand) refers as to €1,005 thousand for the surety issued in favour of Intesa Leasing S.p.A. on behalf of Società Europea di Edizioni S.p.A. as a guarantee of the exact and punctual payment of monies due for leasing contracts and as to €1,575 thousand for letters of patronage issued to Banco Santander Central Hispano for guarantees given to Random House Mondadori S.A. formerly Grupo Editorial Random House Mondadori S.L.

– *in favour of other companies:* €49,435 thousand (€48,822 thousand) refers to counter-guarantees given by the company for sureties issued by banks:

- to the Lombardy Region Tax Authorities and the Ministry of Industry for competitions in magazines for €7,768 thousand;
- to authorised competition procedures for €34,000 thousand;
- to tax authorities for VAT reimbursements for first quarter of 2006 for €4,369 thousand;
- to One O One Radio Service S.r.l. for €2,633 and other authorities and companies for a total of €659 thousand.

29. Non-recurring expenses (income)

In accordance with Consob resolution no. 15519 of 27 July 2006, during the year the company did not carry out any non-current operations.
The data referring to 2005 mainly includes the government contribution to the cost of paper.

30. Related parties

Operations carried out with related parties, including intragroup operations, cannot be qualified as either atypical or unusual since they are part of the normal business activities of the Group companies. These operations, when they are not carried out under normal conditions or if they are dictated by specific regulations, are in any case carried out under market conditions.
Attachments C1, C2, D1 and D2 contain details of the economic and financial effects of operations with parent, subsidiary, associated and affiliated companies that took place in 2005 and 2006.

Supplementary tables

A supplementary table containing a geographical analysis of the company's receivables and payables is contained in appendix I.

Consolidated Financial Statements

The appendices also include the Group's consolidated financial statements at 31 December 2006.

On behalf of the Board of Directors
Chairman
Marina Berlusconi

Appendices to the Financial Statements

Appendix A: Table of investments

(€,000)

Name	Head office		Share capital	Shareholders' equity	Profit (loss) for 2006
Subsidiary companies:					
Arnoweb S.A.	Luxembourg	€	36,257	32,743	76
Cemit Interactive Media S.p.A.	S.Mauro Torinese (TO)		3,835	8,038	1,230
Edizioni Piemme S.p.A.	Milan		567	11,890	5,140
Edumond Le Monnier S.p.A.	Milan		10,608	42,638	8,790
Fied S.p.A.	Milan		416	939	-9
Giulio Einaudi Editore S.p.A.	Turin		23,920	30,279	6,821
Mondadori Electa S.p.A.	Milan		1,594	6,150	3,623
Mondadori Franchising S.p.A.	Rimini		1,954	5,480	3,272
Mondadori International S.A.	Luxembourg		393,626	415,673	-1,735
Mondadori Printing S.p.A.	Milan		45,396	120,143	242
Mondadori Pubblicità S.p.A.	Milan		3,120	5,615	173
Mondadori Retail S.p.A.	Milan		2,700	3,635	8,688
Press-Di Distribuzione Stampa e Multimedia S.r.l.	Milan		95	516	-12
Monradio S.r.l.	Milan		3,020	74,207	-8,570
Prisco Spain S.A.	Barcelona		60	56	-4
Sperling & Kupfer Editori S.p.A.	Milan		1,556	2,126	2,746
Total					
Associated companies:					
ACI-Mondadori S.p.A.	Milan	€	590	1,655	703
Agenzia Lombarda Distribuzione Giornali e Riviste S.r.l.	Milan		400	504	-166
Gruner + Jahr/Mondadori S.p.A.	Milan		2,600	4,665	4,632
Random House Mondadori S.A.	Barcelona		6,825	22,131	11,620
Harlequin Mondadori S.p.A.	Milan		258	416	303
Hearst Mondadori Editoriale S.r.l.	Milan		100	269	636
Mach 2 Libri S.p.A.	Peschiera Borromeo		646	10,397	1,552
Mondadori Rodale S.r.l.	Milan		90	725	937
Mondolibri S.p.A.	Milan		1,040	26,039	773
Press TV S.p.A.	Milan		500	2,840	-1,792
Rock Fm S.r.l.	Milan		200	222	86
Società Europea di Edizioni S.p.A.	Milan		2,776	9,280	734
Total					
Other companies:					
Consorzio Sistemi Informativi Editoriali Distributivi-C.S.I.E.D.	Milan	€	103	144	
Consuledit S.r.l.	Milan		20	35	
Editrice Portoria S.p.A. (in bankruptcy)	Milan		364	300	
Immobiliare Editori Giornali S.r.l.	Roma		830	660	
Soc. Editrice Il Mulino S.p.A.	Bologna		1,175	1,548	
Total					
Total direct investments					
General total					

(a) Shareholders' equity at 12/31/1999 - (b) Associated as to 50% through Arnoweb S.A. and Prisco Spain S.A. - (c) Now Officina Mondadori S.p.A.
(d) Consolidated financial statements - (e) Associated at 47.49% through Attica Group - (f) Formerly Mondadori Sistemi di Comunicazione S.r.l.
Note: the values refer to to the equity and financial data prepared in accordance with accounting standards used for the preparing consolidated financial statements.

					Carrying value			
Total Shareholders' equity		Share held		Attributable Shareholders' equity	Purchased/ Estabilished	Capital contributions	Reserve for losses/ depreciations	Total
32,819		99.99%		32,816	36,253			36,253
9,268		100.00%		9,268	15,480			15,480
17,030		80.00%		13,624	16,612			16,612
51,428		100.00%		51,428	56,146			56,146
930		100.00%		930	4,447			4,447
37,100		100.00%		37,100	28,335			28,335
9,773		100.00%		9,773	6,249			6,249
8,752		100.00%		8,752	1,882	2,001		3,883
413,938		99.99%		413,897	392,759			392,759
120,385		57.04%		68,668	69,378			69,378
5,788		100.00%		5,788	3,704			3,704
12,323		100.00%		12,323	2,856	3,339	(1,800)	4,395
504	(f)	100.00%		504	95			95
65,637		100.00%		65,637	41,281	39,700	(17,005)	63,976
52		100.00%		52	7,856			7,856
4,872		100.00%		4,872	10,401			10,401
				735,430	**693,734**	**45,040**	**(18,805)**	**719,969**
2,358		50.00%		1,178	540			540
338		50.00%		169	207			207
9,297		50.00%		4,648	1,203			1,203
33,751	(d)	6.01%	(b)	2,028	13,842			13,842
719		50.00%		360	402			402
905		50.00%		453	49	49		98
11,949		20.00%		2,390	129			129
1,662		50.00%		831	45			45
26,812		50.00%		13,406	3,010			3,010
1,048	(c)	50.00%		524	250	700	(426)	524
308		10.00%	(e)	31	20			20
10,014		31.28%		3,132	8,020	626	(447)	8,199
				29,150	**27,717**	**1,375**	**(873)**	**28,219**
144		10.00%		14	10			10
35		9.54%		3	1			1
300	(a)	16.78%		50	61		(60)	1
660		7.88%		52	52			52
1,548		7.05%		109	101			101
				229	**225**	**0**	**(60)**	**165**
				764,810	**721,676**	**46,415**	**(19,738)**	**748,353**

Appendix B/1: Main indirect subsidiary and associated companies at 31 December 2006

Name	Head office		Share capital	Shareholders' equity
(€,000)				
Subsidiary companies:				
ABS Finance Fund SICAV	Luxembourg	€	199,920	199,920
ADJ SAS	Issy Moulineaux		6,038	10,105
AME Publishing Ltd.	New York	US$	50	190
AME Service SAS	Paris	€	37	37
Arnoldo Mondadori Deutschland GmbH	Munich		25	73
Artes Graficas Toledo S.A.	Toledo		5,409	7,127
Diana SAS	Issy Moulineaux		10,500	21,988
Diana Publications SAS	Issy Moulineaux		17,258	17,251
Edizioni Frassinelli S.r.l.	Milan		10	224
Editions Mondadori France SAS	Issy Moulineaux		753,877	717,438
Editions Taitbout S.A.	Issy Moulineaux		3,049	38,916
Electa Napoli S.p.A.	Naples		155	1,354
Excelsior Publications SAS	Paris		1,717	56,123
Mondadori France SAS	Paris		50,000	259,616
Mondadori France Digital SNC	Issy Moulineaux		50	-224
Mondadori International S.A.	Luxembourg		393,626	415,672
Mondadori Magazines France SAS	Issy Moulineaux		476,036	460,657
MISA Finance Fund P.l.c.	Dublin		174	174
P&C SAS	Issy Moulineaux		6,039	5,124
Prisco Spain S.A.	Barcelona		60	56
Star Press Hollande B.V.	Amsterdam		-	1,033
Tarif Media SA	Issy Moulineaux		38	-475
Total				

Name	Head office		Share capital	Shareholders' equity
Figures in currency (,000)				
Associated companies:				
companies belonging to the Group				
Random House Mondadori: (a)				
Random House Mondadori S.A. (Colombia)	Bogotà	Pesos colom	2,961	
Random House Mondadori S.A. de C.V. (Mexico)	Mexico D.F.	Pesos	230,619	
Editorial Random House Mondadori Ltda (Colombia)	Bogotà	Pesos colom	779,596	
Editorial Sudamericana S.A. (Argentina)	Buenos Aires	Australes	8,367	
Random House Mondadori S.A.(Chile)	Santiago	Pesos	4,184,124	
Editorial Sudamericana Uruguaya S.A.	Montevideo	N.Pesos	9,893	
Grijalbo Editor S.A. (Uruguay)	Montevideo	N.Pesos	500	
Random House Mondadori S.A. (Venezuela)	Caracas	Bolivares	3,533,787	
Market Self S.A.	Buenos Aires	Australes	30	
Random House Mondadori S.A.	Barcelona	€	6,825	
(Data from Consolidated Financial Statements of Random House Mondadori Group)		€	6,825	22,130

Profit (loss) for 2006	Total shareholders' equity	Share held by group	Attributable shareholders' equity in currency	Attributable shareholders' equity in euros (b)
	199,920	83.61%	167,156	167,156
308.00	10,413	100.00%	10,413	10,413
53	243	99.99%	243	206
-11	26	99.99%	26	26
10	83	99.99%	83	83
-1,224	5,903	100.00%	5,903	5,903
738	22,726	100.00%	22,726	22,726
-2	17,249	100.00%	17,249	17,249
188	412	100.00%	412	412
5,062	722,500	100.00%	722,500	722,500
1,950	40,866	100.00%	40,866	40,866
449	1,803	60.00%	1,082	1,082
-726	55,397	100.00%	55,397	55,397
-3,794	255,822	99.99%	255,796	255,796
-521	-745	100.00%	-745	-745
-1,735	413,937	99.00%	413,896	413,896
6,376	467,033	100.00%	467,033	467,033
0	174	99.99%	174	174
169	5,293	100.00%	5,293	5,293
-4	52	100.00%	52	52
	1,033	100.00%	1,033	1,033
-253	-728	100.00%	-728	-728
				2,185,466
		50.00%		
		50.00%		
		50.00%		
		50.00%		
		50.00%		
		49.95%		
		50.00%		
		50.00%		
		25.00%		
		50.00%		
11,621	33,751	50.00%	16,875	16,875

(follows)

Appendix B/1: Main indirect subsidiary and associated companies at 31 December 2006

(follow)

Figures in currency (,000)

Name	Head office		Share capital	Shareholders' equity
Companies belonging to the Attica Group:				
Argos S.A.	Athens	€	2,203	
Attica Publications S.A.	Athens	€	4,590	
Alpha Records S.A.	Athens	€	390	
Attica Media Bulgaria Ltd	Sofia	Lev	155	
Attica Media Serbia Ltd	Belgrade	€	208	
Balcan Publications Ltd	Cyprus	Cyprus Pounds	1	
City Serves S.A.	Athens	€	4,338	
Civico Ltd	Cyprus	US$	2	
E-One S.A.	Athens	€	2,054	
Emphasis S.A.	Athens		798	
Enallaktikes S.A.	Athens		411	
G.Dragounis S.A.	Athens		311	
International Radio Networks Holdings S.A.	Luxembourg		750	
International Radio Networks S.A.	Athens		380	
Ionikes Publishing S.A.	Athens		780	
Map Media S.A.	Budapest	Huf	60,000	
PBR Publication Ltd	Bucharest	Rol	2,000	
Tilerama S.A.	Athens	€	1,467	
Tiletheatis S.A.	Athens		2,641	
(Data from consolidated Financial Statements of Attica)		€	4,590	14,074
Consorzio Covar	Rome	€	15	14
Consorzio Forma	Pisa	€	4	2
Edizioni EL S.r.l.	Trieste	€	620	
Edizioni Electa Bruno Mondadori S.r.l.	Milan		10	355
Euromedia Luxemburg Two S.A. (in liquidation)	Luxembourg	US$	36,338	
Novamusa Gelmar Biblioteca Nazionale Soc.Cons. a.r.l.	Rome	€	10	10
Novamusa Val di Mazara Soc.Cons. a.r.l.	Messina		90	
Novamusa Val di Noto Soc.Cons. a.r.l.	Messina		90	
Novamusa Valdemone Soc.Cons. a.r.l.	Messina		90	
Roccella Soc.Cons. a.r.l.,	Naples		100	
Selcon S.r.l.	Milan		21	
Venezia Accademia S.c.a.r.l.	Mestre (VE)		15	
Venezia Musei società per i servizi Museali S.c.a.r.l.	Venice		10	16
Total				

(a) see also appendix A - Table fo investments
(b) exchange rate
US$ € 1.3170

Profit (loss) for 2006	Total shareholders' equity	Share held by group	Attributable shareholders' equity in currency	Attributable shareholders' equity in euros (b)
		2.10%		
		41.66%		
		20.83%		
		21.24%		
		37.49%		
		20.83%		
		9.37%		
		41.66%		
		10.41%		
		33.85%		
		20.41%		
		20.83%		
		41.66%		
		41.53%		
		27.70%		
		20.83%		
		20.83%		
		20.83%		
		29.85%		
	14,074	40.00%	5,630	5,630
-1	13	25.00%		
1	3	25.00%		
	-	50.00%	-	-
	355	50.00%	178	178
	-	11.76%	-	-
	10	12.00%	1	1
	18,000	12.00%	2,160	2,160
	-	12.00%	-	-
	-	12.00%	-	-
	10,000	29.70%	2,970	2,970
	-	17.60%	-	-
	-	26.00%	0	0
2	18	34.00%	6	6
				27,820

Appendix B/2: Table of significant investments as per article 120 of Legislative Decree no. 58/1998

Arnoldo Mondadori Editore S.p.A.
The following information refers to significant investments as referred to in article 120 of Legislative Decree no. 58/1998, pursuant to article 126 of CONSOB regulation 11971 of 05/14/1999

Name		Share capital	Total share % held	Direct/ indirect holding
ACI-Mondadori SpA (Italy)	€	590,290	50%	direct
Agenzia Lombarda Distribuzione Giornali e Riviste Srl (Italy)	€	400,000	50%	direct
Campania Arte Scarl (Italy)	€	100,000	22%	indirect
Cemit Interactive Media SpA (Italy)	€	3,835,000	100%	direct
Editrice Portoria SpA in bankruptcy (Italy)	€	364,000	16.785%	direct
Edizioni EL Srl (Italy)	€	620,000	50%	indirect
Edizioni Electa Bruno Mondadori Srl (Italy)	€	10,400	50%	indirect
Edizioni Frassinelli Srl (Italy)	€	10,400	100%	indirect
Edizioni Piemme SpA (Italy)	€	566,661	80%	direct
Edumond Le Monnier SpA (Italy)	€	10,608,000	100%	direct
Electa Napoli SpA (Italy)	€	155,000	60%	indirect
Fied SpA (Italy)	€	416,000	100%	direct
Giulio Einaudi Editore SpA (Italy)	€	23,920,000	100%	direct
Gruner + Jahr/Mondadori SpA (Italy)	€	2,600,000	50%	direct
Harlequin Mondadori SpA (Italy)	€	258,250	50%	direct
Hearst Mondadori Editoriale Srl (Italy)	€	99,600	50%	direct
Mach 2 Libri SpA (Italy)	€	646,250	24%	direct indirect
Messaggerie Musicali SpA (Italy)	€	1,000,000	100%	indirect
Mondadori Electa SpA (Italy)	€	1,593,735	100%	direct
Mondadori Franchising SpA (Italy)	€	1,954,000	100%	direct
Mondadori Printing SpA (Italy)	€	45,396,000	100%	direct indirect
Mondadori Pubblicità SpA (Italy)	€	3,120,000	100%	direct
Mondadori Retail SpA (Italy)	€	2,700,000	100%	direct
Mondadori-Rodale Srl (Italy)	€	90,000	50%	direct
Mondolibri SpA (Italy)	€	1,040,000	50%	direct
Monradio Srl (Italy)	€	3,020,000	100%	direct
Novamusa Gelmar Biblioteca Nazionale Scarl (Italy)	€	10,200	20%	indirect
Novamusa Val di Mazara Scarl (Italy)	€	90,000	20%	indirect
Novamusa Valdemone Scarl (Italy)	€	90,000	20%	indirect
Novamusa Valdinoto Scarl (Italy)	€	90,000	20%	indirect
Press-Di Distribuzione Stampa e Multimedia Srl (Italy)	€	95,000	100%	direct
Press TV SpA (Italy)	€	500,000	50%	direct
Roccella Scarl (Italy)	€	100,000	49.5%	indirect
Società Europea di Edizioni SpA (Italy)	€	2,775,601.92	39.27%	direct indirect
Sperling & Kupfer Editori SpA (Italy)	€	1,555,800	100%	direct
Venezia Accademia Società Consortile a rl (Italy)	€	15,000	26%	indirect
Venezia Musei Società Consortile a rl in liquidation (Italy)	€	10,000	34%	indirect
Venezia Musei Società per i servizi museali Scrl (Italy)	€	10,000	34%	indirect

31 December 2006

Shareholder	% held	Head office	Tax code	Establishment date
Arnoldo Mondadori Editore SpA	50%	Milan - via Bianca di Savoia 12	13277400159	11/17/2000
Arnoldo Mondadori Editore SpA	50%	Milan - via Senato 18	10463540152	10/02/1991
Mondadori Electa SpA	22%	Rome - via Tunisi 4	09086401008	07/18/2006
Arnoldo Mondadori Editore SpA	100%	San Mauro Torinese (TO) - via Toscana 9	04742700018	12/13/1984
Arnoldo Mondadori Editore SpA	16.785%	Milan - via Chiossetto 1	02305160158	03/26/1975
Giulio Einaudi Editore SpA	50%	Trieste - San Dorligo della Valle - via J. Ressel 5	00627340326	05/07/1984
Edumond Le Monnier SpA	50%	Milan - via Trentacoste 7	06976090156	05/05/1983
Sperling & Kupfer Editori SpA	100%	Milan - via Bianca di Savoia 12	07254880151	01/12/1984
Arnoldo Mondadori Editore SpA	80%	Milan - viale Bianca Maria 25	00798930053	09/29/1982
Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	03261490969	10/01/2001
Mondadori Electa SpA	60%	Naples- via Giovanni Capurro 1	04230890636	09/27/1983
Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	04591640158	10/26/1979
Arnoldo Mondadori Editore SpA	100%	Turin - via U. Biancamano 2	08367150151	06/03/1986
Arnoldo Mondadori Editore SpA	50%	Milan - corso Monforte 54	09440000157	09/10/1988
Arnoldo Mondadori Editore SpA	50%	Milan - via Marco D'Aviano 2	05946780151	10/15/1980
Arnoldo Mondadori Editore SpA	50%	Milan - via Bianca di Savoia 12	12980290154	12/17/1999
Arnoldo Mondadori Editore SpA	20%	Peschiera Borromeo (MI) - via Galileo Galilei 1	03782990158	05/06/1983
Sperling & Kupfer Editori SpA	4%			
Mondadori Retail SpA	100%	Milan - Galleria del Corso 2	00815940150	01/27/1968
Arnoldo Mondadori Editore SpA	100%	Milan - via Trentacoste 7	01829090123	02/23/1989
Arnoldo Mondadori Editore SpA	100%	Verucchio (RN) - Fraz. di Villa Verucchio via Statale Marecchia n. 51-51/a	08853520156	05/28/1987
Arnoldo Mondadori Editore SpA	57.05%	Milan - via Bianca di Savoia 12	12319410150	11/28/1997
Mondadori International SA	42.95%			
Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	08696660151	02/12/1987
Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	00212560239	11/19/1946
Arnoldo Mondadori Editore SpA	50%	Milan - via Bianca di Savoia 12	13066890156	02/25/2000
Arnoldo Mondadori Editore SpA	50%	Milan - via Lampedusa 13	12853650153	06/25/1999
Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	04571350968	10/15/2004
Electa Napoli SpA	20%	Rome - via Ennio Quirino Visconti 8	06573391007	04/09/2001
Electa Napoli SpA	20%	Messina - via Acireale Z.I.R.	02812180830	04/20/2005
Electa Napoli SpA	20%	Messina - via Acireale Z.I.R.	02704670831	04/16/2003
Electa Napoli SpA	20%	Messina - via Acireale Z.I.R.	02704680830	04/16/2003
Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	03864370964	02/19/2003
Arnoldo Mondadori Editore SpA	50%	Milan - via Bianca di Savoia 12	03619240967	07/08/2002
Electa Napoli SpA	49.5%	Naples- via Giovanni Capurro 1	05053571211	03/21/2005
Arnoldo Mondadori Editore SpA	31.28%	Milan - via G. Negri 4	01790590150	02/27/1974
Fied SpA	7.99%			
Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	00802780155	11/03/1927
Mondadori Electa SpA	26%	Venezia Mestre - via Manin 51	03377400274	03/21/2002
Mondadori Electa SpA	34%	Venezia Mestre - via Manin 51	03233710270	05/09/2000
Mondadori Electa SpA	34%	Venezia Mestre - via Manin 51	03534350271	04/22/2004

(follows)

Appendix B/2: Table of significant investments as per article 120 of Legislative Decree no. 58/1998

(*follow*)

Name		Share capital	Total share % held	Direct/ indirect holding
ABS Finance Fund Sicav (Luxembourg)	€	199,919,734.11	86.11%	indirect
ADJ SAS (France)	€	6,037,500	100%	indirect
Ame Publishing Ltd. (USA)	US$	50,000	100%	indirect
Ame Service SAS (France)	€	37,000,00	100%	indirect
Arnoldo Mondadori Deutschland GmbH (Germany)	€	25,564.59	100%	indirect
Arnoweb SA (Luxembourg)	€	36,256,900	99.9998%	direct
Artes Graficas Toledo SA (Spain)	€	5,409,000	100%	indirect
Attica Publications SA (Greece)	€	4,590,000	41.66%	indirect
Diana SAS (France)	€	10,500,000	100%	indirect
Diana Publications SAS (France)	€	17,257,900	100%	indirect
Editions Mondadori Axel Springer SNC (France)	€	152,500	50%	indirect
Editions Mondadori France SAS (France)	€	753,876,750	100%	indirect
Editions Taitbout SA (France)	€	3,048,980	99.997%	indirect
Euromedia Luxembourg Two SA in liquidation (Luxembourg)	US$	36,337,500	11.765%	indirect
Excelsior Publications SAS (France)	€	1,717,360	100%	indirect
Misa Finance Fund PLC in liquidation (Ireland)	€	174,613	99.9998%	indirect
Mondadori Belgium SA in liquidation (Belgium)	€	62,000	99.984%	direct
Mondadori France Digital SNC (France)	€	50,000	100%	indirect
				indirect
Mondadori France SAS (France) (ex AME France Srl)	€	50,000,000.00	100%	indirect
Mondadori International SA (Luxembourg)	€	393,625,900	99.99%	direct
Mondadori Magazines France SAS (France)	€	476,035,510	100%	indirect
P&C SAS (France)	€	6,038,970	100%	indirect
Prisco Spain SA (Spain)	€	60,101.30	100%	direct
Random House Mondadori SA (Spain)	€	6,824,606.24	50%	indirect
				direct
				indirect
Star Presse Hollande BV (Holland)	€	18,151.21	100%	indirect
Tarif Media SA (France)	€	38,000	99.20%	indirect
				indirect
				indirect
Top Santé VOF (Holland)	€	91,000	50%	indirect

31 December 2006

Shareholder	% held	Head office	Tax code	Establishment date
Mondadori International SA	86.11%	Luxembourg - 19-21 Boulevard du Prince Henri		02/03/1999
Editions Mondadori France SAS	100%	France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer		09/01/1994
Mondadori International SA	100%	U.S.A. - New York N.Y. - 740 Broadway		02/01/1982
Mondadori France SAS	100%	France - Paris - 9-11, avenue Franklin D. Roosevelt		06/29/2006
Mondadori International SA	100%	Germany - Munich - Tal 21		05/14/1970
Arnoldo Mondadori Editore SpA	99.9998%	Luxembourg - 25C, Boulevard Royal		12/16/1999
Mondadori Printing SpA	100%	Spain - Toledo - C/Jarama S/N - Poligono Industrial		10/03/1974
Mondadori International SA	41.66%	Greece - Athens - Maroussi, 40 Kifissias Avenue		08/01/1994
Diana Publications SAS	100%	France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer		01/18/1990
Editions Mondadori France SAS	100%	France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer		03/29/2001
Editions Mondadori France SAS	50%	France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer		12/09/1999
Mondadori France SAS	100%	France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer		02/23/1993
Editions Mondadori France SAS	99.997%	France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer		01/31/1989
Arnoweb SA	11.765%	Luxembourg - 25C, Boulevard Royal		03/13/2000
Editions Mondadori France SAS	100%	France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer		08/28/1957
Mondadori International SA	99.9998%	Ireland - Dublin - I.F.S.C. - 2, Harbourmaster Place		06/12/2003
Arnoldo Mondadori Editore SpA	99.984%	Belgium - Bruxelles - Avenue Louise 109		03/22/2001
Editions Mondadori France SAS	98%	France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer		11/08/2000
Mondadori Magazines France SAS	2%			
Mondadori International SA	100%	France - Paris - 9-11, avenue Franklin D. Roosevelt		06/23/2004
Arnoldo Mondadori Editore SpA	99.99%	Luxembourg - 25C, Boulevard Royal		09/18/1970
Editions Mondadori France SAS	100%	France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer		03/30/2004
Editions Mondadori France SAS	100%	France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer		11/02/1995
Arnoldo Mondadori Editore SpA	100%	Spain - Barcelona, Calle Travessera de Gracia 47/49		12/06/1988
Arnoweb SA	33.99%	Spain - Barcelona, Calle Travessera de Gracia 47/49		08/05/1959
Arnoldo Mondadori Editore SpA	6,01%			
Prisco Spain SA	10%			
Editions Mondadori France SAS	100%	Holland - Amsterdam - Rokin 55		09/28/1994
Editions Mondadori France SAS	98.8%	France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer		04/21/1961
Diana Publications SAS	0.20%			
Mondadori Magazines SAS	0.20%			
Star Presse Hollande BV	50%	Holland - Hoofdoorp - Cappellalaan 65		05/10/1994

Appendix C1: Receivables from subsidiary and associated companies at 31 December 2006

(€,000)

	31 December 2006	31 December 2005
Current accounts and financial receivables:		
Subsidiaries:		
Arnoweb S.A.	3,936	5,937
Edizioni Frassinelli S.r.l.	1,296	854
Electa Napoli S.p.A.	742	-
Edizioni Piemme S.p.A.	-	8,381
Mondadori Franchising S.p.A.	-	2,391
Mondadori International S.A.	7	-
Mondadori Retail S.p.A.	13,425	-
Monradio S.r.l.	25,193	25,091
Sperling & Kupfer Editori S.p.A.	370	-
Associated companies:		
Gruner + Jahr/Mondadori S.p.A.	1,477	1,165
Harlequin Mondadori S.p.A.	110	74
Mach 2 Libri S.p.A.	2,597	-
Press TV S.p.A.	2,181	1,976
Rock FM srl	2,896	-
Other companies for amounts lower than €52 thousand (*)	-	5
Total	**54,230**	**45,874**
As a proportion of the item in the financial statements	**99.2%**	**45.5%**

(*) Amounts for the previous year also include receivables from companies who left the Group during 2006.

(€,000)	31 December 2006	31 December 2005
Trade relations:		
Subsidiaries:		
Cemit Interactive Media S.p.A.	804	785
Edizioni Frassinelli S.r.l.	86	132
Edizioni Piemme S.p.A.	1,650	126
Edumond Le Monnier S.p.A.	680	586
Electa Napoli S.p.A.	13	-
Giulio Einaudi Editore S.p.A.	2,196	2,400
Mondadori Electa S.p.A.	764	847
Mondadori France S.A.S.	60	-
Mondadori Franchising S.p.A.	6,766	5,405
Mondadori International S.A.	-	177
Mondadori Printing S.p.A.	947	1,055
Mondadori Pubblicità S.p.A.	100,389	103,579
Mondadori Retail S.p.A.	3,652	3,000
Monradio S.r.l.	778	1,383
Press-Di Distribuzione Stampa e Multimedia S.r.l.	-	28
Sperling & Kupfer Editori S.p.A.	1,263	1,109
Associated companies:		
ACI-Mondadori S.p.A.	800	823
Agenzia Lombarda Distrib. Giornali e Riviste S.r.l.	534	452
Attica Media Bulgaria Ltd	13	32
Attica Media Serbia Srb	11	-
BOL Books On Line Italia S.p.A.	-	5
Dragounis Publications	99	81
Edizioni EL S.r.l.	250	236
Grüner + Jahr/Mondadori S.p.A.	1,893	1,576
Harlequin Mondadori S.p.A.	1,789	3,396
Hearst Mondadori Editoriale S.r.l.	714	644
Mach 2 Libri S.p.A.	18,290	15,882
Mondadori Rodale S.r.l.	1,638	1,744
Mondolibri S.p.A.	1,882	1,895
Press TV S.p.A.	45	482
Random House Mondadori S.A.	52	120
Società Europea di Edizioni S.p.A.	125	210
Affiliated companies:		
RTI S.p.A.	408	11
Publitalia '80 S.p.A.	90	144
Other companies for amounts lower than €52 thousand (*)	46	39
Total	**148,727**	**148,384**
As a proportion of the item in the financial statements	**61.7%**	**63.9%**

Appendix C2: Intragroup economic relations 2006

(€,000)

Related parties	Revenues from sales and services	Other income	Income from investment	Investments income	Total
Parent companies:					
Fininvest S.p.A.	6	0	0	0	6
Subsidiary companies:					
Arnoweb S.A.			186		186
Cemit Interactive Media S.p.A.	1,842	352		1,622	3,816
Edizioni Frassinelli S.r.l.	198	15	21		234
Edizioni Piemme S.p.A.	1,911	430	49		2,390
Edumond Le Monnier S.p.A.	1,437	562	68	7,752	9,819
Electa Napoli S.p.A.	39		17		56
Giulio Einaudi Editore S.p.A.	4,818	120		5,520	10,458
Mondadori Electa S.p.A.	1,677	686	2	1,103	3,468
Mondadori France S.A.S.		6			6
Mondadori Franchising S.p.A.	13,999	300	4	1,964	16,267
Mondadori International S.p.A.			178	6,500	6,678
Mondadori Printing S.p.A.	2,067	514	202		2,783
Mondadori Pubblicità S.p.A.	217,419	8,809	175	1,020	227,423
Mondadori Retail S.p.A.	9,471	277	246		9,994
Monradio S.r.l.	250	1,236	583		2,069
Sperling & Kupfer Editori S.p.A.	2,170	954	44	2,022	5,190
Total	**257,298**	**14,261**	**1,775**	**27,503**	**300,837**
Associated companies:					
ACI-Mondadori S.p.A.	1,033	1,574			2,607
Agenzia Lombarda Distrib. Giornali e Riviste S.r.l.	17,593	4		65	17,662
Attica Media Bulgaria Ltd	17				17
Attica Media Serbia d.o.o.	10	1			11
Attica Media Pubblications S.A.	8				8
Edizioni EL S.r.l.	472	3			475
Gruner + Jahr/Mondadori S.p.A.	1,038	2,984	1	2,525	6,548
Georgios Dragounis Publications SA	26	30			56
Harlequin Mondadori S.p.A.	48	340		225	613
Hearst Mondadori Editore S.r.l.	761	1,017	2	290	2,070
Mach 2 Libri S.p.A.	33,198	4		300	33,502
Mondadori Rodale S.r.l.	2,247	2,721		639	5,607
Mondolibri S.p.A.	5,564	553		575	6,692
Press TV S.p.A.	329	261	107		697
Rock Fm S.r.l.	12		78		90
Random House Mondadori S.A.	39				39
Società Europea di Edizioni S.p.A.	117	3			120
Venezia Accademia Scarl	(3)				(3)
Total	**62,509**	**9,495**	**188**	**4,619**	**76,811**

(€,000)

Related parties	Revenues from sales and services	Other income	Income from investment	Investments income	Total
Fininvest Group companies:					
Consorzio Campus Multimedia		15			15
Fininvest Gestione Servizi S.p.A.	5				5
Il Teatro Manzoni	2				2
Mediaset S.p.A.	1				1
Medusa Film S.r.l.	1				1
Publitalia '80 S.p.A.	109				109
RTI Reti Televisive Italiane S.p.A.	749	501			1,250
Video Time S.p.A.		7			7
Total	867	523	0	0	1,390
Grand total	320,680	24,279	1,963	32,122	379,044
As a proportion of the item in the financial statements	31.39%	68.59%	18.50%	100%	34.47%

Appendix D1: Payables to subsidary and associated companies at 31 December 2006

(€,000)

	31 December 2006	31 December 2005
Current accounts and financial payables:		
Subsidiary companies:		
Cemit Interactive Media S.p.A.	7,524	8,642
Edizioni Piemme S.p.A.	1,697	-
Edumond Le Monnier S.p.A.	30,771	26,102
Electa Napoli S.p.A.	-	237
FIED S.p.A.	344	544
Giulio Einaudi Editore S.p.A.	13,857	11,374
Mondadori Electa S.p.A.	7,399	1,596
Mondadori Franchising S.p.A.	1,025	-
Mondadori International S.A.	296,263	296,053
Mondadori Pubblicità S.p.A.	54,181	7,786
Mondadori Printing S.p.A.	6,493	60,177
Mondadori Retail S.p.A.	-	1,518
Press-Di Distribuzione Stampa e Multimedia S.r.l.	418	309
Sperling & Kupfer Editori S.p.A.	-	235
Associated companies:		
ACI Mondadori S.p.A.	3,077	2,928
Grüner + Jahr/Mondadori S.p.A.	2,903	2,065
Harlequin Mondadori S.p.A.	5,133	6,450
Hearst Mondadori Editoriale S.r.l.	589	1,508
Press TV S.p.A.	291	-
Mondadori Rodale S.r.l.	1,551	3,991
Other companies for amounts lower than €52 thousand (*)	9	6
Total	**433,525**	**431,521**
Percentage of financial statements	**84.1%**	**92.6%**

(*) Amounts for the previous year also include payables to companies who left the Group during 2006

(€,000)

	31 December 2006	31 December 2005
Trade relations:		
Subsidiary companies:		
Ame Publishing Ltd	314	287
Artes Graficas Toledo S.A.	1,121	1,195
Cemit Interactive Media S.p.A.	418	291
Edizioni Frassinelli S.r.l.	926	1,616
Edizioni Piemme S.p.A.	21,478	55
Edumond Le Monnier S.p.A.	238	77
Electa Napoli S.p.A.	130	122
Giulio Einaudi Editore S.p.A.	13,985	13,756
Mondadori Electa S.p.A.	4,082	4,934
Mondadori France S.A.S.	20	24
Mondadori International S.A.	-	185
Mondadori Printing S.p.A.	55,893	60,786
Mondadori Pubblicità S.p.A.	1,747	2,075
Mondadori Retail S.p.A.	236	224
Monradio s.r.l.	30	-
Sperling & Kupfer Editori S.p.A.	7,324	4,916
Associated companies:		
ACI-Mondadori S.p.A.	911	467
Edizioni EL S.r.l.	3,224	2,716
Grüner + Jahr/Mondadori S.p.A.	7,393	7,725
Hearst Mondadori Editoriale S.r.l.	243	7
Mach 2 Libri S.p.A.	452	311
Mondadori Rodale S.r.l.	908	-
Mondolibri S.p.A.	509	731
Press TV S.p.A.	75	63
Random House Mondadori S.A.	116	89
Società Europea di Edizioni S.p.A.	4	1
Affiliated companies:		
RTI S.p.A.	1,994	39
Publitalia '80 S.p.A.	1,839	1,275
Medusa Video S.r.l.	760	407
Other companies for amounts lower than €52 thousand (*)	124	163
Total	126,494	104,537
Percentage of financial statements	60.8%	51.0%
Income tax payables		
Parent companies:		
Fininvest S.p.A.	36,272	18,061
Total	36,272	18,061
Percentage of financial statements	100%	98.4%

Appendix D2: Intragroup economic relations in 2006

(€,000)

Related parties	Raw materials and consumable	Services	Other expense	Financial expense	Expense from investments	Total
Parent companies						
Fininvest S.p.A.		7	13			20
Subsidiary companies						
Ame Publishing Ltd.	220	2,220	273			2,713
Arnoldo Mondadori Deutschland GmbH		6				6
Artes Graficas Toledo S.A.		2,231				2,231
Cemit Interactive Media S.p.A.		1,092		190		1,282
Edizioni Frassinelli S.r.l.	2,705	32		1		2,738
Edizioni Piemme S.p.A.	22,486	2,236	4	9		24,735
Edumond Le Monnier S.p.A.	575	733	60	270		1,638
Electa Napoli S.p.A.	248					248
Fied S.p.A.				10		10
Giulio Einaudi Editore S.p.A.	34,438	494	38	239		35,209
Mondadori Electa S.p.A.	11,134	461	102	83		11,780
Mondadori France S.A.S.		316	13			329
Mondadori Franchising S.p.A.		36		57		93
Mondadori International S.A.		185		16,437		16,622
Mondadori Printing S.p.A.	428	230,148	130	901		231,607
Mondadori Pubblicità S.p.A.	778	2,459	1,935	64		5,236
Mondadori Retail S.p.A.	58	363	192	4		617
Mondadori Rodale S.r.l			1			1
Press-Di Distribuzione Stampa e Multimedia S.r.l.				8		8
Monradio S.r.l.		33				33
Sperling & Kupfer Editori S.p.A.	25,283	233	13	7		25,536
Total	**98,353**	**243,278**	**2,761**	**18,280**	**0**	**362,672**
Associated companies						
ACI-Mondadori S.p.A.	5,285	5		51		5,341
Agenzia Lombarda Distrib. Giornali e Riviste S.r.l.		1,848	9			1,857
Attica Media Srb d.o.o.		1				1
Edizioni EL S.r.l.	5,080	(2)				5,078
Gruner + Jahr/Mondadori S.p.A.	35,107	56		104		35,267
Harlequin Mondadori S.p.A.	10,173			92		10,265
Hearst Mondadori Editoriale S.r.l.	3,100	38		20		3,158
Mach 2 Libri S.p.A.		1,733				1,733
Mondadori-Rodale S.r.l.	9,874	66		53		9,993
Mondolibri S.p.A.		2,085	51			2,136
Press TV S.p.A.	1,792	33		3		1,828
Random House Mondadori S.A.		181				181
Società Europea di Edizioni S.p.A.		2	5			7
Total	**70,411**	**6,046**	**65**	**323**	**0**	**76,845**

(€,000)

Related parties	Raw materials and consumable	Services	Other expense	Financial expense	Expense from investments	Total
Other companies						
Consorzio Sistemi Inf.vi Editoriali Distributivi		30	69			99
Consuledit S.r.l.		543				543
Soc.Editrice Il Mulino S.p.A.		2				2
Total	**0**	**575**	**69**	**0**	**0**	**644**
Fininvest Group companies						
Alba Servizi Aerotrasporti S.p.A.			163			163
Consorzio Campus Multimedia		30				30
Il Teatro Manzoni S.p.A.		26				26
Fininvest Gestione Servizi S.p.A.			18			18
Media Shopping S.p.A.		23				23
Medusa Film S.p.A.		(42)				(42)
Medusa Video S.r.l.		1,257				1,257
Milan A.C. S.p.A.			13			13
Promoservice Italia S.r.l.		8				8
Publitalia '80 S.p.A.		13,627				13,627
Radio e Reti S.r.l.		228				228
R.T.I. Reti Televisive Italiane S.p.A.	1,847	354	69			2,270
Total	**1,847**	**15,511**	**263**	**0**	**0**	**17,621**
Grand total	**170,611**	**265,417**	**3,171**	**18,603**	**0**	**457,802**
Percentage of financial statements	**73.42%**	**48.90%**	**13.01%**	**79.27%**	**0**	**55.62%**

Appendix E: Significant details from the financial statements of subsidiaries prepared in accordance with Italian accounting principles

(€,000)

	Arnoweb	Fied	Mondadori International	Monradio
Year ended	12/31/2006	12/31/2006	12/31/2006	12/31/2006
Balance sheet				
Assets				
Intangible assets			1,471	72,901
Tangible fixed assets			51	5,121
Financial assets	31,493	527	347,979	31
Total assets	31,493	527	349,501	78,053
Inventories				
Receivables from customers				4,654
Receivables from Group companies		344	596,831	32
Receivables from others		6	3,255	8,601
Financial activities (not non-current)	6,454		196,648	
Cash and cash equivalents	106	58	1,541	
Total current assets	6,560	408	798,275	13,287
Prepayments and accrued income			58	115
Total assets	**38,053**	**935**	**1,147,834**	**91,455**
Liabilities and shareholders' equity				
Share capital	36,257	416	393,626	3,020
Reserves	(3,514)	523	46,900	38,627
Shareholder contributions				27,952
Profit (loss) for the year	76	(9)	(2,306)	(14,090)
Total shareholders' equity	32,819	930	438,220	55,509
Provisions for risks and charges	22		480	803
Employees' leaving entitlement				200
Payables due to banks			706,284	
Trade payables		5		5,149
Payables due to Group companies				25,383
Other payables	5,212		2,339	4,268
Accrued liabilities and deferred income			511	143
Total liabilities and shareholders' equity	**38,053**	**935**	**1,147,834**	**91,455**

(€,000)

Year ended	Arnoweb 12/31/2006	Fied 12/31/2006	Mondadori International 12/31/2006	Monradio 12/31/2006
Income statement				
Revenues from sales				9,304
Changes in finished goods inventories				
Other revenues			1,364	1,146
Total value of production	0	0	1,364	10,450
Purchases and services	39	17	2,650	18,602
Personnel				1,591
Depreciation, amortisation and writedowns	0		212	9,197
Changes in inventory of raw materials				
Accruals and charges to provisions				307
Other operating expense		1	18	833
Total cost of production	39	18	2,880	30,530
Income from investments			446	
Financial income (expense)	115	9	6,034	(585)
Total financial income (expense)	115	9	6,480	(585)
Revaluations (writedowns)			(6,881)	
Extraordinary income (expense)				
Profit before tax	76	(9)	(1,917)	(20,665)
Income tax			389	(6,575)
Profit (loss) for the year	**76**	**(9)**	**(2,306)**	**(14,090)**

Appendix E: Significant details from the financial statements of subsidiaries prepared in accordance with IAS/IFRS

(€,000)

	Cemit Interactive Media	Edizioni Piemme	Edumond Le Monnier	Giulio Einaudi Editore	Mondadori Electa
Year ended	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006
Balance sheet					
Assets					
Intangible assets	0	570	23,312	81	98
Investment property	3,166	0	0	0	0
Property, plant and equipment	200	1,330	9,240	413	507
Investments	0	0	177	2,174	442
Non-current financial assets	0	0	0	0	0
Deferred tax assets	220	1,949	1,321	3,926	1,517
Other non-current assets	15	14	6	0	81
Total non-current assets	3,601	3,863	34,056	6,594	2,645
Tax receivables	98	2,302	4,013	36	40
Other current assets	44	5,097	668	6,597	1,255
Inventories	799	4,357	12,243	5,313	11,023
Trade receivables	9,536	23,803	8,871	29,701	15,683
Securities and other current financial assets	7,524	1,697	31,452	13,872	7,535
Cash and cash equivalents	62	9	126	30	24
Total current assets	18,063	37,265	57,373	55,549	35,560
Assets held for sale	0	0	0	0	0
Total assets	**21,664**	**41,128**	**91,429**	**62,143**	**38,205**
Liabilities and shareholders' equity					
Share capital	3,835	567	10,608	23,920	1,594
Reserves	4,203	11,322	32,030	6,358	4,557
Profit (loss) for the year	1,230	5,139	8,790	6,822	3,623
Total shareholders' equity	9,268	17,028	51,428	37,100	9,774
Provisions	105	323	1,068	863	2,501
Employees' leaving entitlement	1,987	991	6,446	3,625	1,471
Non-current financial liabilities	0	33	0	0	511
Deferred tax liabilities	340	351	3,037	72	98
Other non-current liabilities	0	0	0	0	0
Total non-current liabilities	2,432	1,698	10,551	4,560	4,581
Income tax payables	880	2,009	4,732	4,219	2,557
Other current liabilities	1,628	10,668	17,876	11,047	4,336
Trade payables	7,455	8,979	6,765	5,204	16,129
Debts due to banks and other financial liabilities	1	746	77	13	828
Total current liabilities	9,964	22,402	29,450	20,483	23,850
Liabilities held for sale	0	0	0	0	0
Total liabilities and shareholders' equity	**21,664**	**41,128**	**91,429**	**62,143**	**38,205**

Mondadori Franchising 12/31/2006	Mondadori Printing 12/31/2006	Mondadori Pubblicità 12/31/2006	Press-Di Distrib. Stampa Multimedia 12/31/2006	Mondadori Retail 12/31/2006	Prisco Spain 12/31/2006	Sperling & Kupfer Editori 12/31/2006
67	419	0	0	1,840	0	13
0	0	0	0	0	0	0
1,625	151,622	654	1	6,076	0	115
0	5,903	0	0	24,154	18	208
0	0	0	0	0	0	0
741	4,038	337	0	1,467		763
70	78	118	0	350		12
2,503	162,060	1,109	1	33,887	18	1,111
0	1,937	0	93	12	1	4
26	418	214	1	446	0	3,667
18,862	19,991	0	0	17,880	0	4,064
9,089	118,691	152,863	4	1,486	0	7,901
0	55,143	6,493	417	7,000	0	0
1,038	5,459	1	0	1,334	39	31
29,015	201,639	159,571	515	28,158	40	15,667
0	0	0	0	0	0	0
31,518	**363,699**	**160,680**	**516**	**62,045**	**58**	**16,778**
1,954	45,396	3,120	95	2,700	60	1,556
3,526	74,747	2,496	421	935	0	570
3,272	242	173	-12	8,688	-4	2,746
8,752	120,385	5,789	504	12,323	56	4,872
32	834	600	0	76	0	0
545	31,344	5,334	0	2,190	0	702
0	44,064	0	0	0	0	0
212	7,769	192	0	581	0	44
0						0
789	84,011	6,126	0	2,847	0	746
422	2,033	807	0	734	0	1,690
672	15,782	11,591	0	2,988	0	4,082
20,881	134,739	136,367	12	29,728	2	5,018
2	6,749	0	0	13,425	0	370
21,977	159,303	148,765	12	46,875	2	11,160
0	0	0	0	0	0	0
31,518	**363,699**	**160,680**	**516**	**62,045**	**58**	**16,778**

(follows)

Appendix E: Significant details from the financial statements of subsidiaries prepared in accordance with IAS/IFRS

(follow)

(€,000)

	Cemit Interactive Media	Edizioni Piemme	Edumond Le Monnier	Giulio Einaudi Editore	Mondadori Electa
Year ended	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006
Income statement					
Revenues from sales and services	24,004	47,501	89,002	47,808	50,529
Decrease (increase) in inventories	431	63	1,309	(710)	(1,146)
Purchase of raw materials and consumables	7,647	986	10,579	1,949	3,399
Purchase of services	10,216	32,313	50,598	29,121	34,969
Personnel costs	5,153	3,789	10,516	6,377	4,555
Other (income) expense	(2,118)	739	334	470	2,428
Result of investments using the equity method				(388)	
Gross operating profit	2,675	9,611	15,666	10,989	6,324
Depreciation of property, plant and equipment	287	299	1,037	185	245
Amortisation of intangible assets	0	25	41	26	27
Operating result	2,388	9,287	14,588	10,778	6,052
Financial income (expense)	118	(157)	103	962	(3)
Income (expense) from investments	0	0	148	0	
Result before tax	2,506	9,130	14,839	11,740	6,049
Income tax	1,276	3,991	6,049	4,918	2,426
Net result	**1,230**	**5,139**	**8,790**	**6,822**	**3,623**

Mondadori Franchising	Mondadori Printing	Mondadori Pubblicità	Press-Di Distrib. Stampa Multimedia	Mondadori Retail	Prisco Spain	Sperling & Kupfer Editori
12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006
48,742	434,212	342,870	4	89,977	0	26,291
(2,651)	1,294	0	0	290	0	(1,587)
39,334	235,972	0	1	67,666	0	303
4,129	107,520	323,629	24	7,418	0	19,580
2,204	68,209	13,522	0	9,858	0	2,513
(109)	(12,541)	3,475	(1)	(6,652)	4	1,414
5,835	33,758	2,244	(20)	11,397	(4)	4,068
395	24,432	285	1	1,212		46
27	372	0		475		8
5,413	8,954	1,959	(21)	9,710	(4)	4,014
40	(2,082)	(244)	9	(430)		(50)
	(1,225)					475
5,453	5,647	1,715	(12)	9,280	(4)	4,439
2,181	5,405	1,542	0	592		1,693
3,272	**242**	**173**	**(12)**	**8,688**	**(4)**	**2,746**

Appendix F: Significant details from the financial statements of the most significant indirect subsidiary companies

(€,000)	Artes Graficas Toledo (100% owned by Mondadori Printing S.p.A.)	Edizioni Frassinelli (100% owned by Sperling & Kupfer Editori S.p.A.)
Year ended	12/31/2006	12/31/2006
Balance sheet		
Assets		
Intangible assets		
Investment property		
Property, plant and equipment	6,901	3
Investments		
Non-current financial assets		
Deferred tax assets		99
Other non-current assets		
Total non-current assets	6,901	102
Tax receivables	168	17
Other current assets	14	1,240
Inventories	1,227	516
Trade receivables	7,321	1,086
Securities and other current financial assets		
Cash and cash equivalents	76	5
Total current assets	8,806	2,864
Assets held for sale		
Total assets	**15,707**	**2,966**
Liabilities and shareholders' equity		
Share capital	5,409	10
Reserves	1,718	214
Profit (loss) for the year	(1,224)	188
Total shareholders' equity	5,903	412
Provisions		
Employees' leaving entitlement		40
Non-current financial liabilities	2,516	
Deferred tax liabilities		4
Other non-current liabilities		
Total non-current liabilities	2,516	44
Income tax payables		130
Other current liabilities	682	570
Trade payables	5,096	513
Payable to banks and other financial liabilities	1,510	1,297
Total current liabilities	7,288	2,510
Liabilities held for sale		
Total liabilities and shareholders' equity	**15,707**	**2,966**

(€,000)

	Artes Graficas Toledo (100% owned by Mondadori Printing S.p.A.)	Edizioni Frassinelli (100% owned by Sperling & Kupfer Editori S.p.A.)
Year ended	12/31/2006	12/31/2006
Income statement		
Revenues from sales and services	19,378	3,100
Decrease (increase) in inventories	254	(8)
Purchase of raw materials and consumables	7,509	3
Purchase of services	6,421	2,508
Personnel costs	4,797	246
Other (income) expense	20	(16)
Gross operating profit	377	351
Depreciation of property, plant and equipment	1,475	1
Amortisation of intangible assets		
Operating result	(1,098)	350
Financial income (expense)	(126)	(30)
Income (expense) from investments		
Result before tax	(1,224)	320
Income tax	0	132
Net result	**(1,224)**	**188**

Appendix G: Significant details from the financial statements of associated companies

(€,000)

	ACI Mondadori	Ag. Lomb. Distr. Giorn. Riviste	Edizioni Electa Bruno Mondadori	Gruner + Jahr/Mondadori
Year ended	12/31/2006	12/31/2006	12/31/2006	12/31/2005
Balance sheet				
Assets				
Receivable from shareholders				
Intangible assets	16	8	0	268
Tangible fixed assets	40	109	0	411
Financial assets	6			219
Total assets	62	117	0	898
Inventories	365	2,006	585	1,772
Receivable from customers	1,945	929	0	14,266
Receivable from Group companies	4,440	116	0	
Receivable from others	120	629	856	11,221
Financial assets (not non-current assets)			0	109
Cash and cash equivalents	290	1,669	18	111
Total current assets	7,160	5,349	1,459	27,479
Prepayments and accrued income	5	1,396	0	168
Total assets	**7,227**	**6,862**	**1,459**	**28,545**
Liabilities and shareholders' equity				
Share capital	590	400	10	2,600
Reserves	990	104	49	1,866
Shareholders' contributions				
Profit (loss) for the year	703	(166)	296	5,050
Total shareholders' equity	2,283	338	355	9,516
Provisions for risks and charges	284			512
Employees' leaving entitlement	739	205		2,744
Payables due to banks	0			
Trade payables	2,565	1,063	17	11,530
Payables due to Group companies	800	113		
Other payables	518	302	1,087	3,740
Accrued liabilities and deferred income	38	4,841		503
Total liabilities and shareholders' equity	**7,227**	**6,862**	**1,459**	**28,545**

(*) Prepared as per IAS/IFRS.

Grupo Editorial Random House Md (consolidated financial statements)*	Harlequin Mondadori	Hearst Mondadori	Mach 2 Libri	Mondadori Rodale	Mondolibri	Press TV	Rock FM	Società Europea di Edizioni
12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006
5,335	55	1	702	5	3,080	1	2,262	15,411
4,691	82	18	749	53	1,192		147	2,177
5,433	50		252	0	246		1	689
15,459	187	19	1,703	58	4,518	1	2,410	18,277
20,503	125	268	13,584	942	6,883			1,769
70,095	2,365	3,213	39,250	4,464	10,253	16	477	29,215
992		833	772	2,462	509	92		1,336
57	153	87	7,838	101	10,890	3,411		3,509
	424							10,794
7,848	837	52	309	162	20,792	122	407	3,518
99,495	3,904	4,453	61,753	8,131	49,327	3,641	884	50,141
211	356	5	254	86	202	2		2,316
115,165	**4,447**	**4,477**	**63,710**	**8,275**	**54,047**	**3,644**	**3,294**	**70,734**
6,825	258	100	646	90	1,040	500	200	2,776
15,306	54	55	9,383	357	21,411		(129)	5,891
		97		224	3,615	2,340		
11,620	303	634	1,604	937	773	(1,792)	66	734
33,751	615	886	11,633	1,608	26,839	1,048	137	9,401
		176	1,389	288	145	94		2,500
	630	379	1,570	713	4,911		26	8,862
78			2,452					18,712
39,605	2,569	1,186	20,700	2,522	16,869	129		24,029
9,028		874	23,647	1,865	1,830	2,334		669
32,703	588	773	2,317	815	3,074	39	3,131	6,373
	45	203	2	464	379			188
115,165	**4,447**	**4,477**	**63,750**	**8,275**	**54,047**	**3,644**	**3,294**	**70,734**

(follows)

Appendix G: Significant details from the financial statements of associated companies

(follow)

(€,000)

	ACI Mondadori	Ag. Lomb. Distr. Giorn. Riviste	Edizioni Electa Bruno Mondadori	Gruner + Jahr/Mondadori
Year ended	12/31/2006	12/31/2006	12/31/2006	12/31/2005
Income statement				
Revenues from sales	14,741	4,531	1,391	53,427
Changes in product inventories	(48)		131	(192)
Other revenues	131	71		2,951
Total value of production	14,824	4,602	1,522	56,186
Purchases and services	11,923	3,845	999	36,768
Personnel	1,824	726		10,829
Depreciation, amortisation and write-downs	39	59		402
Changes in inventory of raw materials				(18)
Accruals and charges to provisions	58			108
Other expense	204	207	18	528
Total cost of production	14,048	4,837	1,017	48,617
Income from investments				
Financial income (expense)	57	31	(31)	199
Total financial income (expense)	57	31	(31)	199
Revaluations (writedowns)				
Extraordinary income (expense)				370
Result before tax	833	(204)	474	8,138
Income tax	130	(38)	178	3,088
Profit (loss) for the year	**703**	**(166)**	**296**	**5,050**

(*) Prepared as per IAS/IFRS.

Grupo Editorial Random House Md (consolidated financial statements)*	Harlequin Mondadori	Hearst Mondadori	Mach 2 Libri	Mondadori Rodale	Mondolibri	Press TV	Rock FM	Società Europea di Edizioni
12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006	12/31/2006
103,345	10,321	10,351	176,219	19,937	88,587	4,212	183	97,452
11,228	(311)	38		246	(692)	(140)		
5,232	452	366	1,254	262	1,717	32		3,532
119,805	10,462	10,755	177,473	20,445	89,612	4,104	183	100,984
42,959	8,102	7,725	170,627	16,100	69,846	5,659	661	84,519
22,231	1,709	1,770	5,245	2,466	11,131		83	22,842
2,089		14	1,006	35	6,222	52	173	3,221
	84		(2,910)		3			351
5,680		36	191	123				1,138
39,596	37	74	223	104	364	91	9	2,116
112,555	9,932	9,619	174,382	18,828	87,566	5,802	926	114,187
(569)	110	21	35	61	497	(94)	(76)	(924)
(569)	110	21	35	61	497	(94)	(76)	(924)
67		0		0	140	0	885	16,797
6,748	640	1,157	3,126	1,678	2,683	(1,792)	66	2,670
(4,872)	337	523	1,522	741	1,910	0		1,936
11,620	**303**	**634**	**1,604**	**937**	**773**	**(1,792)**	**66**	**734**

Appendix H: Fees paid to directors, statutory auditors, general managers and managers with strategic responsibilities (art.78 of CONSOB resolution 11971 of 14 May 1999)

Figures relating to managers with strategic responsibilites are aggregate

	Description			Fee (€,000)			
Surname and name	Position held	Term for which the position is held	Expiry date of position held	Emoluments/ fees for position	Non-monetary benefits	Bonuses and other incentives	Other fees
Berlusconi Marina	Chairman	1/1 - 12/31/2006	Approval of 2008 financial statments	515.0	-	-	-
Costa Maurizio	Deputy Chairman and Chief Executive	1/1 - 12/31/2006	Approval of 2008 financial statments	1,010.0	18.1	1,550.0 (2)	704.7 (3)
Barbaro Francesco	Director	1/1 - 4/26/2006	-	3.3	-	-	-
Berlusconi Pier Silvio	Director	1/1 - 12/31/2006	Approval of 2008 financial statments	10.0	-	-	-
Cannatelli Pasquale	Director	1/1 - 12/31/2006	Approval of 2008 financial statments	10.0	-	-	-
Confalonieri Fedele	Director	1/1 - 4/26/2006	-	3.3	-	-	-
Ermolli Bruno	Director	1/1 - 12/31/2006	Approval of 2008 financial statments	20.0	-	-	-
Forneron Mondadori Martina	Director	1/1 - 12/31/2006	Approval of 2008 financial statments	10.0	-	-	-
Poli Roberto	Director	1/1 - 12/31/2006	Approval of 2008 financial statments	15.0	-	-	-
Puerari Giovanni	Director	1/1 - 4/26/2006	-	3.3	-	-	-
Resca Mario	Director	1/1 - 12/31/2006	Approval of 2008 financial statments	25.0	-	-	-
Spadacini Marco	Director	1/1 - 12/31/2006	Approval of 2008 financial statments	25.0	-	-	-
Veronesi Umberto	Director	4/26 - 12/31/2006	Approval of 2008 financial statments	6.7	-	-	-
Vismara Carlo Maria	Director	4/26 - 12/31/2006	Approval of 2008 financial statments	6.7	4.4	265.0	304.9 (3)
Managers with strategic responsibilities		1/1-12/31/2006	-	321.2 (1)	83.5	2,472.9	4,351.8 (3)
Superti Furga Ferdinando	Mondadori acting statutory auditor	1/1 - 4/26/2006	-	50	-	-	-
	Chairman of Mondadori Statutory Auditors	4/26 - 12/31/2006	Approval of 2008 financial statments				
Frattini Achille	Chairman of Mondadori Statutory Auditors	1/1 - 4/26/2006	-	41.7	-	-	-
	Mondadori acting statutory auditor	4/26 - 12/31/2006	Approval of 2008 financial statments				
Frattini Achille	Acting statutory auditor of subsidiary company	1/1 - 12/31/2006	-	46.4	-	-	-
Aiello Antonio	Mondadori acting statutory auditor	1/1 - 4/26/2006	-	10.0	-	-	-
Papa Franco Carlo	Mondadori acting statutory auditor	4/26 - 12/31/2006	Approval of 2008 financial statments	26.7	-	-	-

(1) Fee from subsidiary company.
(2) €1,000 of which relates to 2005/2006.
(3) Salary.

Appendix H: Stock options granted to directors, general managers and managers with strategic responsibilities

		Options held at beginning of year			Options granted during year			Options exercise during year			Options expired during year	Options held at end of year		
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)=1+4-7-10	(12)	(13)
Name and surname	Position held	Number of options	Average exercice price	Average expiry date	Number of options	Average exercice price	Average expiry date	Number of options	Average exercice price	Average market price at exercice date	Number of options	Number of options	Average exercice price	Average expiry date
Marina	Chairman	150,000*[3]	7.749	12/31/2008								150,000	7.749	12/31/2008
Berlusconi		300,000*[4]	7.87	12/31/2010								300,000	7.87	12/31/2010*[7]
					300,000	7.507	12/31/2011					300,000	7.507	12/31/2011*[7]
											Tot.	750,000		
Maurizio	Deputy	110,000*[2]	6.47	12/31/2007				110,000	6.47	8.200				
Costa	Chairman	110,000*[3]	7.749	12/31/2008								110,000	7.749	12/31/2008
	and Chief	330,000*[4]	7.87	12/31/2010								330,000	7.87	12/31/2010*[7]
	Executive				330,000	7.507	12/31/2011					330,000	7.507	12/31/2011*[7]
											Tot.	770,000		
Francesco	Director	70,000*[2]	6.47	12/31/2007				70,000	6.47	7.815				
Barbaro	from	70,000*[3]	7.749	12/31/2008								70,000	7.749	12/31/2008
	1/1 to 4/26/06	70,000*[4]	7.87	12/31/2010								70,000	7.87	12/31/2010*[7]
					70,000	7.507	12/31/2011					70,000	7.507	12/31/2011*[7]
											Tot.	210,000		
Giovanni	Director	45,000*[1]	6.85	06/30/2006				45,000	6.85	7.705*[5]				
Puerari	from	50,000*[2]	6.47	12/31/2007				50,000	6.47	7.935*[5]				
	1/1 to 4/26/06	50,000*[3]	7.749	12/31/2008								50,000	7.749	12/31/2008
		50,000*[4]	7.87	12/31/2010								50,000	7.87	12/31/2010*[7]
											Tot.	100,000		
Carlo Maria Vismara	Director. from 4/26 to 12/31/06				70,000	7.507	12/31/2011					70,000	7.507	12/31/2011*[7]
											Tot.	70,000		
Managers		60,000*[1]	6.85	06/30/2006				60,000	6.85	8.150				
with strategic		460,000*[2]	6.47	12/31/2007				410,000	6.47	8.045*[6]		50,000	6.47	12/31/2007
responsibilities		460,000*[3]	7.749	12/31/2008								460,000	7.749	12/31/2008
		480,000*[4]	7.87	12/31/2010								480,000	7.87	12/31/2010*[7]
					500,000	7.507	12/31/2011					500,000	7.507	12/31/2011*[7]
											Tot.	1,490,000		
											Tot.	3,390,000		

*[1] options assigned in 2002
*[2] options assigned in 2003
*[3] options assigned in 2004
*[4] options assigned in 2005

*[5] options exercised after expiry of mandate
*[6] average price at date when options exercised
*[7] The Board of Directors meeting of 28 March 2007 passed resolution on midifying the expiry date for options assigned for 2005 and 2006: from 12/31/2010 to 06/23/2011 and from 12/31/2011 to 07/17/2012 respectively.

A description of the main terms of the Stock option plan is provided in the notes to the Consolidated financial statements.

Appendix I: Distribution of receivables and payables by geographical area

(€,000)

	Italy	Other EU countries	USA	Switzerland	Canada	Other countries	Total
Receivables:							
Non-current assets:							
Non-current financial assets							
Deferred tax assets	16,521						16,521
Other non-current assets	1,292						1,292
Current assets:							
Tax receivables	16,757						16,757
Other current assets	19,852	7,775	13528	1015	126	1288	43,584
Trade receivables	237,628	2,535	222	494	88	231	241,198
Securities and other current financial assets	50,729	3,942					54,671
Total receivables	**342,779**	**14,252**	**13,750**	**1,509**	**214**	**1,519**	**374,023**
Payables:							
Non-current payables:							
Non-current financial liabilities	36,436	259,820					296,256
Deferred tax liabilities	13,866						13,866
Other non-current liabilities							
Current payables:							
Income tax payables	36,272						36,272
Other non-current liabilities	91,298	2,886	3610	40	8	668	98,510
Trade payables	204,321	2,878	712	135	9	75	208,130
Payables to banks and other financial liabilities	219,271	7					219,278
Total payables	**601,464**	**265,591**	**4,322**	**175**	**17**	**743**	**872,312**

Consolidated Financial Statements at 31 December 2006

Consolidated balance sheet

Assets (€,000)	Note	31 December 2006	31 December 2005
Intangible assets	2	**918,075**	**219,409**
Investment property	3	**4,744**	**5,523**
Land and buildings		86,878	87,399
Property, plant and equipment		98,010	76,303
Other tangible fixed assets		36,979	45,211
Property, plant and equipment	**4**	**221,867**	**208,913**
Investments accounted for using the equity method		120,230	106,649
Other investments		2,174	2,156
Total investments	**5**	**122,404**	**108,805**
Non-current financial assets	12	**1,533**	-
Deferred tax assets	6	**46,100**	**37,090**
Other non-current assets	7	**3,525**	**3,078**
Total non-current assets		1,318,248	582,818
Tax receivables	8	**29,854**	**30,390**
Other current assets	9	**72,204**	**65,481**
Inventories	10	**141,126**	**127,022**
Trade receivables	11	**479,018**	**411,085**
Securities and other current financial assets	12	**206,713**	**482,204**
Cash and cash equivalents	13	**105,507**	**73,056**
Total current assets		1,034,422	1,189,238
Assets held for sale		-	-
Total assets		2,352,670	1,772,056

Liabilities and shareholders' equity (€,000)	Note	31 December 2006	31 December 2005
Share capital		67,452	67,452
Share premium reserve		285,467	283,747
Treasury shares		(127,998)	(137,662)
Other reserves and retained earnings		148,532	178,163
Profit (loss) for the year		108,960	114,724
Total shareholders' equity attributable to the Group	14	482,413	506,424
Capital and reserves attributable to minorities	15	4,020	4,026
Total shareholders' equity		486,433	510,450
Provisions	16	35,187	15,637
Employees' leaving entitlement and termination indemnities	17	104,182	98,983
Non-current financial liabilities	18	744,706	451,733
Deferred tax liabilities	6	102,240	25,998
Other non-current liabilities		-	-
Total non-current liabilities		986,315	592,351
Income tax payables	19	49,682	25,111
Other current liabilities	20	272,168	187,572
Trade payables	21	434,316	385,032
Payables to banks and other financial liabilities	18	123,756	71,540
Total current liabilities		879,922	669,255
Liabilities held for sale		-	-
Total liabilities and shareholders' equity		2,352,670	1,772,056

Consolidated income statement

(€,000)	Note	2006	2005
Revenues from sales and services	**22**	**1,750,206**	**1,657,341**
Decrease (increase) in inventories	10	(1,110)	(6,127)
Cost of raw materials and consumables and goods for resale	23	502,360	524,975
Cost of services	24	729,607	675,607
Personnel costs	25	302,051	268,875
Other (income) expense	26	(14,648)	(19,964)
Income (expense) from investments accounted for using the equity method	27	8,355	9,602
Gross operating profit		**240,301**	**223,577**
Depreciation and impairment of property, plant and equipment	3-4	34,897	32,808
Amortisation and impairment of intangible assets	2	3,995	3,337
Operating result		**201,409**	**187,432**
Financial income (expense)	28	(12,457)	(6,071)
Income (expense) from other investments	29	25	(1)
Profit before taxes		**188,977**	**181,360**
Income taxes	30	78,864	65,492
Profit from continuing activities		**110,113**	**115,868**
Income (expense) from assets/liabilities held for sale		-	-
Result attributable to minorities	15	(1,153)	(1,144)
Net profit		**108,960**	**114,724**
Earnings per share (euros)	31	0.453	0.478
Diluted earnings per share (euros)	31	0.442	0.466

On behalf of the Board of Directors
Chairman
Marina Berlusconi

Changes in consolidated shareholders' equity for the year ended 31 December 2005

(€,000)	Note	Share capital	Share premium	Treasury shares
At 1 January 2005		**67,452**	**283,747**	**(130,207)**
– Transfer profit				
– Dividends paid				
– Changes in scope of consolidation				
– Transfer of financial statements in foreign currencies	14			
– Treasury share options	14			(7,455)
– Stock options	25			
– Other changes	14			
– Profit (loss) for the year				
At 31 December 2005		**67,452**	**283,747**	**(137,662)**

Changes in consolidated shareholders' equity for the year ended 31 December 2006

(€,000)	Note	Share capital	Share premium	Treasury shares
At 31 December 2005		**67,452**	**283,747**	**(137,662)**
– Transfer profit				
– Dividends paid				
– Changes in scope of consolidation				
– Translation of financial statements in foreign currencies	14			
– Treasury share operations	14			9,664
– Stock options	25		1,720	
– Other changes	14			
– Profit (loss) for the year				
At 31 December 2006		**67,452**	**285,467**	**(127,998)**

Stock option reserve	Fair value reserve	Translation reserve	Other reserves	Profit (loss) for the year	Total group	Minority interests	Total
2,374	**(12)**	**116**	**143,459**	**112,023**	**478,952**	**3,478**	**482,430**
			26,642	(26,642)			-
				(85,381)	(85,381)		(85,381)
							-
		1,257			1,257		1,257
			852		(6,603)		(6,603)
2,341					2,341		2,341
	12		1,122		1,134	(596)	538
				114,724	114,724	1,144	115,868
4,715	**0**	**1,373**	**172,075**	**114,724**	**506,424**	**4,026**	**510,450**

Stock option reserve	Fair value reserve	Translation reserve	Other reserves	Profit (loss) for the year	Total group	Minority interests	Total
4,715	**-**	**1,373**	**172,075**	**114,724**	**506,424**	**4,026**	**510,450**
			13,467	(13,467)			-
			(43,380)	(101,257)	(144,637)		(144,637)
							-
		(1,002)			(1,002)		(1,002)
			(25)		9,639		9,639
658					2,378		2,378
	950		(299)		651	(1,159)	(508)
				108,960	108,960	1,153	110,113
5,373	**950**	**371**	**141,838**	**108,960**	**482,413**	**4,020**	**486,433**

Consolidated cash flow statement

Consolidated cash flow statement (€,000)	Note	31 December 2006	31 December 2005
Net profit for the year		108,960	114,724
Adjustments			
Depreciation, amortisation and impairment	2-3	38,892	36,145
Stock options	25	2,378	2,342
Charges to provisions, employees' leaving entitlement and termination indemnities		18,083	14,040
Capital (gains) losses on disposal of intangible assets, property, plant and equipment		(2,316)	(2,699)
Capital (gains) losses on disposal of financial assets	28	(860)	(3,110)
Capital (gains) losses on valuation of financial assets	28	(9,043)	(11,105)
(Income) expense from companies accounted for using the equity method	27	(8,355)	(8,780)
Cash from operating activities		**147,739**	**141,557**
(Increase) decrease in trade receivables		22,366	(4,891)
(Increase) decrease in inventories		(3,982)	(6,949)
Increase (decrease) in trade payables		(30,772)	7,387
Net change in income tax receivables/payables		23,600	(16,339)
Advances for and settlements of employees' leaving entitlement		(16,602)	(13,941)
Net change in deferred tax assets and liabilities		7,317	8,133
Net change in other assets/liabilities		1,439	(5,962)
Cash flow from (used in) operating activities		**151,105**	**108,995**
Fees paid for business combinations net of cash acquired	1	(555,601)	-
(Investments in) disposals of intangible assets		(17,115)	(25,410)
(Investments in) disposals of property, plant and equipment		(41,168)	(25,163)
(Investments in) disposals of equity investments		6,971	(813)
(Investments in) disposals of financial assets	a)	287,393	36,623
Cash flow from (used in) investing activities		**(319,520)**	**(14,763)**
Net change in financial liabilities	a)	335,839	(66,382)
(Purchase) disposal of treasury stocks	14	9,664	(6,603)
Dividends paid	14	(144,637)	(85,381)
Cash flow from (used in) financing activities		**200,866**	**(158,366)**
Increase (decrease) in cash and cash equivalents		**32,451**	**(64,134)**
Cash and cash equivalents at beginning of year	**13**	**73,056**	**137,190**
Cash and cash equivalents at end of year	**13**	**105,507**	**73,056**
Composition of cash and cash equivalents			
Cash, cheques and valuables in hand		2,204	746
Bank and post office deposits		103,303	72,310
	13	**105,507**	**73,056**

a) The items include disinvestments of financial assets for approximately €260 million and underwriting a five-year pool loan, €300 million of which was used as at 31 December 2006, related to the purchase of Emap France.

Consolidated balance sheet
as per Consob deliberation n. 15519 of 27 July 2006

Assets

(€,000)	Note	31 December 2006	Including correlated part (Note 34)	31 December 2005	Including correlated part (Note 34)
Intangible assets	2	918,075	-	219,409	-
Investment property	3	4,744	-	5,523	-
Land and buildings		86,878	-	87,399	-
Plant and machinery		98,010	-	76,303	-
Other tangible fixed assets		36,979	-	45,211	-
Property, plant and equipment	**4**	**221,867**	**0**	**208,913**	**0**
Investments accounted for using the equity method		120,230	-	106,649	-
Other investments		2,174	-	2,156	-
Total investments	**5**	**122,404**	**0**	**108,805**	**0**
Non-current financial assets	12	1,533	-	-	-
Deferred tax assets	6	46,100	-	37,090	-
Other non-current assets	7	3,525	-	3,078	-
Total non-current assets		**1,318,248**	**0**	**582,818**	**0**
Tax receivables	8	29,854	-	30,390	-
Other current assets	9	72,204	-	65,481	-
Inventories	10	141,126	-	127,022	-
Trade receivables	11	479,018	47,013	411,085	58,173
Securities and other current financial assets	12	206,713	18,443	482,204	9,715
Cash and cash equivalents	13	105,507	-	73,056	-
Total current assets		**1,034,422**	**65,456**	**1,189,238**	**67,888**
Assets held for sale		-	-	-	-
Total assets		**2,352,670**	**65,456**	**1,772,056**	**67,888**

Liabilities and shareholders' equity					
(€,000)	Note	31 December 2006	Including correlated part (Note 34)	31 December 2005	Including correlated part (Note 34)
Share capital		67,452	-	67,452	-
Share premium reserve		285,467	-	283,747	-
Treasury shares		(127,998)	-	(137,662)	-
Other reserves and retained earnings		148,532	-	178,163	-
Profit (loss) for the year		108,960	-	114,724	-
Total shareholders' equity attributable to the Group	**14**	**482,413**	**0**	**506,424**	**0**
Capital and reserves attributable to minorities	15	4,020	-	4,026	-
Total shareholders' equity		**486,433**	**0**	**510,450**	**0**
Provisions	16	35,187	-	15,637	-
Employees' leaving entitlement and termination indemnities	17	104,182	-	98,983	-
Non-current financial liabilities	18	744,706	-	451,733	-
Deferred tax liabilities	6	102,240	-	25,998	-
Other non-current liabilities		-	-	-	-
Total non-current liabilities		**986,315**	**0**	**592,351**	**0**
Income tax payables	19	49,682	47,869	25,111	22,310
Other current liabilities	20	272,168	-	187,572	-
Trade payables	21	434,316	38,026	385,032	30,728
Payables to banks and other financial liabilities	18	123,756	27,096	71,540	18,211
Total current liabilities		**879,922**	**112,991**	**669,255**	**71,249**
Liabilities held for sale		-	-	-	-
Total liabilities and shareholders' equity		**2,352,670**	**112,991**	**1,772,056**	**71,249**

Consolidated financial statement as per Consob deliberation n. 15519 of 27 July 2006

(€,000)	Note	2006	Including correlated part (Note 34)	Including non-recurring charges (income) (Note 33)	2005	Including correlated part (Note 34)	Including non-recurring charges (income) (Note 33)
Revenues from sales and services to third parties	**22**	**1,750,206**	**113,862**	**-**	**1,657,341**	**121,850**	**-**
Decrease (increase) in inventories	10	(1,110)	-	-	(6,127)	-	-
Purchase of raw materials and consumables and goods for resale	23	502,360	72,923	-	524,975	76,119	-
Purchase of services	24	729,607	77,206	-	675,607	87,930	-
Personnel costs	25	302,051	-	-	268,875	-	-
Other (income) expense	26	(14,648)	(12,010)	(13,530)	(19,964)	(12,307)	(21,639)
Income (expense) from investments accounted for using the equity method	27	8,355	-	-	9,602	-	1,906
Gross operating profit		**240,301**	**(24,257)**	**13,530**	**223,577**	**(29,892)**	**23,545**
Depreciation and impairment of property, plant and equipment	3-4	34,897	-	-	32,808	-	-
Amortisation and impairment of intangible assets	2	3,995	-	-	3,337	-	-
Operating result		**201,409**	**(24,257)**	**13,530**	**187,432**	**(29,892)**	**23,545**
Financial income (expenses)	28	(12,457)	(86)	-	(6,071)	73	-
Income (expenses) from other investments	29	25	-	-	(1)	-	-
Results before taxes		**188,977**	**(24,343)**	**13,530**	**181,360**	**(29,819)**	**23,545**
Income taxes	30	78,864	-	1,716	65,492	-	1,721
Results attributable to functioning business activities		**110,113**	**(24,343)**	**11,814**	**115,868**	**(29,819)**	**21,824**
Income (expenses) from assets/liabilities held for sale		-	-	-	-	-	-
Results attributable to minorities	15	(1,153)	-	53	(1,144)	-	260
Net result		**108,960**	**(24,343)**	**11,867**	**114,724**	**(29,819)**	**22,084**

1. General information

The main corporate purpose of Arnoldo Mondadori Editore S.p.A. and the companies in which it has direct and indirect investments (henceforth referred to as the "Mondadori Group" or the "Group") is in business activities connected with the book and magazine publishing sectors, radio and the sale of advertising.
The Group is also involved in printing activities at its own printing works, retailing through a chain of its own shops and franchising outlets situated throughout Italy and direct marketing and mail-order sales of publishing products.

Arnoldo Mondadori Editore S.p.A. has its head office in via Bianca di Savoia 12, in Milan, Italy, while the main administrative offices are in Segrate, Milan, in Strada privata Mondadori.

The Parent Company, Arnoldo Mondadori Editore S.p.A., is quoted on the MTA (automated stock markets) of Borsa Italiana S.p.A., and is included in the S&P/MIB index and the MIDEX index.

The publication of the consolidated financial statements of the Mondadori Group for the year ended 31 December 2006 was authorised by a resolution of the Board of Directors on 28 March 2007.

2. Form and content

The consolidated financial statements at 31 December 2006 was prepared in accordance with International Accounting Standards (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and adopted by the EU, and in accordance with the International Financial Reporting Interpretations Committee (SIC/IFRIC).

The Mondadori Group adopted the standards with effect from 1 January 2005, following the introduction of European regulation 1606 of 19 July 2002.

The information required by IFRS 1, concerning the impact of the first adoption of International Accounting Standards, was included in the appendix "Transition to IAS/IFRS accounting standards" in the half-yearly report for 2005 and in the Consolidated financial Statements at 31 December 2005, to which you are referred.

The consolidated financial statements at 31 December 2006 were prepared in accordance with the accounting standards used for preparing IAS/IFRS consolidated financial statements at 31 December 2005, taking into consideration the new amendments and standards introduced with effect from 1 January 2006, which are referred to in note 6.26.

Some of the comparative data relating to 2005 included in the cash flow statement has been reclassified.

The financial statements have been prepared in the following way:
- current and non-current assets and current and non-current liabilities are shown separately in the balance sheet;
- in the income statement, costs are analysed by their nature since the Group has decided that this method is more representative than an analysis by function;
- the cash flow statement has been prepared using the indirect method.

With reference to the requirements of Consob resolution no. 15519 of 27 July 2006 concerning financial statement tables, specific supplementary tables have been inserted in order to highlight significant operations with "Related parties" and "Non-recurring operations".

The values shown in the tables and in the notes are expressed in thousands of € unless specifically indicated otherwise.

3. Consolidation policies

The consolidated financial statements of the Mondadori Group include:
- the financial statements for the year of the Parent Company and those of Italian and foreign companies in which Arnoldo Mondadori Editore SpA has control, direct or indirect, as defined in IAS 27. In these cases the financial statements are consolidated on a line-by-line basis in accordance with IAS 27;
- the financial statements for the year of those Italian and foreign companies in which Arnoldo Mondadori Editore SpA has joint control, direct or indirect, as defined in IAS 31. In these cases investments are accounted for using the equity method in accordance with IAS 31;
- the financial statements for the year of those Italian and foreign companies in which Arnoldo Mondadori Editore SpA has, directly or indirectly, an investment in an associated company as defined in IAS 28. In these cases investments are accounted for using the equity method in accordance with IAS 28.

The application of the above mentioned consolidation techniques involves the following adjustments:

- the net carrying value of investments in companies included in the scope of consolidation is eliminated against the related net equity;
- any excess of the purchase cost of investments and the Group's share of net equity at the date of purchase is allocated to the specific assets and liabilities acquired in order to state them at their fair value. Any residual excess is classified as goodwill; if the difference is negative, this is recognised immediately in the income statement;
- the amounts of capital, reserves and the consolidated financial result attributable to minority interests are recognised as separate items in equity and the income statement;
- in preparing the consolidated financial statements, receivables and payables and income and expense resulting from transactions between companies included in the scope of consolidation are eliminated, as are any unrealised gains or losses on intragroup operations.

The financial statements of companies included in the scope of consolidation are prepared

at the same balance sheet date as those of Arnoldo Mondadori Editore S.p.A., in accordance with IAS/IFRS.
In cases where the balance sheet date is different from the Parent Company's balance sheet date, adjustments are made in order to recognise the effects of significant operations or events that occurred between that date and the Parent Company's balance sheet date.

The main changes in the consolidation area of the Mondadori Group were as follows:

- the purchase of 100% of the French publishing group Editions Mondadori France (formerly Emap France), which took place on 31 August 2006;

- the purchase of 100% of Messaggerie Musicali SpA, which took place on 29 December 2006;

- the purchase of 10% Edizioni Piemme SpA, which took place in April and increased the Group's holding to 80%;

- the setting up of Campania Arte S.c.a.r.l., with the Group holding 22%, for the management and development of the cultural assets of the Campania Region;

- the liquidation of Bol Books on Line SpA, Mondadori Com Usa and Venezia Musei S.c.a.r.l.

Name	Registered office	Business	Currency	Share capital expressed in local currency	% held as of 31 December 2006	% held as of 31 December 2005
Companies consolidated using the line-by-line method						
Arnoldo Mondadori Editore SpA	Milan	Publishing	€	67,451,756.32		
Italian subsidiaries						
Cemit Interactive Media SpA	S.Mauro	Trade	€	3,835,000.00	100.00	100.00
Edizioni Frassinelli Srl	Milan	Publishing	€	10,400.00	100.00	100.00
Edizioni Piemme SpA	Milan	Publishing	€	566,661.00	80.00	70.00
Edumond Le Monnier SpA	Milan	Publishing	€	10,608,000.00	100.00	100.00
Mondadori Electa SpA	Milan	Publishing	€	1,593,735.00	100.00	100.00
Electa Napoli SpA	Naples	Publishing	€	155,000.00	60.00	60.00
Mondadori Retail SpA	Milan	Trade	€	2,700,000.00	100.00	100.00
Fied SpA	Milan	Financial publishing	€	416,000.00	100.00	100.00
Giulio Einaudi Editore SpA	Turin	Publishing	€	23,920,000.00	100.00	100.00
Messaggerie Musicali SpA	Milan	Trade	€	1,000,000.00	100.00	-
Mondadori Printing SpA	Milan	Printing	€	45,396,000.00	100.00	100.00
Mondadori Pubblicità SpA	Milan	Advertising agent	€	3,120,000.00	100.00	100.00
Mondadori Franchising SpA	Rimini	Trade	€	1,954,000.00	100.00	100.00
Press-Di Distr. Stampa e Multimedia Srl	Milan	Services	€	95,000.00	100.00	100.00
Monradio Srl	Milan	Radio	€	3,020,000.00	100.00	100.00
Sperling & Kupfer Editori SpA	Milan	Publishing	€	1,555,800.00	100.00	100.00
Foreign subsidiaries						
ABS Finance Fund Sicav	Luxemburg	Financial	€	199,919,734.11	83.61	61.35
AME Service Sas	Paris	Services	€	37,000.00	99.99	-
Arnoldo Mondadori Deutschland GmbH	Munich	Services	€	25,564.50	99.99	99.99
Mondadori France SAS	Paris	Financial	€	50,000,000.00	99.99	99.99
Ame Publishing Ltd	New York	Services	US$	50,000.00	99.99	99.99
Arnoweb SA	Luxemburg	Financial	€	36,256,900.00	99.99	99.99
Artes Graficas Toledo SA	Toledo	Printing	€	5,409,000.00	100.00	100.00
Editions Mondadori France SAS	Paris	Publishing	€	753,876,750.00	100.00	-
Misa Finance Fund Plc	Ireland	Financial	€	173,967.54	99.99	99.99
Mondadori Com USA Inc.					-	99.99
Mondadori International SA	Luxemburg	Financial	€	393,625,900.00	99.99	99.99
Prisco Spain SA	Barcelona	Financial	€	60,101.30	100.00	100.00

Name	Registered office	Business	Currency	Share capital expressed in local currency	% held as of 31 December 2006	% held as of 31 December 2005
Companies valued using the proportional method						
Aci Mondadori SpA	Milan	Publishing	€	590,290.00	50.00	50.00
Ag. Lombarda Distrib. Giornali e Riviste Srl	Milan	Trade	€	413,166.00	50.00	50.00
Attica Publications Group	Athens	Publishing	€	4,590,000.00	41.66	41.66
BOL Books on Line Italia SpA					-	50.00
Campania Arte S.c.a.r.l.	Rome	Services	€	100,000.00	22.00	-
Consorzio Covar	Rome	Services	€	15,493.70	25.00	25.00
Consorzio Forma	Pisa	Services	€	3,615.00	25.00	25.00
Edizioni Electa Bruno Mondadori Srl	Milan	Publishing	€	10,400.00	50.00	50.00
Edizioni EL Srl	Trieste	Publishing	€	620,000.00	50.00	50.00
Random House Mondadori SA	Barcelona	Publishing	€	6,824,606.24	50.00	50.00
Gruner + Jahr / Mondadori SpA	Milan	Publishing	€	2,600,000.00	50.00	50.00
Harlequin Mondadori SpA	Milan	Publishing	€	258,250.00	50.00	50.00
Hearst Mondadori Editoriale Srl	Milan	Publishing	€	99,600.00	50.00	50.00
Mach 2 Libri SpA	Peschiera Borromeo	Trade	€	646.250,00	24.00	24.00
Mondadori Rodale Srl	Milan	Publishing	€	90,000.00	50.00	50.00
Mondolibri SpA	Milan	Trade	€	1,040,000.00	50.00	50.00
Press TV SpA	Milan	Publishing	€	500,000.00	50.00	50.00
Roccella Scarl	Naples	Services	€	100,000.00	29.70	29.70
Rock FM Srl	Milan	Radio	€	200,000.00	47.49	47.49
Società Europea di Edizioni SpA	Milan	Publishing	€	2,775,601.92	39.27	39.27
Venezia Accademia Scarl	Venice	Services	€	15,000.00	26.00	26.00
Venezia Musei Scarl (in liquidation)						34.00
Venezia Musei Soc. per i servizi museali Scarl	Venice	Services	€	10,000,00	34.00	34.00
Companies valued at cost						
Audiradio	Milan	Services	€	258,000.00	2.32	-
Consuledit Srl	Milan	Services	€	20,000.00	9.54	9.54
Cons. Sistemi Informativi Editoriali Distributivi	Milan	Services	€	103,291.38	10.00	10.00
Editrice Portoria SpA	Milan	Publishing	€	364,000.00	16.78	16.78
Editrice Storia Illustrata Srl (in liq.)	Milan	Publishing	Lire	20,000,000	8.39	8.39
Euromedia Luxembourg Two SA	Luxemburg	Financial	US $	36,337,500.00	11.76	11.76
Giulio Einaudi Editore SpA (in administration)	Turin		Lire	3,000,000,000	7.35	7.35
Immobiliare Editori Giornali Srl	Rome	Real estate	€	830,462.00	7.88	7.88
Istud – Istituto Studi Direzionali SpA						0.59
Novamusa Gelmar Biblioteca Nazionale Scarl	Rome	Services	€	10,200.00	12.00	12.00
Novamusa Val di Noto Scarl	Messina	Services	€	90,000.00	12.00	12.00
Novamusa Valdemone Scarl	Messina	Services	€	90,000.00	12.00	12.00
Novamusa Val di Mazara Scarl	Messina	Services	€	90,000.00	12.00	12.00
SCABEC SpA	Naples	Services	€	1,000,000.00	10.78	-
Selcon Srl	Milan	Services	€	20,800.00	17.60	17.60
Società Editrice Il Mulino SpA	Bologna	Publishing	€	1,175,000.00	7.05	7.05

4. Conversion of financial statements in foreign currencies

All amounts in the consolidated financial statements of the Mondadori Group are expressed in €, which is the functional and presentation currency of the Mondadori Group.
The financial statements of companies whose functional currency is not the euro are converted into € in the following way:

- assets and liabilities are converted at the exchange rate ruling at the balance sheet date;
- income statement items are converted at the average exchange rate for the period.

Exchange rate differences that arise from these conversions are recognised in a specific reserve in shareholders' equity.

5. Segment information

In defining segment information, the Mondadori Group has determined that the nature and source of benefits and risks for the companies involved are mainly influenced by the differences in the products sold and the services offered.

Therefore the primary format used for providing segment information is the activity of the company involved and the secondary format is by geographical segment. As far as assets and liabilities which are not attributable to any specific segment are concerned, specific attribution parameters have been determined, while assets and liabilities that cannot be allocated by means of specific parameters are presented separately.

Primary and secondary segment reporting for 2006 and 2005 is included in the notes that follow.

6. Accounting principles and valuation methods

The following is an explanation of the principles adopted by the Mondadori Group in preparing the IAS/IFRS consolidated financial statements at 31 December 2006.

6.1 Intangible assets

When it is probable that costs will generate future economic benefits, intangible assets include the cost, including accessory charges, of the purchase of assets or resources, without any physical form, used in the production of goods or in the supply of services, to rent to third parties or for administrative purposes, on condition that the cost is quantifiable in a reliable manner and that the goods are clearly identifiable and controlled by the company that owns them.

Any costs incurred after the initial purchase are included in the increase of the cost of the intangible assets in direct relation to the extent to which those costs are able to generate future economic benefits.

Internal costs for producing mastheads and for the launch of newspapers, magazines or other journals are recognised in the income statement for the year in question.

Subsequent to initial recognition, intangible assets are stated at cost, net of accumulated amortisation and any accumulated impairment losses.

Intangible assets purchased separately and those purchased as part of business combinations that took place before the adoption of IAS/IFRS are initially recognised at cost, while those purchased as part of business combination operations that took place after the adoption of IAS/IFRS are initially recognised at their fair value.

Intangible assets with a definite useful life

The cost of intangible assets with a finite useful life is systematically amortised over the useful life of the asset from the moment that the asset is available for use. The amortisation criteria depend on how the Group will receive the relative future economic benefits.

The amortisation rates that generally reflect the useful lives attributed to intangible assets with a finite life are as follows:

Intangible assets with a finite useful life	Amortisation rate
Titles	Term of licence
Costs of taking over lease contracts	Term of rental contract
Goods under concession or licence	Term of franchise or licence
Software	Straight line over 3 years
Patents and rights	Straight line over 3 to 5 years
Other intangible assets	Straight line over 3 to 5 years

Intangible assets with a finite useful life are subject to an impairment test every time there is an indication of a possible loss of value. The period and method of amortisation applied is reviewed at the end of each year or more frequently if necessary.

Variations in the expected useful life or in the way future economic benefits linked to intangible assets are expected to be earned by the Group are recognised by modifying the period or method of amortisation, and are treated as changes in accounting estimate.

Intangible assets with an indefinite useful life

Intangible assets are considered to have an indefinite useful life when, on the basis of a thorough analysis of the relevant factors, there is no foreseeable limit to the length of time the assets may generate income for the Group.

The intangible assets identified by the Group as having an indefinite useful life include:

Intangible assets with an indefinite useful life
Titles
Series
Radio frequencies
Imprints
Goodwill

Goodwill represents the excess of the cost of a business combination over the share purchased by the Group of the fair value of the assets, liabilities and contingent liabilities acquired, identifiable at the time of purchase. Goodwill and the other intangible assets with an indefinite useful life are not subject to amortisation but to an impairment test of their carrying value. This test concerns the value of the individual assets or of the business unit that generates the financial income (the cash generating unit) and is carried out whenever it is believed that the value has decreased, and in any case at least once a year.

In cases where goodwill is attributed to a cash generating unit (or to a group of units) whose assets are partially disposed of, the goodwill associated with the asset disposed of is reviewed in order to determine any capital gains or capital losses resulting from the operation. In these circumstances the goodwill disposed of is measured on the basis of the value of the assets disposed of compared with the asset still included in the cash generating unit in question.

6.2 Investment property

A property investment is considered an asset when it is held in order to earn income from its rental or in order for the invested capital to increase, on condition that the cost of the asset can be reliably measured and that future economic benefits will flow to the Group.

Investment property stated at cost, which includes the purchase cost and all accessory charges directly connected to this.

Costs which arise after the initial purchase are included in the increase of the cost of the property in direct relation to how much those costs are able to generate future economic benefits higher than those originally assessed.

The cost of investment property, except for that part pertaining to the cost of the land, is systematically amortised over the useful life of the asset. The depreciation criteria depend on the how the relative future economic benefits are earned by the Group.

The depreciation rates that reflect the useful life attributed to the investments are as follows:

Investment property	Depreciation rate
Buildings not used in business activities	3%

Both the useful life and the depreciation criteria are constantly reviewed and, if any significant changes are found in the assumptions previously adopted, the depreciation rate for the period in question and for subsequent periods is adjusted.

Gains and losses deriving from the disposal of investment property are recognised in the income statement in the year the operation takes place.

Investment property is reclassified when there is a change of use determined by specific events.

6.3 Property, plant and equipment

Any costs attributable to the purchase of property, plant and equipment are recognised as assets, on condition that the costs of the asset can be reliably calculated and any relative future economic benefits and the relative future economic benefits will flow to the Group.

Assets booked to property, plant and equipment are valued at cost, including any accessory charges, and are stated net of accumulated depreciation and any impairment.

Costs which arise after the initial purchase are recognised as an increase in cost in direct relation to the extent that these costs are able to improve the performance of the asset.

Assets booked to property, plant and equipment purchased as part of acquisitions and business combinations are recognised when they are first recognised at their fair value determined at the time of their purchase and subsequently at cost.

Assets recognised as property, plant and equipment, with the exception of land, are depreciated over the useful life of the asset from the moment the assets are available for use.

If the assets include more than one significant component and the components have different useful lives, each individual component is depreciated separately.

The depreciation rates that generally reflect the useful lives attributed to property, plant and equipment are as follows:

Property, plant and equipment	Depreciation rate
Buildings used in business activities	3%
Plant	10% - 25%
Rotary press	10%
Machinery	15.5%
Equipment	25%
Electronic office equipment	30%
Furniture and fixtures	12%
Motor vehicles and transport vehicles	20% - 30%
Other assets	20%

The residual value of assets, useful lives and the depreciation criteria applied, are reviewed on an annual basis and adjusted, if necessary, at the end of every year.

Leasehold improvements are recognised as fixed assets and depreciated over the lower of the residual useful life of the asset and the residual term of the lease contract.

6.4 Finance lease assets

Assets held under finance leases, which transfer all the risks and benefits connected with the asset to the company, are booked at their market value or, if lower, at the present value of the minimum lease payments, including the amount to be paid for exercising any purchase option.

Liabilities arising from leasing contracts are recognised as financial liabilities.

These assets are booked under their respective categories in the item property, plant and equipment and depreciated over the lower of the contract term and the useful life of the asset in question.

A lease where the lessor retains substantially all the risks and benefits linked to the property is classified as an operating lease and the relative costs are recognised in the income statement over the contract term.

6.5 Borrowing costs

The Group does not capitalise any financial charges connected with the purchase, construction or production of assets that can be capitalised. These charges are recognised in the income statement in the year in which they are incurred.

6.6 Impairment

The carrying value of intangible assets, investment property and property, plant and machinery is subject to an impairment test whenever it is believed that it may have decreased.

Impairment tests are carried out at least once a year on goodwill, other intangible assets with an indefinite useful life and on other assets that are not available for use, and are performed by comparing the carrying value with whichever is the higher of the fair value less the sales cost and the value in use of the asset.

If no binding sales agreement or an active market for an asset exist, the fair value is calculated on the basis of the best information available as to the amount the Group could obtain, at the balance sheet date, from the disposal of an asset in a free transaction between informed and willing parties, after the costs of disposal have been deducted.

The value in use of an asset is determined by calculating the amount of income expected from the use of the asset, basing the forecasts of financial income on reasonable, plausible assumptions that represent the best estimates carried out by management of a series of economic conditions that exist for the remainder of the life of the asset, giving more importance to external indicators.

The pre-tax discount rate used reflects the current market value of money and the specific risks connected to the asset.

The valuation is carried out either for each individual asset or for the smallest cash generating unit of assets that generate income from the use of the assets in question.

If the value calculated by the impairment test is lower than cost, the loss is recognised as a reduction of the asset and as a cost in the income statement.

If during the subsequent financial years, when the impairment test is repeated, the reasons for the writedown no longer exist, the value of the asset, with the exception of the goodwill, is reinstated to take into account the new recoverable value which does not however, exceed the value that would have been calculated had no loss in value been recognised.

6.7 Investments in joint ventures and associated companies

This item refers to investments in companies where the control of the business activity is shared and where financial and management decisions require the unanimous consensus of all the parties who share control; and to investments in companies where the Group has a significant influence that enables it to take part in determining the financial and management policies of the company even though it does not have control or joint control.

Investments in joint-ventures and associated companies are initially measured at cost and subsequently adjusted as a consequence of any changes in the share the Group holds in the equity of the companies in question.
The Group's share of any profits and losses of such companies is recognised in the income statement.
The carrying value of these investments also contains any excess cost paid and attributed to goodwill.

The risk resulting from any losses that exceed the investee's equity is recognised as a liability to the extent that the Group is has a legal or constructive obligation or has made payments on behalf of the company in question.

6.8 Inventories

Inventories are valued at the lower of cost and net realisable value. Inventory cost includes the purchase cost, the transformation cost and the other costs involved in bringing an item to the location and condition necessary without taking into consideration financial charges.

The calculation of cost is based on the average cost of raw and consumable materials and of finished products purchased for sale, while the FIFO method is used for finished products.

The valuation of goods under construction and semi-finished products and work in progress to order is based on the cost of the materials and other costs incurred, taking into account the progress of the production process.

The presumed net value for raw, subsidiary and consumer materials is represented by replacement cost while for semi-finished and finished products by the normal estimated sales price net of, respectively, the estimated cost to completion and the sales cost.

6.9 Financial assets

Financial assets are initially measured at cost, plus the accessory purchase charges that represent the fair value of the amount paid. The purchase and sale of financial assets are valued as of the trading date, which is the date the Group agreed to purchase the asset in question. After initial measurement, financial assets are valued according to their classification as outlined below:

<u>Financial assets at fair value with changes recognised in the income statement ("at fair value through profit and loss")</u>
This category includes financial assets held for trading that have been acquired with the intention of selling them in the short term. Derivatives are classified as financial instruments held for trading, with the exception of effective hedge derivatives.

Profits and losses deriving from measuring assets held for trading at fair value are recognised in the income statement.

Held-to-maturity investments

When the Group intends to hold financial assets in its portfolio to maturity, it classifies these assets, which have fixed or determinable payments with fixed maturity, as "held-to-maturity investments".

Long-term financial investments that are held to their maturity, such as bonds, are valued after the initial valuation using the amortised cost method based on the effective interest rates, which represent the rates that will apply to the future payments or returns estimated for the entire life of the financial instrument.
The amortised cost is calculated taking into consideration any eventual discounts or premiums that will be applied during the entire period of time up to maturity.

Those financial assets that the Group decides to keep in its portfolio for an indefinite period do not come into this category.

Loans and receivables

This item includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

These assets are valued at amortised cost method using the effective discount rate method. Profits and losses are recognised in the income statement when the loans and receivables are eliminated or when a loss of value occurs, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets consist of all of those assets that do not fall into any of the categories mentioned above.

After being initially measured at cost, available-for-sale financial assets are measured at fair value. The profits and losses of the valuations are recognised in a separate item in shareholders' equity for as long as the assets are held in the portfolio and for as long as there is no loss of value.

In the case of shares widely traded on regulated markets, fair value is determined by referring to the value established at the close of trading on the balance sheet date.

For investments where an active market does not exist, fair value is determined by valuations based on recent trading prices between independent parties, on the basis of the current market value of a financial instrument that is substantially similar or from an analysis of up-to-date cash flows or of option pricing models.

Available-for-sale financial assets also include shares in other companies.

6.10 Trade receivables and other receivables

Trade receivables and other receivables are initially measured at cost, or at the fair value of the amount received during the transaction. Receivables are measured at their present values when the financial effect linked to the collection date forecast is significant and the collection date can be reliably estimated.
Receivables are subsequently recognised in the financial statements at their estimated realisable value.

6.11 Treasury shares

Treasury shares are booked in shareholders' equity in the relative reserve.
No profit or loss is recognised in the income statement on the purchase, sale, issue, cancellation or any other operation concerned with treasury shares.

6.12 Cash and cash equivalents

The item cash and cash equivalents includes liquid financial assets and financial investments with due date falling within three months and which are subject to a minimal risk of variation in their face value.

They are booked at their face value.

6.13 Financial liabilities

Financial liabilities include financial payables, derivative instruments, payables linked to financial leasing contracts and trade payables. All financial liabilities, unlike derivative financial instruments, are initially valued at fair value as increased by any cost of the related transaction and are subsequently valued at amortised cost using the effective interest rate method.
Financial instruments consisting of bonds that can be converted into shares of Arnoldo Mondadori Editore S.p.A. are recognised by separating the liability component from the option component. The liability component is recognised in the financial statements under financial liabilities applying the amortised cost method while the option value, calculated as the difference between the value of the liability component and the nominal value of the financial instrument issued, is recognised in a reserve in net equity.
Financial liabilities hedged by derivative instruments against the risk of changes in value (fair value hedges), are valued at fair value, in accordance with the methodology outlined in IAS 39 for hedge accounting. Profits and losses resulting from subsequent variations in fair value are recognised in the income statement. The portions of these changes linked to the efficient portion of the hedge are compensated for by changes in value of derivative instruments.
Financial liabilities hedged by derivative instruments against the risk of changes in the cash flow (cash flow hedges), are valued at amortised cost, in accordance with the methodology outlined in IAS 39 for hedge accounting.

6.14 Derecognition of financial assets and liabilities

A financial asset or, where applicable, a part of a financial asset or parts of a group of similar financial assets, is derecognised when:

- the right to receive cash flows from the asset has been extinguished;
- the Group still has the right to receive cash flows from the asset but has taken on a contractual obligation to transfer the entire cash flow immediately to a third party;
- the Group has transferred the right to receive cash flows from an asset and has transferred substantially all the risks and benefits deriving from the ownership of the financial asset or has transferred control of the financial asset.

A financial asset is derecognised from the balance sheet when the obligation relating to the asset is discharged, is cancelled or expires.

6.15 Impairment of financial assets

The Group performs a review to determine whether a financial asset or group of financial assets has undergone a loss of value every time the financial statements are prepared.

<u>Financial assets valued at amortised cost</u>

If there is objective evidence that there is a reduction in the value of loans and receivables, the amount of the loss is recognised in the income statement and is calculated as the difference between the asset's carrying value and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.
If, in a subsequent period, the amount of the loss of value decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised loss of value is reversed up to the amount the asset would have had, taking into account the amortisation, at the date of the reversal.

<u>Available-for-sale financial assets</u>

If an available-for-sale financial asset suffers an effective reduction in value, the accumulated loss is recognised in the income statement. The reversal of values relative to equity instruments classified as available-for-sale are not recognised in the income statement. The reversal of values relative to debt instruments are recognised in the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the loss was recognised in the income statement.

<u>Financial assets valued at cost</u>

If there is objective evidence that a loss of value has been incurred on an unquoted equity instrument that is not booked at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and settled by delivery of that unquoted equity instrument, the amount of the loss of value is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

6.16 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value at the date they are stipulated. When a hedge operation is entered into, the company designs and formally documents the hedge relationship to which it intends to apply the hedge accounting, its objectives in managing the risk and the strategy carried out. The documentation includes the identification of the hedging instrument, element or operation that is being hedged, the nature of the risk and the way the Group intends to evaluate the effectiveness of the hedge in compensating the exposure to the variations of the fair value of the element hedged or of the cash flows linked to the risk hedged.

It is expected that this hedge is effective enough to compensate for the exposure of the element hedged to variations in fair value or in cash flows attributable to the risk hedged. The evaluation of whether or not this hedge is in reality sufficiently effective is carried out on a continuous basis over the years in question.

Operations that satisfy the criteria of hedge accounting are accounted for as follows:

Fair value hedge

If a derivative financial instrument is designated as a hedge for the exposure to variations in the fair value of an asset or liability attributable to a particular risk, the profit or loss deriving from subsequent variations in the fair value of the hedge instrument is recognised in the income statement. The profit or loss deriving from the adjustment of the fair value of the item hedged, for the part attributable to the risk hedged, modifies the carrying value of the item and is recognised in the income statement.

Cash flow hedge

If a derivative financial instrument is designated as an instrument for hedging the exposure to variations in cash flows of an asset or of a liability included in the financial statement or of a highly probable forecast transaction, the effective portion of the assets or of the losses deriving from the adjustment of the fair value of the derivative instrument is recognised in a special reserve in net equity. The accumulated profit and loss are transferred from the equity reserve and recognised in the income statement when the results of the hedge operation are recognised in the income statement. The profit and loss associated with the ineffective part of a hedge are recognised in the income statement. If a hedging instrument is terminated but the hedging operation has not yet been carried out, the accumulated profits and losses remain in the reserve in the net equity and are reclassified to the income statement when the relative operation is carried out. If the hedging operation is no longer considered probable, the profits and losses not yet realised and recognised in equity are recognised in the income statement.

If hedge accounting cannot be applied, profits and losses deriving from the valuation of the fair value of the derivative financial instrument are recognised in the income statement.

6.17 Provisions

Provisions against significant losses or liabilities that are certain or probable but whose amount or date of occurrence is impossible to establish when the financial statements are prepared, are recognised when it becomes probable that a present, legal or constructive obligation exists as the result of events that happened in the past, when the obligation in question is onerous and when the amount can be reliably estimated.

Provisions are valued at fair value for each obligation. When the time value of money linked to a forecast of when the payment will be made is significant and the payment date can be reliably estimated, the provision includes the financial component which is recognised in the income statement under financial income (expense).

6.18 Employees' leaving entitlement

Benefits due to employees on leaving a company may be separated into defined contribution plans and defined benefit plans. In defined contribution plans, the legal or constructive obligation of a company is limited to the amount of the contributions it has paid to the plan, and as a result the actuarial risk and the investment risks fall on the employee. In defined benefit plans, the obligation of a company consists in granting and guaranteeing agreed benefits to employees, therefore the actuarial and investment risks fall on the company itself. In accordance with IAS 19, the Italian employees' leaving entitlement (the "trattamento di fine rapporto" or "TFR") is classified as a defined benefit plan.

The TFR obligation is determined using an actuarial method, based on demographic assumptions taking into account mortality rates and the turnover of the workforce, and on financial assumptions, taking into account the discount rate that reflects the time value of money, the inflation rate and future salary and wage levels.
The amount recognised as a liability for defined benefit plans is represented by the present value of the obligation at the balance sheet date, net of the present value of any plan assets. The amount that is recognised as costs in the income statement also includes the following:

- social security costs relative to the current work;
- interest costs;
- actuarial gains or losses;
- the return expected from any plan assets.

The Group does not apply the corridor method and therefore recognises all actuarial gains and losses directly in the income statement.

The charge for the amount accruing to employees during the year and the actuarial gains or losses are booked under personnel costs, while the financial component, which represents the cost the company would have to incur if it were to seek a loan on the market for the amount of the obligation, is booked under financial income (expense).
The termination indemnity for agents is also determined on an actuarial basis. The charge for the estimated amount accruing to agents during the year, which becomes payable only under certain conditions if the agency relationship is terminated, is booked under other income (expense).

6.19 Stock options

The Group grants additional benefits to certain directors and managers who carry out functions that are relevant for the attainment of the company's strategic results, through equity-settled stock option plans. In accordance with IFRS 2, these stock options are measured at their fair value at the time they are granted. Fair value is determined on the basis of a binomial model, taking into consideration the regulations of the individual plans.

The cost of these benefits is booked during the period of service to personnel costs and is recognised over the vesting period from the date the options are granted, with an equal amount being recognised in the "Reserve for stock options" in shareholders' equity.

At the end of every year, the previously calculated fair value of every option is neither reviewed nor updated, but remains unchanged in shareholders' equity, although the estimate of the number of options that mature up to the expiry date (and therefore the number of employees who have the right to exercise these options) is updated at that time. Any change in this estimate is recognised in the "Reserve for stock options" and in personnel costs in the income statement.

When the option is exercised, the amount booked under "Reserve for stock options" is reclassified in the following way: the part of shareholders' equity that refers to options that have been exercised is reclassified to the "Share premium reserve", while the part of the "Reserve for stock options" that refers to options that have been cancelled or that have not been exercised is reclassified to "Other reserves".

The dilutive effect of options that have not yet been exercised is reflected in the calculation of the diluted earnings per share.

The Group has applied the provisions contained in IFRS 2 for all stock option plans assigned after 7 November 2002.

6.20 Recognition of revenues and costs

Revenues earned from the sale of goods are recognised net of discounts, allowances and returns when it is probable that the economic benefits arising from the sale will flow to the Group and when the amount of the revenues can be reliably determined.

Revenues earned from the sale of magazines and the relative advertising space are recognised on the basis of the date of publication of the magazines.

Revenues deriving from services are recognised on the basis of the time the services are completed, when it is probable that the economic benefits arising from the sale will flow to the Group and when the amount of the revenues can be reliably calculated.

Revenues from interest are recognised on a temporal basis using the method of effective interest; royalties are recognised on an accrual basis and on the basis of the details of the respective agreements; dividends are recognised when the shareholder's right to receive payment has been established.

Costs are recognised in the same way as income and on an accrual basis.

6.21 Current and deferred taxes

Current taxes are calculated on the basis of an estimate of taxable income and in accordance with the laws prevailing in each country where the individual consolidated companies are resident.

Deferred tax assets and liabilities are calculated on all the temporary differences between the tax base of assets and liabilities and their relative carrying values in the consolidated financial statements, with the exception of the following:

- temporary taxable differences deriving from the initial recognition of goodwill;
- temporary taxable or deductible differences resulting from the initial recognition of an asset or a liability in an operation that is not a business combination and which does not influence either the result or the taxable income at the time of the operation in question;
- for investments in subsidiary, associated and jointly-controlled companies when:
  - the Group is able to control the timing of the reversal of temporary taxable differences and it is probable that these differences will not reverse in the foreseeable future;
  - it is not probable that deductible temporary differences will reverse in the foreseeable future and that taxable profit will be available against which the temporary differences can be utilised.

The carrying value of deferred tax assets is reviewed at the end of every period and is reduced if it is no longer probable that sufficient taxable profit will be available in the future for realising all or part of the assets.
Deferred tax assets and liabilities are calculated on the basis of the tax rates that are expected to apply to the period when the assets are realised or the liabilities settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Taxation relating to items recognised directly in equity is recognised directly in equity and not in the income statement.

6.22 Operations in foreign currencies

Revenues and costs relating to operations in foreign currencies are expressed in the money of account using the exchange rates ruling on the day the operation was carried out.
Monetary assets and liabilities in foreign currencies are converted at the exchange rate ruling at the balance sheet date and any exchange differences are recognised in the income statement, with the exception of those deriving from loans in foreign currencies that are hedged by a net investment in a foreign company, which are recognised directly in equity until the net investment is disposed of.
Non-monetary items valued at historical cost in foreign currencies are converted using the exchange rates ruling at the time the transaction was carried out. Non-monetary items booked at fair value in foreign currencies are converted using the exchange rates ruling at the time that fair value was calculated.

6.23 Grants and contributions

Grants and contributions are recognised if there is a reasonable certainty that they will be received and if all the conditions referring to them are satisfied. When the grants are linked to cost items, they are recognised as income and recognised on a systematic basis so that they are in proportion to the costs they are intended to set off or partially set off. In the cases where a grant is linked to an asset, the relative fair value is deferred in long-term liabilities and is recognised in the income statement at a constant rate over the useful life of the asset in question.

6.24 Earnings per share

Earnings per share is as the ratio between the Group's net profit and the average number of shares outstanding during the period.
In order to calculate diluted earnings per share, the average number of shares outstanding is modified on the assumption that all potential shares with dilutive effect are converted.

6.25 Assets and liabilities held for sale and discontinued operations

Non-current assets and groups of assets and liabilities whose carrying value will be mainly recovered through disposal instead of continuous use, are presented separately from other assets and liabilities in the consolidated balance sheet. These assets and liabilities are classified as "assets and liabilities held for sale" and are valued at the lower of their carrying value and their fair value less probable disposable costs. Gains and losses, net of the related tax effect, resulting from the valuation or disposal of the assets or liabilities in question are recognised in a specific item in the income statement.

6.26 Accounting standards and interpretations adopted by the European Union with effect from 1 January 2006 and applicable to the Mondadori Group

Amendment to IAS 19 – Employee benefits

This amendment, adopted by the European Union in November 2005 (EC Regulation 1910-2005), provides the option to immediately recognise actuarial gains and losses in the financial year they arise, not in the income statement but directly in a specific item in equity. The Mondadori Group has elected to not adopt this option.

IFRIC Interpretation 4- Determining whether an Arrangement contains a Lease

This interpretation, adopted by the European Union in November 2005 (EC Regulation 1910-2005), states that agreements that do not take the legal form of a lease but contain the right to use an asset must be classified as a finance lease or an operating lease as per IAS 17. The Mondadori Group adopted this interpretation with effect from 1 January 2006, without noting any significant impact.

Amendment to IAS 39- Financial instruments: analysis and evaluation

The amendments adopted by the European Union with effect from 1 January 2006 concern:
- financial guarantee contracts,
- hedge accounting for forecast intragroup operations,
- utilisation of fair value options.

The Mondadori Group adopted these amendments with effect from 1 January 2006, without noting any significant impact.

6.27 New standards and interpretations adopted by the European Union but not yet effective and applicable to the Mondadori Group

As required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the possible impact of new standards or interpretations on the financial statements in their first year of application are listed below.
Those standards and interpretations which came into effect after 31 December 2006 are indicated and briefly illustrated.

IFRS 7 - Financial instruments: disclosures
This principle, adopted by the European Union in January 2006 (EC Regulation 108/2006) assimilates the disclosures section contained in IAS 32 (Financial Instruments: Disclosure and Presentation) with modifications and integrations.
In particular, the new principle requires information about the exposure to risks deriving from the utilisation of financial instruments and the procedures adopted by the management to deal with these risks.

IAS 1 – Presentation of the financial statements: information about the capital
The modification issued by the IASB in August 2005 introduced the requirement to provide information about a company's capital.

IFRIC 9 – Evaluation of implicit derivatives
The interpretation issued by the IFRIC in March 2006 requires the evaluation of the existence of derivatives implicit in the primary contract to be revealed and entered separately.
Subsequently, the company cannot carry out this evaluation unless there are significant changes made to the contract that affect the cash flow.

IFRS 8 – Operational segment
The new principle, which replaced IAS 14, requires the company to identify the operational segments on the basis of the internal reporting regulations used by the management for analysing performances.

IFRIC 11 – Treasury stock transactions
This interpretation requires stock-based payment plans, where the company receives services in exchange for treasury stock, to be booked as capital instruments.

The Group is evaluating the impact of the standards and interpretations referred to above, all of which came into effect on 1 January 2007.

7. Use of estimates

In preparing the attached tables and the relative notes, it has been necessary to use estimates and assumptions in order to calculate, in particular, the provision for returns for published products, provisions for the writedowns of assets and for risks, employee benefits and taxation and the value of some non-current assets included in the goodwill.

These estimates are constantly reviewed and any effects are recognised in the income statement.

8. Business combinations and other acquisitions

Business combinations are recognised using the purchase method envisaged by IFRS 3. Under the purchase method, cost is determined as the sum of the fair values at the date of the operation of the assets and liabilities acquired, including any contingent liabilities assumed and equity instruments issued by the purchaser in exchange for the control of the company purchased, plus any costs directly attributable to the purchase.

Any excess of purchase cost over the Group's share of the fair value of the assets, liabilities and contingent liabilities acquired and identifiable at the time of purchase is recognised as goodwill under assets. If this difference is negative it is recognised directly in the income statement.

9. Risk management

When carrying out its business activities the Mondadori Group finds itself exposed to various financial risks, such as interest rate risk, exchange rate risk, price risk, credit/counterparty risk, issuer risk and liquidity risk.

In order to manage interest rate risk and exchange rate risk, which result from its sources of financing, the Mondadori Group uses derivative financial instruments, in particular interest rate swaps and cross currency swaps. The Group also forward currency contracts in connection with the production and printing of publications for foreign markets.

Financial risk management is regulated by a policy adopted at Group level that defines objectives, guidelines, strategies, operational methods and operational limits, and which permits the use of transactions in derivatives only to hedge the financial risks the Group is exposed to, which are explained in more detail below.

Interest rate risk

The Group's exposure to fluctuations in interest rates mainly arises from its medium-long term loans, in particular the bond denominated in US dollars (US Private Placement) underwritten by American institutional investors and the loan granted by a pool of international banks for the purchase of the French publishing group, Emap France.

In order to hedge the risk of fair value to the situation in the case of the US Private Placement, in October 2003 the Group entered a cross currency swap agreement for the same amount and with the same due date, that converts the fixed interest rate into a floating interest rate and the dollar exposure into a euro exposure. Given the change in the Group's net financial position as a result of this operation, in 2006 an interest rate swap operation on 50% of the Term Loan part of the bank loan of €500 million used for the purchase in France was carried out, in order to balance out the interest rate risk. This operation converted part of the floating interest variable rate into a fixed interest rate.

Currency exchange risk

In order to hedge exchange risks resulting from the sale of US dollars and sterlings earned from the production and printing activities of subsidiary companies, the Group uses forward sales contracts for the currencies in question. The Group's policy is to cover a percentage of the positions forecast in the budget and all of the orders received.

Price risk

The price risk refers to the uncertainty associated mainly with variations in the market price of equity instruments and to the loss of value in assets/liabilities as a result of variations in commodity prices.

At 31 December 2006, the Group was exposed to the risk of fluctuations in the cost of paper. In order to reduce the variability of the market price of paper, long-term commercial contracts are signed directly with suppliers, making it possible to absorb any eventual increases in purchase costs.

Credit/counterparty risk and the risk of the unavailability of funds

The trading activities of the Mondadori Group do not entail any significant credit risk. When carrying out financial operations, including the use of derivative instruments, the Mondadori Group only works with primary financial institutions.

The risk of not being able to convert the financial assets held by the Mondadori Group into liquid assets is managed by diversifying investment instruments and by controlling the concentration of these instruments and the financial institutions involved.

Issuer risk

This risk exists if a company holds corporate bonds or financial instruments with credit portfolios as the underlying.

This risk includes debtor insolvency and the deterioration of the receivable. In order to deal with this risk, the Group has specific guidelines on financial investments that establish the minimum rating of the counterparty.

Liquidity risk

The Group attempts to maintain a constant balance and flexibility between financial sources and investments. The Group currently uses medium- and long-term loans (bonds, convertible bonds, subsidised loans) with non-banking financial institutions and medium-long term loans (bank loans – facility agreements) with banks, making it possible if necessary to make use of bank guarantees already held by the Group.

1- Business combinations

In accordance with IFRS 3 accounting principles, the business combination operations carried out in 2006 are described below.

1.1 Purchase of Emap France Group

The operation

On 31 August 2006 Arnoldo Mondadori Editore SpA, through its subsidiary company Mondadori France SA, completed the purchase of the entire share capital of Emap International Magazines Sas (the "Emap France Group") from the British publishing company Emap Consumer Media Ltd.

In France the Emap France Group is the third biggest magazine publisher in terms of volume and in terms of sales shares the position of leader with two other competitors.

The operation has a very important strategic and financial value and is part of the Mondadori Group's policy of international growth that it has been pursuing in recent years.

The purchase of one of the biggest magazine publishers operating on the French market, the biggest in Europe in terms of sales, has enabled Mondadori to become one of the major European players.

Cost of purchase

The cost of the operation amounted to €754,115 thousand and is broken down as follows:

	€,000
Cost of purchase of 100% of Emap France Group	747,828
Costs linked to purchase	6,287
Total cost	754,115
Liquidity utilised for the purchase:	
- Liquidity of Emap France Group	18,895
- Payments made	(556,019)
Liquidity utilised	(537,124)

The financial cost of the operation, which amounted to €556,019 thousand including the relative accessory costs, was financed in the following way:

- through the disposal of financial assets for a value of €260,000;
- with the remainder made up of a medium-long term loans.

In addition, the Mondadori Group took over a debt of €198,096 thousand that was originally held by the owner of the French Group. When the purchase went ahead the seller passed on the debt to the Mondadori Group, which subsequently used it to partially reduce the amount paid for the purchase transaction.

No shares or other similar instruments or derivative instruments were issued or included in the purchase cost.

Determination of the fair value of the acquired assets and liabilities

The fair value of the assets and liabilities of the Emap France Group at the time of the purchase were as follows:

€,000	Note	Carrying value	Fair value
Intangible assets	I	**311,629**	**656,228**
Property investments		-	-
Land and buildings		-	-
Plant and machinery		3,830	3,830
Other tangible fixed assets		4,296	4,296
Property, plant and equipment		**8,126**	**8,126**
Investments accounted for using the equity method	II	25,084	15,973
Other investments		5	5
Total investments		**25,089**	**15,978**
Non-current financial assets		582	582
Advance tax assets	III	5,569	11,080
Other non-current assets		1,803	1,803
Total non-current assets		**352,798**	**693,797**
Tax credits		5,185	5,185
Other current assets		9,863	9,863
Inventories		8,621	8,621
Trade receivables		90,582	90,582
Other current financial assets		188,670	188,670
Cash and cash equivalents		18,895	18,895
Total current assets		**321,816**	**321,816**
Total assets		**674,614**	**1,015,613**
Reserves	IV	8,311	24,318
Employees' leaving entitlements and termination indemnities		3,396	3,396
Non-current financial liabilities		42	42
Deferred tax liabilities	III	805	58,820
Other non-current liabilities		-	-
Total non-current liabilities		**12,554**	**86,576**
Income tax liabilities		6,707	6,707
Other current liabilities		82,007	82,007
Trade liabilities		82,437	82,437
Bank loans and other financial liabilities		3,771	3,771
Total current liabilities		**174,922**	**174,922**
Total liabilities		**187,476**	**261,498**

The fair value of the acquired assets and liabilities was determined as follows:

I – Intangible assets

The fair value of intangible assets includes the value attributed to the magazine titles of the Group purchased for €238,200 thousand and goodwill for €412,905 thousand.

Goodwill is determined as the residual difference between the cost of the operation and the net equity acquired, after the fair value of all the assets and liabilities involved in the operation have been expressed.

The value assigned by the Directors to the titles and goodwill was confirmed by independent experts.

II – Investments accounted for using the net equity method
The fair value of investments accounted for by using the net equity method includes the value attributed to magazine titles net of the fiscal component calculated by taking into account the temporary difference between the fair value of the titles and their fiscal vale.

III – Advance tax assets, deferred tax liabilities
The definition of the fair value of the acquired assets and liabilities revealed the temporary difference between the fair value of these assets and liabilities and their fiscal value. Consequently, advance and deferred taxes were registered with reference to the risk reserves and to the fair value of the titles.

IV - Reserves
The fair value of reserves includes the liabilities derived from the application of specific contractual clauses that, as a result of the control of the Group passing to the Mondadori Group, resulted in the purchaser being responsible for obligations to some categories of employees.

In accordance with IFRS 3 accounting principles, the acquisition was provisionally recognised at the end of the year. More detailed verifications of the complete and precise identification and determination of the fair value of some assets is currently being carried out, which could result in the book values connected to the purchase being adjusted within the next twelve months.

Other information
In accordance with IFRS 3 accounting principles, the economic and financial effects of the purchase of the Emap France Group are shown in the consolidated financial statements of the Mondadori Group as from 1 September 2006, the date when Mondadori took control of the French group.

Due to the fact that the company fiscal year of the companies belonging to the Emap France Group (1 April to 31 March) is different from the Mondadori Group's fiscal year, it was not possible to determine the net result of the Mondadori Group as if the purchase operation had been concluded on 1 January 2006.
In the last fiscal year before the purchase, which closed on 31 March 2006, the Emap France Group registered revenues of approximately €440 million, thanks to the publication of over 40 titles.

The net profit of the Emap France Group, calculated from the date of purchase up until the closure of the Mondadori Group's financial statements (31 December 2006), is included in the consolidated net profit and amounted to €6,415 thousand.

Further information relating to the purchase in question was published on 15 September 2006 in the Information Document, drawn up in accordance with article 71 of the Regulations adopted by CONSOB resolution 11971 of 14 May 1999 and subsequent modifications.

1.2 Purchase of Messaggerie Musicali SpA

The operation

On 29 December 2006 Arnoldo Mondadori Editore SpA, through its subsidiary Mondadori Retail SpA, completed the purchase of the entire share capital of Messaggerie Musicali SpA from the Sugar Group.

Messaggerie Musicali SpA operates in the sector concerned with selling publishing and multimedia products directly to the public, particularly music and videos, through its two mega-stores in Milan and Rome.
In the last fiscal year, which closed on 30 June 2006, Messaggerie Musicali SpA registered revenues of €30.8 million and a gross operating margin of €2.2 million.

The purchase adds new impetus to developing the network of Mondadori bookshops, widens Mondadori's presence on a national scale and, thanks to the prestigious location of the two mega-stores, consolidates its growth policy aimed at improving the profit levels of the Group's publishing business.

Cost of purchase

The cost of the operation amounted to €24,154 thousand and is broken down as follows:

	€,000
Cost of purchase of 100% of Messaggerie Musicali SpA	24,000
Costs linked to purchase	154
Total cost	24,154

Liquidity utilised for the purchase:	
- Liquidity of Messaggerie Musicali SpA	5,677
- Payments made	(24,154)
Liquidity utilised	(18,477)

No shares or other similar instruments or derivative instruments were issued or included in the purchase cost.

Determination of the fair value of the acquired assets and liabilities

The fair value of the assets and liabilities of Messaggerie Musicali SpA at the time of the purchase were as follows:

€,000	Note	Carrying value	Fair value
Intangible assets	I	**158**	**33,352**
Property investments		-	-
Land and buildings		-	-
Plant and machinery		917	917
Other tangible fixed assets		2,032	2,032
Property, plant and equipment		**2,949**	**2,949**
Investments accounted for using the equity method		-	-
Other investments		-	-
Total investments		0	0
Non-current financial assets		-	-
Advance tax assets		212	212
Other non-current assets		-	-
Total non-current assets		**3,319**	**36,513**
Tax credits		15	15
Other current assets		372	372
Inventories		4,372	4,372
Trade receivables		1,008	1,008
Other current financial assets		-	-
Cash and cash equivalents		5,677	5,677
Total current assets		**11,444**	**11,444**
Total assets		**14,763**	**47,957**
Reserves		18	18
Employee's leaving entitlement and termination indemnities	II	1,203	1,136
Non-current financial liabilities		-	-
Deferred tax liabilities	III	-	12,387
Other non-current liabilities		-	-
Total non-current liabilities		**1,221**	**13,541**
Income tax liabilities		167	167
Other current liabilities		1,134	1,134
Trade liabilities		8,961	8,961
Bank loans and other financial liabilities		-	-
Total current liabilities		**10,262**	**10,262**
Total liabilities		**11,483**	**23,803**

The fair value of the acquired assets and liabilities was determined as follows:

I – Intangible assets

The fair value of the intangible assets includes the value attributed to the expense for taking over the rental contracts for the two mega-stores, situated in the centre of Milan and Rome, for €33,194 thousand.

This value, which was determined by the Directors, was confirmed by independent experts on the basis of an analysis of the value of the rental contracts and the compensation that is generally paid in Milan and Rome for taking over a rental contract for shops with similar characteristics and locations.

II – Employees' leaving entitlements and termination indemnities
The fair value of these includes the valuation of the leaving entitlements according to IAS/IFRS accounting principles, which resulted in a reduction of €67 thousand in liabilities.

III – Deferred tax liabilities
The definition of the fair value of the assets and liabilities acquired revealed a temporary difference between the fair value of these assets and liabilities and the corresponding fiscal value.
Consequently, deferred taxes of €12,387 thousand were registered.

Other information

In accordance with IFRS 3 accounting principles, the economic and financial effects of the purchase of Messaggerie Musicali SpA are shown in the consolidated financial statements of the Mondadori Group as from 31 December 2006, the date when Mondadori took control of the company.

Due to the fact that the company fiscal year of Messaggerie Musicali SpA (1 July to 30 June) is different from the Mondadori Group's fiscal year, it was not possible to determine the net result of the Mondadori Group as if the purchase operation had been concluded on 1 January 2006.
Revenues from sales and services booked to the last financial statements of 30 June 2006 amounted to €30.8 million.

In accordance with IFRS 3 accounting principles, the acquisition was provisionally recognised at the end of the year. More detailed verifications of the complete and precise identification and determination of the fair value of some assets is currently being carried out, which could result in the book values connected to the purchase being adjusted within the next twelve months.

1.3 Purchase of 10% of Edizioni Piemme SpA
In April 2006, Arnoldo Mondadori Editore SpA purchased 10% of the share capital of Edizione Piemme SpA from Messaggerie Italiane SpA.

Since before the transaction Mondadori already held 70% of the share capital of Edizioni Piemme SpA, and therefore had financial and management control of the company, in accordance with IFRS 3 accounting principles the operation was not classified as a business combination.

The difference between the amount paid, equal to €2,500 thousand, and the net assets acquired, equal to €1,188 thousand, was recognised as goodwill in intangible assets.

2- Intangible assets

The composition of and changes in intangible assets are described and commented on below:

Intangible assets	€,000 31 December 2006	€,000 31 December 2005
Intangible assets with finite useful lives	56,331	2,812
Intangible assets with indefinite useful lives	861,744	216,597
Total intangible assets	**918,075**	**219,409**

The following two tables show the changes in intangible assets in 2005 and 2006.

In 2006 the main operations concerned the purchase of the Emap France Group and Messaggerie Musicali SpA, as can be seen in the item "Changes in consolidation area", which mainly refers to the fair value of the magazine titles and the expense for taking over shop rental contracts.

The magazine titles were classified as intangible assets with an indefinite life since they are regulated by a licence contract and are amortised on the basis of their relative duration.

On the basis of the results of impairment tests, no writedowns were necessary during the current year or the previous year.

There is no restriction on the availability or use of intangible assets.

Intangible assets with finite useful lives (€,000)	Titles	Expenses for taking over shop leasing contracts	Software	Licences, patents and rights	Other intangible assets	Intangible assets under construction and advances	Total
Cost at 1 January 2005	-	4,398	8,184	960	1,489	48	15,079
Investments	-	-	896	23	2	-	921
Disposals	-	-	(115)	-	-	-	(115)
Other changes	-	(17)	191	(252)	(1,389)	(48)	(1,515)
Cost at 31 December 2005	0	4,381	9,156	731	102	0	14,370
Accumulated amortisation and impairment losses at 1 January 2005	-	2,278	6,475	856	1,112	-	10,721
Amortisation	-	534	1,422	47	17	-	2,020
Writedowns/reinstatement of value	-	-	-	-	-	-	0
Disposals	-	-	(74)	-	-	-	(74)
Other changes	-	(17)	204	(219)	(1,077)	-	(1,109)
Accumulated amortisation and impairment losses at 31 December 2005	0	2,795	8,027	684	52	0	11,558
Net book value at 1 January 2005	0	2,120	1,709	104	377	48	4,358
Net book value at 31 December 2005	**0**	**1,586**	**1,129**	**47**	**50**	**0**	**2,812**

Intangible assets with finite useful lives (€,000)	Titles	Expenses for taking over shop leasing contracts	Software	Licences, patents and rights	Other intangible assets	Intangible assets under construction and advances	Total
Cost at 31 December 2005	-	4,381	9,156	731	102	0	14,370
Investments	-	628	1,630	75	10	75	2,418
Disposals	-	-	(8)	-	(1)	-	(9)
Changes in consolidation area	15,000	33,194	10,113	3,351	-	255	61,913
Other changes	-	-	9	-	(2)	(217)	(210)
Cost at 31 December 2006	15,000	38,203	20,900	4,157	109	113	78,482
Accumulated amortisation and impairment losses at 31 December 2005	-	2,795	8,027	684	52	-	11,558
Amortisation	167	465	1,248	318	21	-	2,219
Writedowns/reinstatement of value	-	-	-	-	-	-	0
Disposals	-	-	(8)	-	(1)	-	(9)
Changes in consolidation area	-	-	8,176	330	-	-	8,506
Other changes	-	-	(121)	-	(2)	-	(123)
Accumulated amortisation and impairment losses at 31 December 2006	167	3,260	17,322	1,332	70	0	22,151
Net book value at 31 December 2005	0	1,586	1,129	47	50	0	2,812
Net book value at 31 December 2006	**14,833**	**34,943**	**3,578**	**2,825**	**39**	**113**	**56,331**

The following data refer to intangible assets with an indefinite useful life.
Also in this the purchase of the French Group greatly affected the balance of the titles and goodwill. Further details can be found in Note 1 – Business combinations.
Additional investments were made in strengthening the signal of Radio R101.

Intangible assets with indefinite useful lives (€,000)	Titles	Series	Imprints	Radio frequencies	Goodwill	Total
Cost at 1 January 2005	98,158	31,509	5,384	-	13,793	148,844
Investments	-	-	385	77,577	-	77,962
Disposals	-	-	-	(475)	-	(475)
Other changes	-	-	-	-	(15)	(15)
Cost at 31 December 2005	98,158	31,509	5,949	77,102	13,727	226,445
Impairment at 1 January 2005	8,331	-	20	-	51	8,402
Writedown/reinstatement of value	1,123	-	14	180	-	1,317
Impairment at 31 December 2005	9,454	0	214	180	0	9,848
Net book value at 1 January 2005	89,827	31,509	5,364	0	13,742	140,442
Net book value at 31 December 2005	**88,704**	**31,509**	**5,735**	**76,922**	**13,727**	**216,597**

Intangible assets with indefinite useful lives (€,000)	Titles	Series	Imprints	Radio frequencies	Goodwill	Total
Cost at 31 December 2005	98,158	31,509	5,949	77,102	13,727	226,445
Investments	-	-	-	12,924	-	12,924
Disposals	-	-	-	(3,490)	-	(3,490)
Changes in consolidation area	223,200	-	-	-	414,285	637,485
Other changes	-	-	-	-	-	0
Cost at 31 December 2006	321,358	31,509	5,949	86,536	428,012	873,364
Impairment at 31 December 2005	9,454	-	214	180	-	9,848
Writedown/reinstatement of value	772	-	900	68	36	1,776
Other changes	-	-	-	(4)	-	(4)
Impairment at 31 December 2006	10,226	0	1,114	244	36	11,620
Net book value at 31 December 2005	88,704	31,509	5,735	76,922	13,727	216,597
Net book value at 31 December 2006	**311,132**	**31,509**	**4,835**	**86,292**	**427,976**	**861,744**

Amortisation, impairment and reinstatement of value of intangible assets

The following table summaries the amounts charged to the income statement under the item "Amortisation and impairment of intangible assets" for the amortisation of intangible assets with definite useful lives and the writedown and reinstatement in value of intangible assets with indefinite lives.

Amortisation and impairment of intangible assets	€,000 31 December 2006	€,000 31 December 2005
Titles	167	-
Expenses for taking over shop leasing contracts	465	534
Software	1,248	1,422
Licences, patents and rights	318	47
Other intangible assets	21	17
Total amortisation and impairment of intangible assets	**2,219**	**2,020**
Writedowns of intangible assets	1,776	1,317
Reinstatement of value of intangible assets	-	-
Total writedowns (reinstatement) of intangible assets	**1,776**	**1,317**
Total amortisation and impairment of intangible assets	**3,995**	**3,337**

When carrying out the annual impairment test for magazine titles, imprints and goodwill, the recoverable amount of an asset was estimated by determining its value in use and, where possible, its fair value.

When estimating the value in use, use was made of the forecast data included in the 2007-2009 three-year plan approved by the management, which expresses the best forecast based on the financial conditions that exist for the remaining useful life of the asset.
The cash flow was considered to be constant for the period beyond the forecast.

The calculation of the cash flow relating to the individual assets or cash generating units included in the impairment test was based on a rate of 7.41%, which also took into account the Capital Asset Pricing Model.

The value of titles and imprints, each one of which represents a cash generating unit, mainly refer to the purchases of Silvio Berlusconi Editore, which took place in 1994, and the Emap France group, which took place in 2006.

In 2006, following a test carried out to establish any eventual reduction in value, based on an estimate of value in use, an overall writedown of €1,708 thousand was made referring to a minor title, the relative goodwill and an imprint.

With reference to the assets of Emap France, the value of the titles and goodwill was confirmed by independent experts.

Series mainly refer to the purchase on the market of the school textbook division of Edumond Le Monnier S.p.A., which has been identified as a cash generating unit in the education sector.
Goodwill was attributed to certain publishing imprints included in this cash generating unit

The fair value of radio frequencies is supported by independent appraisals carried out by third party experts as of the acquisition date and by an update of the value as of the balance sheet date which confirm their carrying value.
In addition, an impairment test was carried out to determine the reduction in value taking into account the value in use, at the end of which it was necessary to writedown some frequencies for a total of €68 thousand.

3- Investment property

The composition of and changes in investment property are described and commented on below.

Investment property **€,000**	Land	Non-business buildings	Total
Cost at 1 January 2005	2,624	15,128	17,752
Investments	-	268	268
Disposals	(1,670)	(6,911)	(8,581)
Other changes	-	-	0
Cost at 31 December 2005	954	8,485	9,439
Accumulated depreciation and impairment losses at 1 January 2005	-	5,066	5,066
Depreciation	-	322	322
Writedowns/reinstatement of value	-	-	0
Disposals	-	(1,472)	(1,472)
Other changes	-	-	0
Accumulated depreciation and impairment losses at 31 December 2005	0	3,916	3,916
Net book value at 1 January 2005	2,624	10,062	12,686
Net book value at 31 December 2005	**954**	**4,569**	**5,523**

The decrease in investment property over the year is the result of the disposal of two properties which were considered non-strategic for the Group. This operation produced capital gains of €400 thousand.

Investment property €,000	Land	Non-business buildings	Total
Cost at 31 December 2005	954	8,485	9,439
Investments	-	-	0
Disposals	-	-	0
Other changes	-	(581)	(581)
Cost at 31 December 2006	954	7,904	8,858
Accumulated depreciation and impairment losses at 31 December 2005	-	3,916	3,916
Depreciation	-	228	228
Writedowns/reinstatement of value	-	-	0
Disposals	-	-	0
Other changes	-	(30)	(30)
Accumulated depreciation and impairment losses at 31 December 2006	0	4,114	4,114
Net book value at 31 December 2005	954	4,569	5,523
Net book value at 31 December 2006	**954**	**3,790**	**4,744**

The fair value of investment property at 31 December 2006 was €14 million.

Depreciation of investment property

The depreciation charge for the year amounted to €228 thousand, included in the income statement under "Depreciation and impairment of property, plant and equipment", compared to €322 thousand in 2005.

There are no restrictions on the use of assets classified as investment property.

4- Property, plant and equipment

The following table shows the changes in 2005 and 2006.

Property, plant and equipment €,000	Land	Business buildings	Plant and equipment	Other assets	Total
Cost at 1 January 2005	21,096	94,748	382,476	87,907	586,227
Investments	-	937	11,672	34,991	47,600
Disposals	(550)	(847)	(9,520)	(3,532)	(14,449)
Other changes	-	3	(94)	(743)	(834)
Cost at 31 December 2005	20,546	94,841	384,534	118,623	618,544
Accumulated depreciation and impairment losses at 1 January 2005	-	25,199	295,203	68,655	389,057
Depreciation	-	2,946	21,536	8,004	32,486
Writedowns/reinstatement of value	-	-	-	-	0
Disposals	-	(157)	(8,426)	(3,175)	(11,758)
Other changes	-	-	(82)	(72)	(154)
Accumulated depreciation and impairment losses at 31 December 2005	0	27,988	308,231	73,412	409,631
Net book value at 1 January 2005	21,096	69,549	87,273	19,252	197,170
Net book value at 31 December 2005	**20,546**	**66,853**	**76,303**	**45,211**	**208,913**

Property, plant and equipment €,000	Land	Business buildings	Plant and equipment	Other assets	Total
Cost at 31 December 2005	20,546	94,841	384,534	118,623	618,544
Investments	-	2,697	18,095	18,534	39,326
Disposals	-	(1,137)	(3,881)	(5,143)	(10,161)
Changes in consolidation area	-	-	11,077	25,180	36,257
Other changes	-	1,126	12,172	(24,210)	(10,912)
Cost at 31 December 2006	20,546	97,527	421,997	132,984	673,054
Accumulated depreciation and impairment losses at 31 December 2005	-	27,988	308,231	73,412	409,631
Depreciation	-	3,022	22,534	7,872	33,428
Writedowns/reinstatement of value	-	500	740	-	1,240
Disposals	-	(375)	(3,762)	(3,971)	(8,108)
Changes in consolidation area	-	-	6,330	18,852	25,182
Other changes	-	60	(10,086)	(160)	(10,186)
Accumulated depreciation and impairment losses at 31 December 2006	0	31,195	323,987	96,005	451,187
Net book value at 31 December 2005	20,546	66,853	76,303	45,211	208,913
Net book value at 31 December 2006	**20,546**	**66,332**	**98,010**	**36,979**	**221,867**

Apart from the changes due to different consolidation parameters, there were also investments in the Group's printing facilities, in fitting out new bookshops opened by Mondadori Retail SpA and in the normal replacement of obsolete office equipment by other Group companies.

During the year it was necessary to carry out writedowns following an impairment test of two buildings used in business activities, for a total of €1,240 thousand.

Property, plant and equipment includes buildings and plant for a carrying value of €114,181 thousand (€96,484 thousand at 31 December 2005), which acts as a security for loans.

Other tangible fixed assets include:

Other tangible fixed assets €,000	31 December 2006	31 December 2005
Industrial and commercial equipment	7,965	5,734
Electronic office machines	6,398	5,017
Furniture and fixtures	7,116	4,505
Motor vehicles and transport vehicles	2,235	1,977
Leasehold improvements	3,325	2,285
Other assets	300	543
Assets under construction and advances	9,640	25,150
Total other tangible fixed assets	**36,979**	**45,211**

Depreciation of property, plant and equipment

The depreciation charge for the year, included in the income statement under "Depreciation and impairment of property, plant and equipment" amounted to €34,669 thousand, and was made up as follows:

Depreciation of property, plant and equipment €,000	31 December 2006	31 December 2005
Buildings used in business activities	3,022	2,946
Plant and machinery	22,534	21,536
Equipment	1,409	1,065
Electronic office machines	3,502	3,878
Furniture and fixtures	1,085	882
Motor vehicles and transport vehicles	1,031	1,068
Leasehold improvements	783	1,014
Other assets	63	97
Total depreciation of property, plant and equipment	**33,429**	**32,486**
Writedowns of fixed assets	1,240	-
Recovery of value for fixed assets	-	-
Total writedowns (recovery) of fixed assets	**1,240**	**0**
Total depreciation and loss of value of fixed assets	**34,669**	**32,486**

Leased assets

The following table shows the value of leased assets at 31 December 2006 classified under fixed assets.

	31 December 2006			31 December 2005		
€,000	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Buildings not used in business activities	-	-	0	-	-	0
Buildings used in business activities	2,923	(980)	1,943	2,923	(893)	2,030
Plant and machinery	68,186	(68,001)	185	78,272	(77,685)	587
Other assets	1,392	(1,339)	53	1,586	(1,551)	35
Total leased assets	**72,501**	**(70,320)**	**2,181**	**82,781**	**(80,129)**	**2,652**

In most cases the above amounts relate to assets acquired in previous years under bargain purchase options.

Assets acquired under lease agreements still outstanding at 31 December 2006 refer mainly to a property for which the bargain purchase option of €77 thousand may be exercised in 2007. The contracts referred to above do not contain any rent revaluation clauses or restrictive clauses in relation to the assumption of new loans or to the distribution of dividends.

5- Investments

Investments in companies accounted for using the equity method and in other companies amounted to €122,404 thousand.

Investments €,000	31 December 2006	31 December 2005
Investments accounted for using the equity method	120,230	106,649
Investments in other companies	2,174	2,156
Total investments	**122,404**	**108,805**

Changes over the past two years in investments accounted for using the equity method are set out below.

While there was a low level of investment in 2005, notably the purchase of a further block of 1.66% of the Attica Group, in 2006 the purchase of Emap France represented an important increase in the level of investments.

Investments – Investments accounted for using the equity method

€,000	Net value
Balance at 1 January 2005	100,952
Movements during 2005:	
- purchases and changes in consolidation area	831
- disposals and other movements	1,817
- revaluations	11,586
- writedowns	(1,984)
- dividends	(6,553)
Balance at 31 December 2005	**106,649**
Movements during 2006:	
- purchases and changes in consolidation area	17,727
- disposals and other movements	(1,098)
- revaluations	14,281
- writedowns	(5,926)
- dividends	(11,403)
Balance at 31 December 2006	**120,230**

The following table sets out details of investments accounted for using the equity method.

Investments accounted for using the equity method – Detail €,000	31 December 2006	31 December 2005
Investments in joint ventures:		
- Gruner + Jahr/Mondadori SpA	4,649	5,152
- Agenzia Lombarda Distribuzione Giornali e Riviste Srl	175	317
- Harlequin Mondadori SpA	354	434
- Hearst Mondadori Editoriale Srl	453	426
- Mondadori Rodale Srl	828	1,003
- Edizioni Electa Bruno Mondadori Srl	177	329
- Edizioni EL Srl	2,174	2,034
- Random House Mondadori SL	35,503	30,678
- Campania Arte	22	-
- Attica Publications SA	36,196	40,892
- ACI Mondadori SpA	1,179	838
- Press TV SpA	524	318
- Mondolibri SpA	13,497	13,595
- Editions Mondadori Axel Springer Snc	11,337	-
- Top Santé Vof	991	-
Total investments in joint ventures	**108,059**	**96,016**
Investments in associated companies:		
- Mach 2 Libri SpA	2,868	2,796
- Società Europea di Edizioni SpA	9,212	7,773
- Venezia Musei Scarl	-	7
- Venezia Musei Società per i servizi museali Scarl	6	5
- Venezia Accademia Scarl	20	-
- Consorzio Covar	3	3
- Consorzio Forma	1	2
- Roccella Scarl	30	30
- Rock FM Srl	31	17
Total investments in associated companies	**12,171**	**10,633**
Total investments accounted for using the equity method	**120,230**	**106,649**

Investments in Editions Mondadori Axel Springer Snc and Top Santè Vof refer to the purchase of the Emap France Group.

With reference to the investment in the Attica Group, listed on the Athens Stock Exchange, the quoted value of the shares is not considered representative of the fair value as only 15% of the group's shares are floated and the volume of trading during the year was limited in terms of both quantities and amount. Following an impairment test to determine the eventual reduction in the value in use, it was necessary to carry out further writedowns of the investment in the Attica Group for a total of €4,000 thousand.

The following tables illustrate the movements in investments in other companies, stated at cost since fair value was not available.

Investments – Investments in other companies

€,000	Net book value
Balance at 1 January 2005	2,472
Movements during 2005:	
- purchases and changes in consolidation area	20
- disposals and other movements	(4)
- revaluations	-
- writedowns	(332)
- dividends	-
Balance at 31 December 2005	2,156
Movements during 2006:	
- purchases and changes in consolidation area	25
- disposals and other movements	(7)
- revaluations	-
- writedowns	-
- dividends	-
Balance at 31 December 2006	**2,174**

The following table illustrates details of investments in other companies.

Investments in other companies – Detail

€,000	31 December 2006	31 December 2005
Investments in other companies:		
- Società Editrice Il Mulino SpA	101	101
- Euromedia Luxembourg Two SA	1,927	1,927
- Consuledit Srl	1	1
- Cons. Sistemi Informativi Editoriali Distributivi	10	10
- Immobiliare Editori Giornali Srl	52	52
- Istud – Istituto Studi Direzionali SpA	-	7
- Novamusa Val di Noto Scarl	18	18
- Novamusa Valdemone Scarl	18	18
- Novamusa Gelmar Scarl	2	2
- Novamusa Val di Mazara Scarl	18	18
- Consorzio Editoriale Fridericiana	2	2
- Audiradio	21	-
- CTAV	1	-
- Sem Issy Media	3	-
Total investments in other companies	**2,174**	**2,156**

6- Deferred tax assets and liabilities

The following tables sets out details of deferred tax assets and liabilities.

€,000	31 December 2006	31 December 2005
Deferred tax assets - IRES	43,176	34,386
Deferred tax assets - IRAP	2,924	2,704
Total deferred tax assets	**46,100**	**37,090**
Deferred tax liabilities - IRES	98,624	23,472
Deferred tax liabilities - IRAP	3,616	2,526
Total deferred tax liabilities	**102,240**	**25,998**

Description of temporary differences that led to the recognition of deferred tax assets

	31 December 2006			31 December 2005		
€,000	Amount of temporary difference	Tax rate	Deferred tax assets	Amount of temporary difference	Tax rate	Deferred tax assets
Difference between book value and tax basis of intangible assets	17,979	(*)	5,934	10,637	33%	3,511
Difference between book value and tax basis of investment property and property, plant and equipment	13,504	(*)	4,457	14,676	(*)	4,841
Provision for bad debts	13,964	(*)	4,626	11,972	(*)	3,951
Inventory provision	14,513	(*)	4,790	11,037	(*)	3,642
Writedowns of advances to authors	5,293	(*)	1,746	5,647	(*)	1,864
Provisions	30,383	(*)	10,125	20,401	(*)	6,733
Agents' termination indemnity	1,614	(*)	533	2,284	(*)	754
Unused tax losses	-	(*)	-	2,135	(*)	705
Elimination of unrealised intragroup profits	10,827	(*)	3,573	10,051	(*)	3,317
Other temporary differences	22,152	(*)	7,392	15,354	(*)	5,068
Total for IRES purposes	**130,229**		**43,176**	**104,194**		**34,386**
Difference between book value and tax basis of intangible assets	10,047	4.25%	427	10,637	4.25%	453
Difference between book value and tax basis of investment property and property, plant and equipment	3,734	4.25%	159	14,676	4.25%	619
Inventory provision	14,513	4.25%	617	9,018	4.25%	384
Writedowns of advances to authors	5,193	4.25%	221	1,436	4.25%	61
Provisions	16,339	4.25%	694	14,508	4.25%	616
Agents' termination indemnity	374	4.25%	16	331	4.25%	14
Elimination of unrealised intragroup profits	10,800	4.25%	459	10,051	4.25%	426
Other temporary differences	7,797	4.25%	331	3,081	4.25%	131
Total for IRAP purposes	**68,797**		**2,924**	**63,738**		**2,704**

(*) Each company in the group has applied the tax rate in force in the country of residence.

The table above sets out the temporary differences between the book values and tax bases of assets and liabilities that generated advance tax assets.

Description of temporary differences that led to the recognition of deferred tax liabilities

	31 December 2006			31 December 2005		
€,000	Amount of temporary difference	Tax rate	Deferred tax liabilities	Amount of temporary difference	Tax rate	Deferred tax liabilities
Capital gains	6	(*)	2	26	(*)	9
Difference between book value and tax basis of intangible assets	232,710	(*)	76,794	9,176	(*)	3,028
Difference between book value and tax basis of investment property and property, plant and equipment	43,255	(*)	14,274	36,556	(*)	12,063
Employees' leaving entitlement	8,256	(*)	2,727	9,161	(*)	3,023
Agents' termination indemnity	163	(*)	54	139	(*)	46
Leased assets	1,988	(*)	655	2,383	(*)	786
Other temporary differences	12,485	(*)	4,118	13,689	(*)	4,517
Total for IRES purposes	298,863		98,624	71,130		23,472
Difference between book value and tax basis of intangible assets	41,736	4.25%	1,775	9,176	4.25%	389
Difference between book value and tax basis of investment property and property, plant and equipment	33,508	4.25%	1,425	36,615	4.25%	1,556
Agents' termination indemnity	163	4.25%	8	654	4.25%	28
Leased assets	1,988	4.25%	85	2,383	4.25%	102
Other temporary differences	7,610	4.25%	323	10,620	4.25%	451
Total for IRAP purposes	85,005		3,616	59,448		2,526

(*) Each company in the group has applied the tax rate in force in the country of residence.

The table above sets out the temporary differences between the book values and tax bases of assets and liabilities that generated deferred tax liabilities.

The net change in deferred tax assets and liabilities led to a tax charge €8,002 thousand recognised as described in note 30.
Other changes during the year that did not have any effect on the income statement mainly relate to adjustments arising from the changes in the consolidation area as a result of the purchase of the Emap France Group and Messaggerie Musicali SpA.

Unrecognised deferred taxes €,000	31 December 2006	31 December 2005
Temporary differences excluded from the determination of deferred tax assets and liabilities	-	-
Unused tax losses available for carryforward	-	8,331

All the unused tax losses at 31 December 2005 were used in calculating the tax burden for 2006.

7- Other non-current assets

The balance of other non-current assets decreased as a result of the utilisation of prepaid withholding tax on the employees' leaving entitlement and increased as a result of changes in the consolidation area.

Other non-current assets €,000	31 December 2006	31 December 2005
Guarantee deposits	2,187	342
Earnest money	-	-
Advance IRE withholding tax on the employees' leaving entitlement	792	2,103
Other	546	633
Total other non-current assets	**3,525**	**3,078**

8- Tax receivables

The composition of and changes in tax receivables are described and commented on below:

Tax receivables €,000	31 December 2006	31 December 2005
Receivables from tax authorities for IRAP	661	278
Receivables from tax authorities for IRES	4,987	13,801
Receivables from Fininvest for IRES	-	-
Receivables from tax authorities for VAT to be recovered	3,578	12,188
Receivables from tax authorities for tax reimbursements	20,628	4,123
Total tax receivables	**29,854**	**30,390**

The balance is in line with the previous year and includes a decrease in "Receivables from tax authorities for IRES", as a result of the decision taken by the government not to renew its contribution to paper costs, which was partly compensated for by changes in the consolidation area and an increase in VAT reimbursements.

9- Other current assets

The composition of and changes in other current assets are described and commented on below:

Other current assets €,000	31 December 2006	31 December 2005
Advances to agents	788	778
Advances to authors and collaborators	46,145	43,627
Advance to suppliers	4,300	2,460
Advances to personnel	768	736
Receivables for insurance compensation	5	-
Advances to social security institutions	149	15
Receivable for guarantee deposits	307	247
Earnest money	413	413
Prepayments	7,312	8,014
Other	12,017	9,191
Total other current assets	**72,204**	**65,481**

The item, on a like-for-like basis, does not show any particular change compared with 31 December 2005, and any differences that do exist are mainly due to purchases made during the year.

10- Inventories

Given that the changes in the consolidation area produced a €12,993 thousand difference in inventories, on a like-for-like basis the increase would have amounted to €3,101 thousand, mainly due to "Work in progress" in the magazine sector.

The composition of and changes in inventories are described and commented on below:

Inventories €,000	31 December 2006	31 December 2005
Raw materials and consumables	18,536	14,653
Provision for raw materials and consumables	(676)	(463)
Total raw materials and consumables	**17,860**	**14,190**
Work in progress and semi-finished goods	38,663	34,126
Provision for work in progress and semi-finished goods	(1,183)	(1,054)
Total work in progress and semi-finished goods	**37,480**	**33,072**
Contract work in progress	11,340	10,975
Provision for contract work in progress	-	(30)
Total work in progress	**11,340**	**10,945**
Finished products and goods for resale	90,838	79,068
Provision for finished products and goods for resale	(16,392)	(10,253)
Total finished products and goods for resale	**74,446**	**68,815**
Advances	-	-
Total inventories	**141,126**	**127,022**

Provisions against inventories are made by taking into account the saleability of finished products and the extent to which work in progress and semi-finished products may not produce margins.

Inventories – Provisions €,000	Raw materials	Work in progress and semi-finished goods	Contract work in progress	Finished products and goods for resale
Balance at 1 January 2005	466	1,054	124	9,334
Movements during period:				
- provisions	25	-	-	2,543
- utilisations	(28)	-	(94)	(1,624)
- other movements	-	-	-	-
Balance at 31 December 2005	**463**	**1,054**	**30**	**10,253**
Movements during period:				
- provisions	33	129	-	7,898
- utilisations	(126)	-	(30)	(5,033)
- other movements	306	-	-	3,274
Balance at 31 December 2006	**676**	**1,183**	**0**	**16,392**

There are no inventories used to secure liabilities.

Decrease (increase) in inventories

The following table summaries the changes in inventories recognised in the income statement for the year.

Decrease (increase) in inventories €,000	31 December 2006	31 December 2005
Changes in finished products	(3,395)	(1,309)
Charge to finished products provision	7,898	2,543
Utilisation of finished products provision	(5,033)	(1,624)
	(530)	**(390)**
Changes in semi-finished products	(4,439)	(4,803)
Charge to finished products provision	129	-
Utilisation of finished products provision	-	-
	(4,310)	**(4,803)**
Changes in work in progress	871	384
Charge to finished products provision	-	-
Utilisation of finished products provision	(30)	(94)
	841	**290**
Changes in raw material and goods	2,982	(1,221)
Charge to finished products provision	33	25
Utilisation of finished products provision	(126)	(28)
	2,889	**(1,224)**
Total decrease (increase) in inventories	**(1,110)**	**(6,127)**

11- Trade receivables

"Trade receivables" were particularly affected by the inclusion in the consolidation area of the Emap France Group and Messaggerie Musicali. On a like-for-like basis the balance of trade receivables would amount to €390,017 thousand.

Therefore there would be a drop in the exposure largely due to an improvement in aging.

Details of receivables from associated, parent and affiliated companies are contained in the "Relations with related parties" attachment.

Commercial transactions with these companies are carried out in accordance with normal market conditions.

Trade receivables €,000	31 December 2006	31 December 2005
Receivables from customers	432,005	352,912
Receivables from associated companies	43,559	53,665
Receivables from parent companies	13	12
Receivables from affiliated companies	3,441	4,496
Total trade receivables	**479,018**	**411,085**

There are no trade receivables with a due date over five years; the average collection period during 2006 was 86.1 days (84.8 days in 2005).

The following table contains details of "Trade receivables", which shows an increase as a result of the result of the increased volume of business in the Book Division and an increase due to changes in the consolidation area.

Trade receivables - Receivables from customers €,000	31 December 2006	31 December 2005
Trade receivables	594,990	497,170
Customers - returns to be received	(131,681)	(119,037)
Provision for bad debts	(31,304)	(25,221)
Total receivables from customers	**432,005**	**352,912**

The use of the bad debt reserve was due to the itemising of losses on receivables.

Trade receivables - Receivables from customers - provision €,000	31 December 2006	31 December 2005
Balance at beginning of year	25,221	30,179
Movements during period:		
- provisions	6,985	5,748
- utilisations	(5,749)	(10,701)
- changes in scope of consolidation	4,847	-
- other movements	-	(5)
Total receivables from customers	**31,304**	**25,221**

12- Financial assets

The following table illustrates both current and non-current financial assets:

Non-current financial assets €,000	31 December 2006	31 December 2005
- Financial receivables from others	583	-
Financial assets at fair value with changes through the income statement	-	-
Available-for-sale financial assets	-	-
Assets resulting from derivative instruments	950	-
Total other non-current financial assets	**1,533**	**0**

"Non-current financial assets" includes various receivables for €583 thousand and the fair value of hedging operations for the five-year bank pool loan that expires in July 2011 which was granted for the purchase of Emap France.

Other current financial assets €,000	31 December 2006	31 December 2005
- Financial receivables from customers	7,000	-
- Financial receivables from associated companies	18,443	9,715
- Financial receivables from parent companies	-	-
- Financial receivables from affiliated companies	-	-
- Financial receivables from others	28,759	26,839
Total financial receivables	**54,202**	**36,554**
Financial assets at fair value with changes through the income statement	152,487	442,870
Available-for-sale financial assets	-	-
Assets resulting from derivative instruments	24	2,780
Total other current financial assets	**206,713**	**482,204**

"Financial assets at fair value" and "Financial receivables from others" include investments of liquidity made by Mondadori International inside the Luxemburg rate securities broker, ABS Finance Fund, and by Editions Mondadori France.

The rate securities broker share portfolio is made up as follows:

- monetary products and bonds with monetary market benchmarking for €144.9 million, €8 million of which is classified under "Cash and equivalents";
- hedge funds for €24 million, which are distinguished by the widespread diversification of the financial institutions utilised and the strategy employed.

A further €18 million is invested by Editions Mondadori France with an exclusively monetary French rate securities broker, with a return equal to EONIA.

The reduction in investments compared with 31 December 2005 is due to the utilisation of part of the liquidity (approximately €260 million) for the capitalisation of the subsidiary Mondadori France which purchased 100% of the Emap France Group.

All of the assets referred to above are measured at fair value. For quoted assets the reference is market prices, while for non-quoted assets the price is either supplied by the banks that are custodians of the shares themselves or by the respective market makers.

Assets and liabilities resulting from derivative instruments

The following table illustrates the assets and liabilities resulting from derivative instruments held at 31 December 2006.

Assets and liabilities in derivative instruments – Details

€,000	Type of derivatives	Fair value at 31 December 2006	Fair value at 31 December 2005
Non-current financial assets			
- Tax derivatives	Cash flow hedge	950	-
Other financial assets			
- Currency derivatives	Trading	24	-
- Options purchased for 2003 Stock option plan	Trading	-	2,780
Non-current financial liabilities			
- Cross currency swap	Fair value hedge	(36,435)	(766)
Current financial liabilities			
- Currency derivatives	Trading	-	(4)
- Options sold for Stock option plan 2003	Trading	-	(8)

Trading derivatives refer to instruments that, even though they were set up as hedge operations, do not fully satisfy all the requisites of international accounting standards to qualify for hedge accounting.

The company has adopted a Policy on the Management of Financial Risks. The utilisation of derivative instruments is in line with the guidelines contained in that document

Tax derivatives

The derivative consists of an Interest Rate Swap (IRS) contract signed in August 2006 for €150 million, equal to 50% of the Term Loan (€300 million) part of the nominal €500 million loan obtained by Mondadori International SA.

The hedge operation made it possible to convert the floating interest rate (3-month Euribor) into a fixed interest rate.

The operation was carried out in light of the change in the Group's net financial position as a result of the purchase of the Emap France Group, in order to counteract the exposure to the risk of interest rate fluctuations.

Currency derivatives

The Group enters currency derivative agreements to hedge against the risk of fluctuations in exchange rates. The currency derivatives utilised are exclusively forward contracts for the purchase and sale of foreign currencies.

The main type of exchange risks affecting the Group are linked to the purchase of the author's rights to books in markets outside the EU and the sale of printed publishing products in markets outside the EU. In the second case, the Group initially partially covers the annual budget for forecasted sales and all the orders for sales.

As of 31 December 2006, outstanding operations to hedge currency exchange risks were as follows:

- forward contracts for the sale of US $3,900 thousand (€2,958 thousand);
- forward contracts for the sale of £5,000 thousand (€7,416 thousand).

Cross currency swap

This refers to an operation set up in 2003 to cover exchange rate risks linked to the US Private Placement debenture loan taken out in that year.

The loan of $350 million is made up of three tranches of $215 million, $40 million and $95 million with fixed rates of, respectively, 5.42%, 5.57% and 5.85% and expiry dates of 2013, 2015 and 2018.

The cross currency swap derivative made it possible to transform the notional into euro and the interest rates from fixed to floating. The floating interest rates obtained for the three tranches are equal to the three-month Euribor rate plus, respectively, 0.66%, 0.59% and 0.60%.

In accordance with international accounting standards, the profit (loss) from the variations in value of this derivative instrument are recognised in the income statement in line with the variation of an equal amount recognised together with the debt.

13- Cash and cash equivalents

"Bank deposits" include cash and cash equivalent investments of Arnoldo Mondadori Editore (€50 million) and Mondadori France (approximately €10 million). Short-term deposits mainly have expiry dates of between one week and three months, in keeping with the financial needs of the Group, and mature interest at the respective short-term rates.

The fair value of cash and cash equivalents at 31 December 2006 is equal to their carrying value at that date.

Cash and cash equivalents €,000	31 December 2006	31 December 2005
Cash and valuables	1,539	705
Cheques	665	41
Bank deposits	102,598	71,344
Post office deposits	705	966
Total cash and cash equivalents	**105,507**	**73,056**

There are no restrictions on the use of cash and cash equivalents.

The following table illustrates the individual components of the net financial position set out in accordance with Consob recommendations.

Net financial position €,000		31 December 2006	31 December 2005
A	Cash	2,204	746
	- Bank deposits	102,598	71,344
	- Post office deposits	705	966
B	Other cash and cash equivalents	103,303	72,310
C	**Cash and cash equivalents and other financial assets (A+B)**	**105,507**	**73,056**
D	Stocks held for negotiation	-	-
	- Financial receivables from associated companies	18,443	9,715
	- Financial assets measured at fair value	152,487	442,870
	- Derivative instruments and other financial assets	35,783	29,619
E	Receivables and other current financial assets	206,713	482,204
F	**Current financial assets (D+E)**	**206,713**	**482,204**
G	Current bank payables	15,667	2,164
	- Bonds	-	-
	- Mortgages	50,071	89
	- Loans	7,873	5,542
H	Current part of non-current payables	57,944	5,631
	- Payables due to associated companies	27,096	18,211
	- Derivative instruments and other financial payables	23,049	45,534
I	Other current financial payables	50,145	63,745
L	**Payables to banks and other current financial payables (G+H+I)**	**123,756**	**71,540**
M	**Current net financial position (C+F-L)**	**188,464**	**483,720**
	- Bonds	364,892	398,885
	- Morgages	-	-
	- Loans	343,346	51,884
N	Part of non-current payables	708,238	450,769
O	Other non-current financial payables	36,468	964
P	**Non-current financial payables (N+O)**	**744,706**	**451,733**
Q	**Net financial position (M-P)**	**(556,242)**	**31,987**

If the balance of “Non-current financial assets” was added to the data illustrated in the above table (which is not included in the Consob recommendations), the net financial position would show a loss of €554,709 thousand.

Further details of the net financial position are contained in notes 12, 13 and 18.

14- Shareholders’ equity

More detailed information concerning the composition of and changes in shareholders’ equity is contained in the section “Changes in consolidated shareholders’ equity”.

The Mondadori Group is controlled by Fininvest S.p.A..

Share capital

The share capital of the parent company, Arnoldo Mondadori Editore S.p.A., amounting to €67,452 thousand, is fully subscribed and paid up and is represented by 259,429,832 ordinary shares with a par value of €0.26. No new share issues took place during the year.

Share premium reserve

The share premium reserve of Arnoldo Mondadori Editore S.p.A. shares, amounting to €285,467 thousand, includes:

- €15,289 thousand, €13,278 thousand of which deriving from the conversion of the former AMEF 6.5% 1987/1991 debenture bond into shares and €2,011 thousand from the merger of the former AME on 29 November 1991;

- €238,603 thousand deriving from the €17,043 thousand increase in capital completed on 27 June 1994 in conformity with a resolution of shareholders in extraordinary meeting on 30 May 1994 that provided for the issue of 33,000,000 ordinary shares with a par value of €0.52 (1,000 lire) at a price of €7.75 (15,000 lire) per share, €7.23 (14,000 lire) of which was share premium;
- €384 thousand deriving from the increase in capital completed on 23 November 1998;
- €692 thousand deriving from the increase in capital completed on 17 September 1999;
- €1,801 thousand deriving from the increase in capital completed on 18 July 2000;
- €26,978 thousand generated from the conversion into ordinary shares of 13,929,942 savings shares, in conformity with a resolution of shareholders of 30 May 1994 that provided for holders of savings shares to convert them into ordinary shares in the ratio of one-to-one with a par value of €0.52 (1,000 lire), to be exercised during the period 16 June to 31 July 1994 with payment of a balance of €1.94 (3,750 lire) for every share converted.
- €1,720 thousand deriving from stock options being exercised.

Treasury shares

This item, which amounts to €127,998 thousand (€137,662 thousand at 31 December 2005), represents the value at the balance sheet date of treasury shares in portfolio, with 13,975,205 ordinary shares held by Arnoldo Mondadori Editore S.p.A. and 4,517,486 ordinary shares held by Mondadori International S.A.

Reserve for stock options

This reserve, which amounts to €5,373 thousand, is used for the stock option plans granted to directors and managers of the Group. Further details of this item are provided in note 25.

Translation reserve

The translation reserve, which amounts to €371 thousand, derives from the translation of the financial statements of companies belonging to the Random House Mondadori Group, operating in Latin America, the Attica Group, with offices in Eastern Europe, and to AME Publishing, which has a representative office in New York.

The exchange rates used for the conversion of financial statements in foreign currencies are summarised in the following table:

	Exchange rate at 31 December 2006		Exchange rate at 31 December 2005	
	average	spot	average	spot
US dollars	1.26	1.32	1.24	1.18
Argentinian pesos	3.86	4.03	3.65	3.58
Chilean pesos	664.28	702.45	696.65	606.37
Colombian pesos	2,959.67	2,950.08	2,902.37	2,697.42
Mexican pesos	13.67	14.24	13.59	12.51
Uruguayan pesos	30.20	32.16	30.70	27.96
Venezuelan bolivares	2,698.26	2,828.00	2,586.98	2,533.17
Cypriot lire	0.58	0.58	-	-
Roumanian new leu	3.53	3.38	3.58	3.67
Bulgarian leva	1.96	1.96	1.96	1.96
Serbian dinars	83.09	79.00	83.09	85.5
Hungarian florins	264.26	251.77	248.05	248.54

Other reserves and retained earnings
At 31 December 2006, "Other reserves and retained earnings" amounted to €142,788 thousand, including:

- €13,490 thousand for the legal reserve;
- €5,335 thousand for grants from the Agenzia per la Promozione dello Sviluppo del Mezzogiorno (Ministerial Decrees of 28 June 1979 and 3 May 1989) for the purposes of industrial investments carried out at the plant in Pomezia (RM) and from the State in accordance with Publishing Law no. 416 of 5 August 1981;
- €950 thousand for the fair value reserve of a hedge derivative.

The residual balance represents retained earnings.

15- Capital and reserves attributable to minorities

This item refers to the non-controlling interests in Edizioni Piemme SpA and Electa Napoli SpA, as set out below:

Capital and reserves attributable to minorities

€,000	Edizioni Piemme SpA	Electa Napoli SpA	Mondadori Finance
Equity at 31 December 2005	3,486	540	-
Result for 2005	1,074	69	1
Equity at 31 December 2006	3,299	721	-
Result for 2006	973	180	-

16- Provisions

The composition of and changes in provisions for risks and charges is described and commented on below:

Provisions

€,000	31 December 2005	Charge	Utilisations	Other movements	31 December 2006
Agents' contractual risks	674	854	(246)	-	1,282
Litigation	8,311	3,299	(1,636)	(27)	9,947
Equity investment provision	1,108	30	(1)	(85)	1,052
Tax disputes	2,059	-	(284)	59	1,834
Other risks	3,485	2,082	(8,338)	23,843	21,072
Total provisions	**15,637**	**6,265**	**(10,505)**	**23,790**	**35,187**

"Others" includes the change in the consolidation area as a result of the purchase of the Emap France Group and Messaggerie Musicali SpA.

17- Employees' leaving entitlement and termination indemnities

The composition of and changes in of the employees' leaving entitlement and termination indemnities are described and commented on below:

Leaving entitlements and termination indemnities €,000	31 December 2006	31 December 2005
Employees' leaving entitlement (TFR)	97,649	92,479
Agents' termination indemnity (FISC)	5,856	5,783
Termination indemnity for journalists (IFGP)	677	721
Total leaving entitlements and termination indemnities	**104,182**	**98,983**

The 2006 government Budget and its relative decrees introduced important modifications to employees' leaving entitlements (TFR), including the possibility for employees to choose where to invest their pension entitlements that mature as from 1 January 2007.
The uncertainty regarding the interpretation of this law means that it is premature to make any forecast about actuarial modifications of the leaving entitlements (TFR) that matured as of 31 December 2006.

Employees' leaving entitlement – Details

€,000	TFR	FISC	IFGP
Balance at 31 December 2005	92,479	5,783	721
Changes during 2006:			
- provisions	13,274	993	11
- utilisations	(16,129)	(834)	(55)
- reversals	-	-	-
- discounting	3,491	-	-
- change in scope of consolidation	4,534	-	-
- others	-	(86)	-
Balance at 31 December 2006	**97,649**	**5,856**	**677**

The employees' leaving entitlement and the agents' termination indemnity are determined, in accordance with IAS 19 and IAS 37, by applying an actuarial method.

The following assumptions were used when determining the actuarial value of the employees' leaving entitlement:

Actuarial assumptions used for the employees' leaving entitlement (TFR)	31 December 2006	31 December 2005
Economic assumptions:		
- increase in cost of living	1.5%	1.5%
- discount rate	4.0%	4.0%
- salary increases	3.0%-4.0%	3.0%-4.0%
Demographic assumptions:		
- probability of death	IPS 55 tables	IPS 55 tables
- probability of disability	INPS 2000 tables	INPS 2000 tables
- probability of leaving for other reasons	From 0.50% to 8.16%	From 0.50% to 7.20%
- pensionable age	Current regulations	Current regulations

Charges to the income statement for the employees' leaving entitlement were follows:

Cost of employees' leaving entitlement (TFR) €,000	31 December 2006	31 December 2005
Current cost of the employees' leaving entitlement	15,458	15,688
Financial charges	3,491	3,384
Actuarial (gains) losses	(2,184)	(801)
Total cost of employees' leaving entitlement	**16,765**	**18,271**

The "current cost of the employees' leaving entitlement" together with the "actuarial (gains)/losses" are booked in the income statement under "personnel costs" while the financial component is booked under financial expense for the year.

The following assumptions were used when determining the provision for the agents' termination indemnity:

Actuarial assumptions used for the agents' termination indemnity (FISC)	31 December 2006	31 December 2005
Economic assumptions:		
- discount rate	4.0%	4.0%
Demographic assumptions:		
- probability of death/disability	1.0%	1.0%
- probability of leaving service	1.0%	0.5%
- probability of voluntary resignation	1.5%-2.0%	1.5%
- average retirement age	65	65

The other termination liabilities were not discounted as the effect would not be significant.

18- Financial liabilities

The following table sets out current and non-current financial liabilities:

Non-current financial liabilities €,000	Effective interest rate	Due between 1 and 5 years	Due after 5 years	31 December 2006	31 December 2005
Bonds	Eur3M+0.667%	-	258,975	258,975	295,280
Convertible bonds	4.37%	105,917	-	105,917	103,605
Loans	3.710%	328,383	14,963	343,346	51,884
Amounts due to suppliers		-	-	-	-
Amounts due to associated companies		-	-	-	-
Amounts due to parent companies		-	-	-	-
Amounts due to affiliated companies		-	-	-	-
Amounts due for lease agreements		33	-	33	167
Amounts due to shareholders for loans		-	-	-	31
Liabilities resulting from derivative instruments		36,435	-	36,435	766
Other financial liabilities		-	-	-	-
Total non-current financial liabilities		**470,768**	**273,938**	**744,706**	**451,733**

Financial liabilities include:

- €258,975 thousand representing the amortised cost of the US Private Placement bond issued by Mondadori International in December 2003 for an amount of $350 million and composed of three tranches of $215 million, $40 million and $95 million at fixed interest rates of 5.42%, 5.57% and 5.82% respectively having due dates of 2013, 2015 and 2018.

The valuation of the US Private Placement bond was carried out in line with a cross currency swap taken out to hedge foreign exchange and interest rate risks.
The average spread paid on three-month Euribor was 0.636% which corresponds to an effective three-month Euribor spread of 0.667%.

- €36,435 thousand for the fair value of the US Private Placement bond.
- €105,917 thousand for the amortised cost of the bond convertible into Mondadori ordinary shares issued in October 2003 by Mondadori Finance. This bond is repayable in 2008 and has a nominal value of €109.9 million and an annual coupon of 2.00%.

Following the payment of an extraordinary dividend in May 2006, the conversion cost was recalculated, as required by the contract. The bonds are currently converted at a price of 8.2183 (instead of 8.4782) for a total number of Mondadori shares equal to 13,372,587 (instead of 12,962,657).
The effective interest rate is the result of the application of IAS 32 that requires the separation of the equity option from the debt component, from which the effective financial charges were calculated. This rate is equal to the market rate that would be applied to the issue of non-convertible bonds.

- €44,574 thousand for a subsidised long term loan for publishers.
- €298,772 thousand for the amortised cost of the pool Term Loan obtained by Mondadori International SA for the purchase of the Emap France Group.

The effective interest rate shown under the item Loans, is the average of the subsidised loans currently held and the effective interest rate on the Term loan.

Amounts payable to banks and other financial payables €,000	Effective interest rate	**31 December 2006**	**31 December 2005**
Bank overdrafts		15,667	2,164
Bonds		-	-
Convertible bonds		-	-
Loans	3.591%	57,944	5,631
Amounts due to suppliers		575	305
Amounts due to associated companies		27,096	18,211
Amounts due to parent companies		-	-
Amounts due to affiliated companies		-	-
Amounts due for lease agreements		155	99
Amounts due to shareholders for loans		-	-
Liabilities resulting from derivative instruments		-	8
Other financial payables		22,319	45,122
Total amounts payable to banks and other financial payables		**123,756**	**71,540**

These include:
- €15,667 thousand for current account overdrafts;
- €57,944 thousand for a subsidised short-term loan granted in accordance with the law for publishers and a stand by loan used by Arnoldo Mondadori Editore SpA in December. The stand by lines of credit in existence at 31 December 2006 amounted to €100,000 thousand and were used for approximately 50%.
- €27,096 thousand for loans to associated companies that utilise the intergroup current account, details of which can be found in the attachment “Balances and transactions with related parties” and financial loans (approximately €12 million) due to associated companies of the Editions Mondadori France group.
- €22,319 million for the remaining 25% of the loan for the purchase of the radio station R101 (75% of the debt was paid off in March 2006), which was paid off in February 2007.

All loans granted to the Group are expressed in € with the exception of the US Private Placement loan which is expressed in US dollars.

No mortgage securities have been given in respect of the US Private Placement debenture loan or the Facility Agreement loan but there exists the obligation to respect of a number of financial covenants that could result, should the obligations not be respected, in the loan being reimbursed in advance.

Financial covenants for the U.S. Private Placement debenture loan are set out below:

- consolidated equity (including treasury shares but excluding minority interests) must be greater than or equal to the sum of €400 million plus 20% of the annual consolidated net profit (beginning with the consolidated net profit for 2003);
- the ratio of net debt to gross operating profit (EBITDA) (calculated for a period of 12 consecutive months) must be less than or equal to 3.25 (for the calculation from 30 September 2006 until 30 September 2007);
- the ratio of net debt to net capitalisation must be less than or equal to 60%.

Net debt is defined as the sum of the Group’s gross debt less cash and cash equivalents, that is liquid funds and all financial investments with a duration of less than or equal to 1 year and an average rating of greater than or equal to A-.

The financial covenant for the Facility Agreement loan is as follows:
- the ratio of net debt to gross operating profit (EBITDA) (calculated for a period of 12 consecutive months) must be less than or equal to 3.5.

The quarterly analyses carried out in accordance with the contract have shown that the Mondadori Group has always respected the financial parameters established by the contract.
The subsidised loans were drawn up in accordance with subsidiary loan Law no. 62/01, Law no. 46 of 17 February 1982 (the technology innovation fund) and provincial Law no. 4/81 Chap. II, paragraph III (for the printing works in Cles). These loans are secured by mortgages/sureties and in certain cases require that covenants (or financial parameters) be respected regarding possible variations in the interest rates applied to the loans.

The interest rates for each period are determined on the basis of a fixed rate equal to 50 base points and a floating rate equal to the six-month Euribor rate. The fixed rate may be subject to variations if the thresholds of the financial parameters described below are exceeded:

- the ratio between net financial debt and gross operating profit must be less than 1.50 (if higher than 1.50, the fixed rate will equal 60 base points; if higher than 2.25, the fixed rate will equal 75 base points; if higher than 2.75, the fixed rate will equal 90 base points);
- the ratio between net financial debt and net equity must be less than 0.95 (if higher than 0.95, the fixed rate will equal 60 base points; if higher than 1.40, the fixed rate will equal 75 base points; if higher than 1.70, the fixed rate will equal 90 base points).

The calculation of these parameters began in December 2005 as a result of the new loan terms introduced in October 2005, and this confirmed that the financial parameters established in the contract were being respected.
The average duration of financial leasing contracts is 12 months.

Information concerning derivative financial instruments is contained in section 12 – Non-current financial assets.

The data for 2005 has been modified following a reclassification in the item "Other current liabilities" for a total of €176 thousand referring to "Shareholders' dividend account".

19- Income tax payables

Income tax payables are made up as follows:

Income tax payables €,000	31 December 2006	31 December 2005
Payables due to tax authorities for IRAP	834	934
Payables due to tax authorities for IRES	979	1,867
Tax payables due to Fininvest for IRES	47,869	22,310
Total income tax payables	**49,682**	**25,111**

The item "tax payables due to Fininvest for IRES" refers to tax payables owed to Fininvest S.p.A. by the companies participating in the tax consolidation.

20- Other current liabilities

Other current liabilities consist of the following:

Other current liabilities €,000	31 December 2006	31 December 2005
Customer advances	42,796	35,076
Income tax payables	15,359	15,715
Amounts due to pension funds and social security institutions	31,950	19,043
Other payables	182,063	117,738
Total other current liabilities	**272,168**	**187,572**

The increase over the balance at 31 December 2005 is entirely due to the purchases carried out during the year. On a like-for-like basis the item in question would show a slight decrease.

The data for 2005 has been modified following the reclassification in the item "Payables to banks and other financial liabilities" of €176 thousand referring to "Shareholders' dividend account".

The main changes in "Other payables" is due to increases in amounts to payable to authors and collaborators as a result of the good performance in the Book Division and the effect deriving from purchase operations.

Other current liabilities - Other payables €,000	31 December 2006	31 December 2005
Payroll and other amounts due to personnel	40,931	34,483
Due to authors and collaborators	50,749	48,692
Due to agents	13,688	13,789
Due to subscription and instalment customers	61,616	10,241
Due to directors and statutory auditors	1,689	1,188
Prepaid rental income	698	865
Other payables, accrued expenses and deferred income	12,692	8,480
Total other payables	**182,063**	**117,738**

21- Trade payables

The composition of and movements in trade payables is described and commented on below:

Trade payables €,000	31 December 2006	31 December 2005
Suppliers	396,290	354,304
Associated companies	32,800	28,500
Parent companies	17	42
Affiliated companies	5,209	2,186
Total trade payables	**434,316**	**385,032**

The increase in accounts due to suppliers is mainly due to extraordinary operations carried out during the year. On a like-for-like basis the result would show a decrease mainly as a result of the decreased volume of add-on sales.

Precise details of the item are contained in the attachment "Balances and transactions with related parties".

There are no trade payables with a due date of more than 5 years and the average payment period in 2006 was 114.8 days (107.8 days in 2005).

22- Revenues from sales and services

It should be noted that on 1 September 2006 the Mondadori France Group was consolidated, therefore it is not possible to make a comparison with the data in the income statement for year 2005.

An analysis of revenues is set out in the following table:

Revenues from sales and services €,000	2006	2005	% Change
Revenues from the sale of goods:			
- books	353,351	370,284	(4.6%)
- magazines	607,745	548,578	10.8%
- direct	1,772	835	112.2%
- retail	136,091	136,279	(0.1%)
- other goods	4,010	4,448	(9.8%)
Revenues from services:			
- sales of publishing rights	16,764	17,816	(5.9%)
- advertising services	378,966	333,303	13.7%
- printing and graphic work	189,746	194,584	(2.5%)
- direct	22,530	24,996	(9.9%)
- tickets and exhibition organisation	11,696	8,513	37.4%
- other services	27,535	17,705	55.5%
Total revenues from sales and services	**1,750,206**	**1,657,341**	**5.6%**

On a like-for-like basis consolidated sales would be equal to €1,614,702 thousand.

23- Costs of raw materials and consumables and goods for resale

Despite the increase due to the consolidation of Mondadori France, there was a significant reduction in this item mainly as a result of a decrease in the volume of add-on sales linked to titles edited by the Group and to a reduction in sales linked to the Corporate/large-scale clients channel in the retail sector.

Cost of raw materials and consumables and goods for resale €,000	2006	2005
Paper	207,581	204,322
Electricity, water, gas, fuel	19,574	16,308
Other production materials	37,469	35,994
Total cost of raw materials	**264,624**	**256,624**
Goods for resale	207,019	231,833
Consumption and maintenance materials	6,037	5,808
Others	24,680	30,710
Total cost of consumable materials and goods for resale	**237,736**	**268,351**
Total cost of raw materials and consumables and goods for resale	**502,360**	**524,975**

24- Cost of services

The "Cost of services" increased compared with 2005, although without the effect of Mondadori France this item would have decreased by approximately 2.5% mainly as a result of a decrease in rights and royalties due to film companies for the sale of DVDs and CDs offered as add-on sales with magazines belonging to the Group.

Cost of services €,000	2006	2005
Rights and royalties	146,590	149,755
Third-party consultancy and collaboration	64,145	57,293
Commissions	54,618	54,057
Third-party processing	155,879	134,584
Transport and shipping	62,803	60,867
Purchase of advertising space and publicity expenses	59,804	66,766
Travel and other expense reimbursements	11,975	9,898
Maintenance	10,288	8,940
Warehousing and porter costs	6,780	6,168
Postal and telephone	7,299	5,813
Catering and cleaning services	9,977	7,995
Market research	5,402	5,323
Insurance	4,852	4,340
Publisher's share	58,018	60,117
Job order services	7,083	7,041
Bank services and commission	1,470	1,246
Directors' and statutory auditors' fees	4,380	3,869
Other services	58,244	31,535
Total cost of services	**729,607**	**675,607**

"Directors and Statutory Auditors Fees" represent the fees paid to Directors and Statutory Auditors for €3,995 thousand and €385 thousand respectively.

25- Personnel costs

These are made up of:

Personnel costs €,000	2006	2005
Salaries and wages	211,731	187,863
Stock options	2,378	2,342
Social charges	61,469	58,885
Leaving entitlement	13,274	14,887
Termination indemnities and similar	11	14
Other	13,188	4,884
Total personnel costs	**302,051**	**268,875**

"Personnel costs" increased by 12.3% following the consolidation of Mondadori France as of 1 September 2006.

On a like-for-like basis the cost of personnel would show a decrease of 2.2% as a result of staffing changes that, when made comparable with the data for 2005, would amount to a peak of 4,381 and an average of 4,408 employees.

Personnel	At 31 December 2006	At 31 December 2005	Average 2006	Average 2005
Managers	193	171	183	170
Journalists	950	460	640	460
White-collars and intermediates	3,221	2,475	2,651	2,488
Blue-collars	1,304	1,344	1,325	1,400
Total	**5,668**	**4,450**	**4,799**	**4,518**

Information about stock option plans

Following the expiry of the stock option plan for the period 2003-2004-2005, the shareholders' meeting of Arnoldo Mondadori Editore S.p.A. of 26 April 2006 resolved to set up a new three-year Stock Option Plan regarding the company's shares commencing in 2006. The Plan is directed at managers of the company and its subsidiaries whose activities have a determining impact on the attainment of the Group's strategic objectives, together with directors of the company and of associated companies, journalists employed by the company and its subsidiaries who are editors or deputy editors of titles and managers of the parent company who carry out their activities in favour of the company.

The shareholders' meeting entrusted the Board of Directors with the task of managing the plan, granting the Board all the powers necessary for identifying the participants, establishing performance objectives, allocating option rights and carrying out the plan itself in all its aspects. Shareholders also entrusted the Board with the task of defining the Regulations for implementing the Stock Option Plan.

In particular, the regulations for the plan for 2006/2007/2008, approved by the Board of Directors in July 2006, provide, for every year the Plan is in force, for the allocation to the participants in the Plan of rights to options, which are personal and not transferable, for the purchase of ordinary Mondadori S.p.A. shares in the ratio of one share, with regular dividend, for every option exercised, at a price not less than the average official price for

Mondadori shares in the period from the grant date of the options to the same day in the previous calendar month.

The option can only be exercised, in a single act, during the period between 1 January of the third year and 31 December of the fourth year after the year of each grant date, except for the variations in the starting date for the period for exercising the options assigned in 2005 and 2006 by the Board of Directors and described in the report.

In 2006 the period for exercising the options relatives to the Stock Option Plans approved by the shareholders' meeting for the three-year periods 2000/2001/2002 and 2003/2004/2005 was established:

- options assigned in 2002 can be exercised between 1 January 2005 and 30 June 2006;
- options assigned in 2003 can be exercised between 1 January 2006 and 31 December 2007.

The Regulations further specify that the Board identifies the conditions for exercising the options granted to the participants with reference to the performance parameters of an economic and/or financial nature on an annual basis; the fulfilment of the conditions for exercising the options is verified by the Board, for each year in which the Plan is in force, by the end of the first half of the year after that in which the options are granted.

As with the Plans referring to previous years, the Board has identified the performance parameters of an economic and/or financial nature for the Stock Option Plan 2006-2008 as being ROE and Free-cash flow, since in the light of past experience, these indicators also respond to market expectations and those of institutional investors, who have shown their appreciation of them.

No provision was made for granting loans or other subsidies for the purchase of shares, in accordance with article 2358, paragraph 3 of the Civil Code.

The following table illustrates the situation at 31 December 2006 regarding the total number of options that have been granted and can still be exercised, the price and the exercise term:

Stock option	2002	2003	2004	2005	2006
In circulation at 1/1/2006	533,206	1,945,000	2,170,000	2,595,000	-
- assigned during year	-	-	-		2,630,000
- cancelled during year	-	-	(30,000)	(30,000)	
- exercised during year	(533,206)	(1,400,000)	(30,000)	-	-
- expired during year	-	-	-	-	-
In circulation at 12/31/2006	-	545,000	2,110,000	2,565,000	2,630,000
Exercise term	1/1/2005- 12/31/2006	1/1/2006- 12/31/2007	1/1/2007- 12/31/2008	6/24/2008- 6/23/2011	7/18/2009- 7/17/2012
Exercise price in €	6.85	6.471	7.749	7.87	7.507
Exercisable at 12/31/2006	-	545,000	-	-	-

The weighted average price of the shares at exercise date, for the options exercised during the year, was €7.648.

Options granted after 7 November 2002 have been measured at their fair value on the basis of a numerical calculation based on binomial trees and utilising the following parameters:

Parameters for the option measuring model				
	2003	2004	2005	2006
Exercise price of the option	6.471	7.749	7.87	7.507
Option term (residual period)	1	2	4	5
Market price of the underlying shares at the grant date in €	6.234	7.793	7.865	7.415
Expected volatility of share price	30.00%	20.00%	18.45%	19.45%
Dividend yield	4.00%	4.00%	4.45%	4.72%
Risk free interest rate for the option term	2.80%	3.50%	2.65%	4.00%

The cost of share-based payments recognised in the income statement for the year, booked under the item "Personnel costs", amounted to €2,378 thousand.

26- Other (income) expense

This item is made up as follows:

Other (income) expense €,000	2006	2005
Other revenues and income	(70,296)	(72,878)
Cost of use of third-party assets	29,855	23,489
Various operating costs	25,793	29,425
Total other (income) expense	**(14,648)**	**(19,964)**

"Other (income) expense" decreased mainly as a result of the failure on the part of the government to renew its contribution to the cost of paper for 2006, which in 2005 amounted to approximately €18.8 million.
The balance for 2006 includes capital gains of €13.1 million registered by Mondadori Retail SpA for the disposal of its shop in Milan situated in Corso Vittorio Emanuele.

Other (income) expense - Other revenues and income €,000	2006	2005
Revenue grants	1,471	20,381
Capital gains on disposal of fixed assets	1,770	2,773
Supplier rebates and other third-party contributions	5,450	6,675
Insurance reimbursements	170	440
Rental income	1,446	1,349
Prior year income	2,916	4,490
Expenses recovered from third parties	28,636	23,838
Others	28,437	12,932
Total other revenues and income	**70,296**	**72,878**

The increase in "Rent payable" was partly due to Mondadori France and partly to the new bookshops opened by Mondadori Retail SpA.

Other (income) expense - Other operating costs €,000	2006	2005
Rental expense	22,730	18,732
Data processing, leasing and hire purchase payments	5,722	4,712
Others	1,403	45
Total cost of third party assets	**29,855**	**23,489**

Other (income) expense - Other operating costs €,000	2006	2005
Compensation and settlements	2,088	3,666
Bad debts	5,333	11,725
Charges to provisions	16,335	12,570
Utilisation of provisions	(16,239)	(15,729)
Contributions and grants	2,454	2,851
Prior year expenses	1,428	3,387
Capital losses on the sale of fixed assets	59	74
Information material, entertainment expenses and gifts	4,721	3,443
Taxes and dues	6,039	3,508
Other expense	3,575	3,930
Total other operating costs	**25,793**	**29,425**

27- Results of investments accounted for using the equity method

Income (expense) from investments accounted for using the equity method - €,000	2006	2005
- Hearst Mondadori Editoriale Srl	317	386
- Gruner + Jahr/Mondadori SpA	2,022	2,701
- Harlequin Mondadori SpA	145	240
- Agenzia Lombarda Distribuzione Giornali e Riviste Srl	(77)	68
- ACI Mondadori SpA	341	482
- Mondadori Rodale Srl	464	640
- Attica Publications SA	(4,250)	2,287
- Società Europea di Edizioni SpA	653	(1,265)
- Grupo Editorial Random House Mondadori SL	5,810	2,453
- Edizioni Electa Bruno Mondadori Srl	148	210
- Mach 2 Libri SpA	432	742
- Venezia Musei Società per i servizi museali Scarl	1	-
- Edizioni EL Srl	388	488
- Press TV SpA	(896)	(760)
- Bol Books on Line Italia SpA	615	526
- Mondolibri SpA	477	620
- Venezia Musei Scarl	(6)	-
- Venezia Accademia Scarl	-	(26)
- Rock FM Srl	(313)	(190)
- Consorzio Forma	(1)	-
- Editions Mondadori Axel Springer Snc	2,111	-
- Top Santé Vof	(26)	-
Total income (expense) from investments accounted for using the equity method	**8,355**	**9,602**

The previous table shows the details of the results for 2006 and 2005 of companies valued at net equity, including any writedowns due to impairment tests.

28- Financial income (expense)

The net negative balance of €12,457 thousand is linked to the decrease in income from stocks, due to a reduction in the cash and cash equivalents invested since August 2006 (approximately €2.9 million), and to increased charges on loans and mortgages for the pool loan granted to the subsidiary Mondadori International (approximately €4.0 thousand).

This item is made up as follows:

Financial income (expense) €,000	2006	2005
Interest from banks and post offices	1,912	901
Interest from associated companies	402	324
Interest from other companies	305	8
Interest from bonds and loans	-	-
Financial income from derivative instrument operations	6,041	9,400
Other interest and financial income	3,479	3,034
Total interest income and other financial income	**12,139**	**13,667**
Interest to banks	538	232
Interest to associated companies	488	251
Interest to other companies	193	177
Interest paid for bonds, mortgages and loans	27,696	23,740
Financial expense from derivative instrument operations	458	2,874
Financial charges from discounting assets/liabilities	3,491	3,400
Other interest paid and financial expense	1,450	2,613
Total interest expense and other financial expense	**34,314**	**33,287**
Realised foreign exchange gains	536	532
Unrealised foreign exchange gains	108	320
Realised foreign exchange losses	(639)	(1,432)
Unrealised foreign exchange losses	(190)	(86)
Total profit (loss) on foreign exchange operations	**(185)**	**(666)**
Income (expense) from share valuations	9,043	11,105
Capital gains on share disposals	1,322	3,662
Losses on share disposals	(462)	(552)
Total financial income (expense) deriving from shares	**9,903**	**14,215**
Total financial income (expense)	**(12,457)**	**(6,071)**

29- Income (expense) from other investments

The following table includes expenses and income from third-party investments, while capital gains relate to the liquidation of Mondadori.com USA Inc.

Income (expense) from other investments €,000	2006	2005
Dividends	-	-
Revaluations	-	-
Writedowns	(3)	(332)
Capital gains from disposals/liquidations of investments and businesses	32	331
Capital losses on disposals/liquidations of investments and businesses	(4)	-
Total income (expense) from other investments	**25**	**(1)**

30- Income taxes

Income taxes for 2006 and 2005 are set out in the following table:

Income taxes €,000	2006	2005
IRES tax on income for the year	50,998	26,601
IRAP for the year	19,864	19,498
Total current taxes	**70,862**	**46,099**
Deferred tax (income) expense - IRES	8,395	20,348
Deferred tax (income) expense - IRAP	(393)	(955)
Total deferred tax (income) expense	**8,002**	**19,393**
Total income taxes	**78,864**	**65,492**

The increase is partly due to the change in the consolidation area and partly to the fact that in 2005 the Group benefited from income from tax relief as a result of, most significantly, the government contribution to the cost of paper.

Reconciliation between the tax charge in the consolidated financial statements and the theoretical tax charge

		2006			2005	
Amounts expressed in €,000	Profits before taxes	Taxes	Current tax rate	Profits before taxes	Taxes	Current tax rate
Theoretical IRES tax charge	188,977	62,362	33.00%	181,360	59,849	33.00%
Theoretical IRAP tax charge	188,977	8,032	4.25%	181,360	7,708	4.25%
Total theoretical tax charge /rate		**70,394**	**37.25%**		**67,557**	**37.25%**
Actual IRES tax charge		59,393	31.43%		46,949	25.89%
Actual IRAP tax charge		19,471	10.30%		18,543	10.22%
Actual tax charge/effective tax		**78,864**	**41.73%**		**65,492**	**36.11%**
Theoretical tax charge/rate		**70,394**	**37.25%**		**67,557**	**37.25%**
Effect relative to loss-making subsidiaries		-	-		594	0.32%
Recognition of deferred tax income/expense on differences arising in previous years		-	-		-	-
Effect of utilisation of tax losses from previous years		(2,749)	(1.45%)		-	-
Tax credits for State grants and contributions		-	-		(6,212)	(3.43%)
Effect of differences of tax rates on taxable income of foreign subsidiaries		(2,617)	(1.38%)		(4,254)	(2.35%)
Net effect of other permanent differences		2,397	1.27%		(3,028)	(1.65%)
Effect of different IRAP tax base		11,439	6.04%		10,835	5.97%
Actual tax charge/effective tax rate		**78,864**	**41.73%**		**65,492**	**36.11%**

If the distribution of dividends proposed by the Board of Directors on 28 March 2007 is approved by shareholders, this will not result in any tax charge for the Mondadori Group, since all tax obligations have already been paid on the profits in question.

31- Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to the Group by the average number of ordinary shares outstanding during the period.

	2006	2005
Net profit for the period (€,000)	108,960	114,724
Average number of ordinary shares outstanding (thousands)	240,656	240,040
Basic profit per share (€)	**0.453**	**0.478**

Diluted earnings per share is calculated by dividing the net profit for the period attributable to the Group by the average number of ordinary shares outstanding during the period. The average is adjusted by assuming that all the potential shares arising from the convertible bond are converted and subscribed by the end of the period.

	2006	2005
Net profit for the period (€,000)	108,960	114,724
Average number of ordinary shares outstanding (thousands)	240,656	240,040
Number of options with dilutive effect (thousands)	84	498
Diluted earnings per share (€)	**0.442**	**0.466**

32- Commitments and contingent liabilities

At 31 December 2006, the Mondadori Group had made commitments for a total of €155,036 thousand (€167,271 thousand at 31 December 2005).

These include €8,661 thousand for contracts to purchase plant and machinery (€11,263 thousand at 31 December 2005), while the residue is represented by approximately €34 million for guarantees given in connection with the purchase of the One-O-One business, sureties, letters of patronage and other guarantees issued mainly in favour of the Ministry of Industry for prize-giving operations and competitions, to the VAT Office for payment of the Group's VAT bill and for lease contracts.

33- Non-recurring expenses (income)

In accordance with Consob resolution no. 15519 of 27 July 2006, during the year the Mondadori Group earned net non-recurring income of €11,867 thousand from the disposal of company divisions and real estate.
The data referring to 2005 mainly includes the government contribution to the cost of paper.

34- Related parties

Operations carried out with related parties, including intragroup operations, cannot be qualified as either atypical or unusual since they are part of the normal business activities of the Group companies. These operations, when they are not carried out under normal conditions or if they are dictated by specific regulations, are in any case carried out under market conditions.

Benefits for managers with strategic responsibility for companies

Managers who are responsible for planning, managing and controlling the business activities of the Mondadori Group form the Group's Management Committee.

Directors	
Maurizio Costa	Deputy Chairman and Chief Executive
Carlo Maria Vismara	Chief Financial Officer
Managers	
Roberto Briglia	General Manager, Magazine Division
Rossella Citterio	Director of External Relations and Communications
Alberto De Matthaeis	Managing Director, Mondadori Printing
Arnaud de Puyfontaine	Chairman and General Manager, Editions Mondadori France SAS
Gianarturo Ferrari	General Manager, Book Division
Eduardo Giliberti	Chairman and Managing Director, Mondadori Pubblicità
Carlo Luigi Mandelli	Managing Director, Monradio
Gianfranco Righi	Director of Personnel, Organisation and Information Systems
Renato Rodenghi	General Manager, Direct Division, Managing Director of the Direct Division companies and Chairman, Mondadori Franchising
Gianni Vallardi	General Manager, Magazines (Italy)

The total remuneration paid by Arnoldo Mondadori Editore S.p.A. and its subsidiaries to managers with strategic responsibilities amounted to €12.3 million and was made up as follows:

- short-term remuneration of €11.1 million
- long-term remuneration of €1.2 million.

Operations with parent companies, subsidiaries and associated companies

The following part of the notes provides details of the economic and balance sheet effects of operations carried out with parent companies, subsidiaries and associated companies in 2005 and 2006.

On behalf of the Board of Directors
Chairman
Marina Berlusconi

Balances and transactions with related parties as of and for the year ended 31 December 2006

(€,000)	Trade receivables	Financial receivables	Trade payables
Parent companies:			
- Fininvest SpA	13	-	17
Associated companies:			
- Gruner und Jahr/Mondadori SpA	2,604	1,476	13,186
- Mach 2 Libri SpA	18,763	2,597	455
- Agenzia Lombarda Distribuzione Giornali e Riviste Srl	534	-	-
- Venezia Accademia Scarl	-	2	122
- Venezia Musei Scarl (liquidated)	-	-	-
- Venezia Musei Società per i servizi museali Scarl	167	-	136
- Hearst Mondadori Editoriale Srl	1,595	-	3,435
- Harlequin Mondadori SpA	1,834	110	-
- Mondadori Rodale Srl	3,133	-	5,440
- Attica Group	152	-	1
- Rock FM Srl	60	2,897	54
- Euromedia Luxembourg SA	-	-	-
- Bol Books on line Italia SpA	-	-	-
- Edizioni Electa Bruno Mondadori Srl	214	681	-
- Edizioni EL Srl	591	-	3,239
- Grupo Editorial Random House Mondadori SL	167	3,937	117
- Società Europea di Edizioni SpA	4,622	-	2,088
- ACI Mondadori SpA	2,541	-	2,715
- Press TV SpA	55	2,181	85
- COVAR	4	-	-
- Mondolibri SpA	5,273	-	640
- Roccella Scarl	-	225	96
- Campania Arte Scarl	-	134	-
- EMAS Snc	1,250	4,203	991
Total associated companies	43,559	18,443	32,800

Financial payables	Tax payables	Revenues	Purchase of raw materials	Purchase of services	Other (income) expense	Financial income (expense)
-	47,869	12	-	7	13	-
2,903	-	3,893	35,176	13,753	(3,018)	(103)
-	-	36,348	-	1,766	(4)	-
-	-	17,593	-	1,848	6	-
-	-	(3)	-	234	-	-
-	-	-	-	-	-	-
-	-	289	22	756	(6)	-
589	-	4,717	3,100	7,593	(1,033)	(17)
5,133	-	290	10,173	-	(340)	(92)
1,551	-	8,752	9,875	10,638	(2,777)	(53)
-	-	105	-	1	(31)	-
-	-	131	-	181	-	77
1,916	-	-	-	-	-	-
9	-	-	-	-	-	-
-	-	719	-	-	-	16
-	-	480	5,080	46	(480)	-
-	-	405	-	183	-	195
-	-	12,713	222	17,380	(172)	-
3,077	-	6,889	5,285	4,566	(1,573)	(51)
291	-	1,863	1,793	181	(301)	104
-	-	-	-	-	-	-
-	-	13,503	191	2,327	(1,425)	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
11,627	-	-	2	20	(317)	(162)
27,096	**0**	**108,687**	**70,919**	**61,473**	**(11,471)**	**(86)**

Balances and transactions with related parties as of and for the year ended 31 December 2006

(€,000)	Trade receivables	Financial receivables	Trade payables
Affiliated companies:			
- Pagine Utili Srl	949	-	15
- RTI SpA	1,541	-	2,009
- Publitalia ‘80 SpA	90	-	1,838
- Medusa Video Srl	17	-	1,104
- Promoservice Italia Srl	380	-	10
- Fininvest Gestione Servizi SpA (ex Finedim Italia SpA)	5	-	-
- Il Teatro Manzoni SpA	2	-	13
- Mediolanum Vita SpA	-	-	-
- Mediolanum SpA	46	-	-
- Banca Mediolanum SpA	-	-	-
- Medusa Film SpA	25	-	-
- Alba Servizi Aerotrasporti SpA	-	-	43
- Radio e Reti Srl	142	-	153
- Isim SpA	-	-	2
- Consorzio Aeromobili Fininvest	-	-	-
- Videotime SpA	5	-	-
- Mediaset SpA	47	-	-
- Milan A.C. SpA	-	-	-
- Eis Roma Srl	-	-	-
- Eis Srl	-	-	-
- Elettronica Industriale SpA	-	-	4
- Medusa Multicinema SpA	-	-	-
- Publieurope International Ltd	-	-	3
- Consorzio Campus Multimedia In.Formazione	15	-	15
- Media Shopping SpA	177	-	-
Total affiliated companies	3,441	0	5,209
Total related parties	47,013	18,443	38,026
Percentage of financial statements	9.8%	8.9%	8.8%

Financial payables	Other liabilities	Revenues	Purchase of raw materials	Purchase of services	Other (income) expense	Financial income (expense)
-	-	2,650	-	15	(41)	-
-	-	1,285	1,888	371	(435)	-
-	-	110	-	13,626	-	-
-	-	12	116	1,257	(5)	-
-	-	-	-	8	(250)	-
-	-	5	-	-	18	-
-	-	6	-	26	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	258	-	-	-	-
-	-	48	-	(42)	-	-
-	-	-	-	-	163	-
-	-	560	-	408	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	6	-	-	(7)	-
-	-	48	-	-	-	-
-	-	-	-	-	13	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	7	-
-	-	-	-	-	-	-
-	-	-	-	4	-	-
-	-	-	-	30	(15)	-
-	-	175	-	23	-	-
0	0	5,163	2,004	15,726	(552)	0
27,096	47,869	113,862	72,923	77,206	(12,010)	(86)
21.9%	96.4%	6.5%	14.5%	10.6%	82.0%	0.7%

Balances and transactions with related parties as of and for the year ended 31 December 2005

(€,000)	Trade receivables	Financial receivables	Trade payables
Parent companies:			
- Fininvest SpA	12	-	42
Associated companies:			
- Gruner + Jahr/Mondadori SpA	2,586	1,165	13,409
- Mach 2 Libri SpA	18,823	-	311
- Agenzia Lombarda Distribuzione Giornali e Riviste Srl	452	-	4
- Venezia Accademia Scarl	9	24	161
- Venezia Musei Scarl	32	-	1
- Venezia Musei Società per i servizi museali Scarl	447	-	724
- Hearst Mondadori Editoriale Srl	1,868	-	2,310
- Harlequin Mondadori SpA	3,527	74	-
- Mondadori Rodale Srl	3,345	-	3,345
- Gruppo Attica	358	-	-
- Rock FM Srl	21	-	65
- Euromedia Luxembourg	-	-	-
- Bol Books on line Italia SpA	4	-	-
- Edizioni Electa Bruno Mondadori Srl	8	537	-
- Edizioni EL Srl	523	-	2,735
- Grupo Editorial Random House Mondadori SL	623	5,939	90
- Società Europea di Edizioni SpA	9,434	-	2,684
- ACI Mondadori SpA	2,836	-	1,529
- Press TV SpA	1,265	1,976	343
- COVAR	4	-	-
- Mondolibri SpA	7,500	-	789
Total associated companies	**53,665**	**9,715**	**28,500**

Financial payables	Tax payables	Revenues	Purchase of raw materials	Purchase of services	Other (income) expense	Financial income (expense)
-	22,310	13	-	-	-	-
2,066	-	4,324	36,678	13,281	(3,236)	(100)
-	-	34,081	-	1,867	(4)	-
-	-	18,915	-	2,142	15	-
-	-	4	10	271	(4)	-
-	-	-	-	-	-	-
-	-	456	7	889	-	-
1,508	-	4,604	3,822	6,864	(1,072)	(16)
6,450	-	448	11,316	-	(490)	(65)
3,991	-	8,646	11,738	10,327	(2,943)	(39)
-	-	271	-	-	-	-
2	-	18	-	97	(3)	-
1,262	-	-	-	-	-	-
2	-	798	-	4	(6)	-
-	-	574	-	-	(1)	15
-	-	415	4,242	28	(418)	-
-	-	1,186	-	106	3	250
-	-	15,294	383	17,943	(197)	-
2,928	-	7,331	5,757	4,792	(1,790)	(25)
2	-	4,477	1,915	657	(591)	53
-	-	-	-	54	-	-
-	-	14,396	251	2,127	(1,614)	-
18,211	**0**	**116,238**	**76,119**	**61,449**	**(12,351)**	**73**

Balances and transactions with related parties as of and for the year ended 31 December 2005

(€,000)	Trade receivables	Financial receivables	Trade payables
Affiliated companies:			
- Pagine Italia SpA	3,413	-	20
- RTI SpA	459	-	64
- Publitalia '80 SpA	144	-	1,514
- Medusa Video Srl	12	-	450
- Promoservice Italia Srl	300	-	-
- Fininvest Gestione Servizi SpA (ex Finedim Italia SpA)	4	-	-
- Il Teatro Manzoni SpA	3	-	16
- Mediolanum Vita SpA	-	-	-
- Mediolanum SpA	23	-	-
- Banca Mediolanum SpA	72	-	-
- Medusa Film SpA	16	-	42
- Alba Servizi Aerotrasporti SpA	-	-	-
- Radio e Reti Srl	7	-	74
- Isim SpA	-	-	2
- Consorzio Aeromobili Fininvest	-	-	-
- Videotime SpA	2	-	-
- Mediaset SpA	25	-	-
- Milan A.C. SpA	1	-	-
- Eis Roma Srl	-	-	-
- Eis Srl	-	-	-
- Elettronica Industriale SpA	-	-	4
- Medusa Multicinema SpA	15	-	-
Total affiliated companies	**4,496**	**0**	**2,186**
Total related parties	**58,173**	**9,715**	**30,728**
Percentage of financial statements	**14.2%**	**2.0%**	**8.0%**

Financial payables	Other liabilities	Revenues	Purchase of raw materials	Purchase of services	Other (income) expense	Financial income (expense)
-	-	4,922	-	30	-	-
-	-	317	-	211	(2)	-
-	-	241	-	25,097	-	-
-	-	9	-	1,005	-	-
-	-	-	-	3	-	-
-	-	4	-	26	18	-
-	-	2	-	-	7	-
-	-	-	-	-	-	-
-	-	-	-	-	(31)	-
-	-	16	-	-	-	-
-	-	8	-	(52)	-	-
-	-	-	-	-	52	-
-	-	-	-	161	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	79	-	-	-	-
-	-	1	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
0	0	5,599	0	26,481	44	0
18,211	22,310	121,850	76,119	87,930	(12,307)	73
25.5%	88.8%	7.4%	14.5%	13.0%	61.6%	n.a.

Segment information

Primary segment information for the year ended 31 December 2006

(€,000)	Books	Magazines	Advertising services	Printing
Revenues from sales and services to external customers	**408,822**	**648,768**	**337,569**	**188,566**
Revenues from sales and services to other sectors	**30,717**	**218,427**	**5,301**	**259,311**
Income (expense) from investments using equity method	6,917	6	-	-
Gross operating profit	**86,666**	**124,912**	**2,243**	**34,353**
Operating result	**83,433**	**121,225**	**1,958**	**9,562**
Financial income (expense)	-	-	-	-
Profit before taxes and minority interests	**83,433**	**121,222**	**1,958**	**9,562**
Income taxes	-	-	-	-
Result attributable to minority interests	1,153	-	-	-
Net result	**82,280**	**121,222**	**1,958**	**9,562**
Depreciation, amortisation and impairment	3,233	3,687	285	24,791
Non-monetary costs	16,168	10,815	2,601	5,271
Investments	**6,550**	**666,282**	**552**	**23,762**
Investments accounted for using the equity method	41,158	56,332	-	-
Other assets	328,245	1,009,493	153,838	300,711
Financial assets	-	-	-	-
Tax assets	-	-	-	-
Total assets	**369,403**	**1,065,825**	**153,838**	**300,711**
Other liabilities	162,809	407,141	153,893	186,654
Financial liabilities	-	-	-	-
Tax liabilities	-	-	-	-
Total liabilities	**162,809**	**407,141**	**153,893**	**186,654**

Direct	Retail	Radio	Corporate and other business	Consolidation adjustments	Consolidated financial statements
23,464	**136,333**	**743**	**5,941**	**-**	**1,750,206**
540	**958**	**8,561**	**8,330**	**(532,145)**	**0**
1,092	-	(313)	653	-	8,355
3,766	**15,372**	**(11,495)**	**(15,516)**	**-**	**240,301**
3,480	**13,267**	**(12,480)**	**(18,228)**	**(808)**	**201,409**
-	-	-	(12,457)	-	(12,457)
3,480	**13,267**	**(12,480)**	**(30,657)**	**(808)**	**188,977**
-	-	-	78,864	-	78,864
-	-	-	-	-	1,153
3,480	**13,267**	**(12,480)**	**(109,521)**	**(808)**	**108,960**
286	2,105	985	2,712	808	38,892
404	2,523	399	2,990	-	41,171
110	**41,202**	**15,030**	**3,147**	**-**	**756,635**
13,497	-	31	9,212	-	120,230
13,760	92,724	97,598	39,039	(192,675)	1,842,733
-	-	-	313,753	-	313,753
-	-	-	75,954	-	75,954
27,257	**92,724**	**97,629**	**437,958**	**(192,675)**	**2,352,670**
11,175	68,280	8,936	39,640	(192,675)	845,853
-	-	-	868,462	-	868,462
-	-	-	151,922	-	151,922
11,175	**68,280**	**8,936**	**1,060,024**	**(192,675)**	**1,866,237**

Primary segment information for the year ended 31 December 2005

(€,000)	Books	Magazines	Advertising services	Printing
Revenues from sales and services to external customers	**401,150**	**560,600**	**333,742**	**193,586**
Revenues from sales and services to other sectors	**23,863**	**217,414**	**7,315**	**265,507**
Income (expense) from investments using equity method	4,107	5,804	-	-
Gross operating profit	**72,643**	**130,210**	**2,793**	**39,311**
Operating result	**69,530**	**127,234**	**2,539**	**16,104**
Financial income (expense)	-	-	-	-
Profit before taxes and minority interests	**69,528**	**127,269**	**2,539**	**16,104**
Income taxes	-	-	-	-
Result attributable to minority interests	1,143	-	-	-
Net result	**68,385**	**127,269**	**2,539**	**16,104**
Depreciation, amortisation and impairment	3,113	2,976	254	23,207
Non-monetary costs	11,360	8,601	1,971	5,580
Investments	**2,773**	**1,200**	**344**	**34,201**
Investments accounted for using the equity method	36,318	48,946	-	-
Other assets	325,438	244,825	152,887	326,385
Financial assets	-	-	-	-
Tax assets	-	-	-	-
Total assets	**361,756**	**293,771**	**152,887**	**326,385**
Other liabilities	155,011	231,238	153,633	215,902
Financial liabilities	-	-	-	-
Tax liabilities	-	-	-	-
Total liabilities	**155,011**	**231,238**	**153,633**	**215,902**

	Direct	Retail	Radio	Corporate and other business	Consolidation adjustments	Consolidated financial statements
	25,831	**136,281**	**37**	**6,114**	**-**	**1,657,341**
	546	**928**	**4,303**	**9,081**	**(528,957)**	**-**
	1,146	-	(190)	(1,265)	-	9,602
	4,693	**2,654**	**(11,837)**	**(16,890)**	**-**	**223,577**
	4,252	**413**	**(12,550)**	**(20,090)**	**-**	**187,432**
	-	-	-	(6,071)	-	(6,071)
	4,252	**413**	**(12,550)**	**(26,195)**	**-**	**181,360**
	-	-	-	65,492	-	65,492
	-	-	-	1	-	1,144
	4,252	**413**	**(12,550)**	**(91,688)**	**-**	**114,724**
	441	2,241	713	3,200	-	36,145
	811	908	459	3,733	-	33,423
	118	**1,559**	**84,174**	**2,382**	**-**	**126,751**
	13,595	-	17	7,773	-	106,649
	13,929	49,600	84,761	41,499	(196,657)	1,042,667
	-	-	-	555,260	-	555,260
	-	-	-	67,480	-	67,480
	27,524	**49,600**	**84,778**	**672,012**	**(196,657)**	**1,772,056**
	11,843	49,671	15,436	51,147	(196,657)	687,224
	-	-	-	523,273	-	523,273
	-	-	-	51,109	-	51,109
	11,843	**49,671**	**15,436**	**625,529**	**(196,657)**	**1,261,606**

Secondary segment information for the year ended 31 December 2006

(€,000)	Books	Magazines	Advertising services	Printing
Italian market	433,234	719,703	329,007	365,652
France	445	136,312	1,567	10,824
Other EU markets	2,537	6,608	11,138	61,568
USA market	819	403	124	5,512
Other countries	2,504	4,169	1,034	4,321
Revenues from sales and services	439,539	867,195	342,870	447,877
Italian market	347,918	251,383	153,838	286,963
France	-	778,246	-	-
Other EU markets	21,485	36,196	-	13,748
USA market	-	-	-	-
Other countries	-	-	-	-
Total assets	369,403	1,065,825	153,838	300,711
Italian market	6,550	791	552	20,954
France	-	665,491	-	-
Other EU markets	-	-	-	2,808
USA market	-	-	-	-
Other countries	-	-	-	-
Total investments	6,550	666,282	552	23,762

Secondary segment information for the year ended 31 December 2005

(€,000)	Books	Magazines	Advertising services	Printing
Italian market	417,057	771,645	325,633	383,898
France	587	693	1,299	11,518
Other EU markets	2,425	4,990	9,987	52,222
USA market	957	361	143	6,976
Other countries	3,987	325	3,995	4,479
Revenues from sales and services	425,013	778,014	341,057	459,093
Italian market	344,516	252,879	152,887	313,831
France	-	-	-	-
Other EU markets	17,240	40,892	-	12,554
USA market	-	-	-	-
Other countries	-	-	-	-
Total assets	361,756	293,771	152,887	326,385
Italian market	2,773	1,200	344	33,973
France	-	-	-	-
Other EU markets	-	-	-	228
USA market	-	-	-	-
Other countries	-	-	-	-
Total investments	2,773	1,200	344	34,201

Direct	Retail	Radio	Corporate and other business	Consolidation adjustments	Consolidated financial statements
20,097	137,291	9,304	14,271	(532,144)	1,496,415
1,261	-	-	-	-	150,409
2,064	-	-	-	(1)	83,914
9	-	-	-	-	6,867
573	-	-	-	-	12,601
24,004	**137,291**	**9,304**	**14,271**	**(532,145)**	**1,750,206**
27,257	92,724	97,629	217,300	(189,205)	1,285,807
-	-	-	42,708	-	820,954
-	-	-	177,246	(3,112)	245,563
-	-	-	704	(358)	346
-	-	-	-	-	0
27,257	**92,724**	**97,629**	**437,958**	**(192,675)**	**2,352,670**
110	41,202	15,030	3,140	-	88,329
-	-	-	-	-	665,491
-	-	-	-	-	2,808
-	-	-	7	-	7
-	-	-	-	-	0
110	**41,202**	**15,030**	**3,147**	**0**	**756,635**

Direct	Retail	Radio	Corporate and other business	Consolidation adjustments	Consolidated financial statements
20,135	137,209	4,340	15,195	(528,951)	1,546,161
2,564	-	-	-	-	16,661
3,031	-	-	-	(6)	72,649
-	-	-	-	-	8,437
647	-	-	-	-	13,433
26,377	**137,209**	**4,340**	**15,195**	**(528,957)**	**1,657,341**
27,524	49,600	84,778	228,914	(193,398)	1,261,531
-	-	-	125	-	125
-	-	-	441,931	(2,893)	509,724
-	-	-	1,042	(366)	676
-	-	-	-	-	-
27,524	**49,600**	**84,778**	**672,012**	**(196,657)**	**1,772,056**
118	1,559	84,174	2,342	-	126,483
-	-	-	2	-	2
-	-	-	23	-	251
-	-	-	15	-	15
-	-	-	-	-	-
118	**1,559**	**84,174**	**2,382**	**0**	**126,751**

Report of the Board of Statutory Auditors

Report of the Board of Statutory Auditors to the Shareholders' meeting called to approve the Financial Statements for the year ended 31 December 2006 (Article 153, Legislative Decree n. 58/98)

Shareholders,
during the year we have performed the oversight activities envisaged by the law taking into consideration the principles of conduct recommended by the National Councils of Dottori Commercialisti and Ragionieri (the Italian accounting profession).
In particular, we have:

- ensured that legal requirements have been fulfilled and that the articles of association and the principles of correct administration have been adhered to;
- taken part in all meetings of shareholders, of the Board of Directors and of committees inside the Board, obtaining from the Directors information on the general performance of the company, the probable future development of business activities and the significant operations affecting the company's economic and financial position, ensuring that resolutions taken and implemented are not manifestly imprudent, risky, potentially conflictual, in contrast with the resolutions of the shareholders' meetings or likely to compromise the integrity of the company's equity;
- become acquainted with the company's structures and overseen their adequacy, to the extent of our responsibility, by direct observation, by the examination of information provided by the company and through meetings with the independent auditors, Reconta Ernst & Young SpA, held for the exchange of information and data, from which no significant aspects emerged;
- assessed and overseen the company's internal control system, the activities carried out as part of the control system and the administrative-accounting system, as well as checking the extent to which the latter is able to represent correctly the company's operations, by means of obtaining information, examining company documents and analysing the results of the work carried out by the independent auditors. We have also had periodic meetings with the head of internal control, with whom we have exchanged information on the results of the procedures performed by him at subsidiary companies and have taken part in meetings of the internal control committee;
- ensured that the method of implementing the company governance regulations contained in the self-regulation code adopted by the company has been respected, taking into consideration the contents of the new Self-regulation Code issued by the Borsa Italiana SpA (edition of March 2006). In particular, we have:
  i) ensured the correct application of the control criteria and procedures adopted by the Board of Directors for checking the independence of its own members;

ii) ensured that the external auditors are independent;
iii) ensured that the statutory auditors have respected the independence criteria;

- assessed and overseen the adequacy of the instructions given to subsidiary companies. These instructions have enabled the subsidiaries to provide the Parent Company with the information it needs to comply with the communication obligations envisaged by prevailing legislation;
- checked that the company's financial statements and the Group's consolidated financial statements, together with the reports on the year's results for the year ended 31 December 2006 have been prepared in accordance with IAS/IFRS, through direct checks and discussions with the independent auditors.

During the performance of the activities described above, no significant omissions, illegal acts or irregularities emerged such as to require us to report these either to the competent external supervisory authorities or discuss them in this report.
In 2006 the body entrusted with overseeing the effectiveness of the organisational, management and control model and ensuring that it is observed and updated, pursuant to Legislative Decree n. 231/01, has not advised us of any important matters.
Likewise, the annual report of the Board of Directors on corporate governance did not reveal anything that need be brought to your attention.

Furthermore, in line with the recommendations of CONSOB, the Board of Statutory Auditors states the following:

- we did not find any atypical and/or unusual operations, including intragroup operations and related party transactions;
- the information provided by the Board of Directors, including information concerning intragroup operations and transactions with related parties, is considered complete. In particular, intragroup operations were connected with and were relevant to the corporate purpose, and the nature and economic effects of these ordinary operations are reported in the notes to the financial statements and are to be considered appropriate and in line with the company's business interests.
  In addition, we did not identify in this context any conflict of interest or any operations able to have a significant impact on the company's economic or financial position;
- the company has for some time adhered to the self-regulation code of the Committee of Corporate Governance of listed companies issued by the Borsa Italiana SpA and has

updated its own self-regulation code in conformity with best practices, as outlined in the report on the subject drawn up by the Board of Directors;

- during the year:
  - regular meetings were held to exchange information with representatives of Reconta Ernst & Young SpA and, while we have yet to see the reports of the independent auditors on the financial statements and consolidated financial statements, we have reason to believe that the auditors' opinions will not be qualified;
  - the Board of Statutory Auditors did not issue any opinion pursuant to article 2389, paragraph 3, of the civil code and of the old article 159, paragraph 1, of Legislative Decree n. 58/98, with the exception of the recent proposal to extend the appointment for carrying out the audit for the period 2007-2009 to Reconta, Ernst & Young SpA, which is presented for your approval in accordance with article 159;
  - 11 meetings of the Board of Directors and 11 meetings of the Board of Statutory Auditors were held;
  - the company appointed Reconta, Ernst & Young SpA, already appointed as auditors of the annual financial statements, the consolidated financial statements and the half year report, to also be responsible for an *Accertamento Diffusione Stampa* (ADS) circulation audit, for a cost of €36,000.00. As a result of the purchase of the Emap France Group (now Mondadori France Group), the French subsidiary appointed the same auditors to carry out the following:
  - an audit of the pro-forma consolidated financial statements and the relative notes included in the "information documents", as per article 71-bis, CONSOB recommendation n. 11971/1999, for a cost of €160,000.00;
  - an audit of the method of purchase price allocation (PPA), for a cost of €52,500.00;
  - the company instructed Studio Legale e Tributario, which is connected to Reconta, Ernst & Young SpA and is part of the same international network, to provide legal assistance in the legal area, for a cost of €15,300.00. In addition, on the occasion of the aforementioned purchase, the French subsidiary appointed Ernst & Young Financial-Business Advisors SpA to carry out due diligence, for a cost of €902,000.00;
  - the Board of Statutory Auditors has received no denouncements pursuant to article 2408 of the Civil Code.

After taking into account the above matters and to the extent of its responsibility, the Board of Statutory Auditors is able to state that it has found no impediment to approving the financial statements at 31 December 2006, which show net profit for the year of €90,239,564, or to the payment of a dividend in the manner formulated by the Board of Directors, in this case also in consideration of the reserves available.

Milan, 4 April 2007

On behalf of the Board of Statutory Auditors
Prof. Ferdinando Superti Furga, Chairman
Dott. Achille Frattini
Dott. Franco Papa

Independent Auditors' Report

Independent Auditors' Report
pursuant to art. 156 of Legislative Decree n. 58 of February 24, 1998
(Translation from the original Italian text)

RECONTA ERNST & YOUNG

To the Shareholders of
Arnoldo Mondadori Editore S.p.A.

1. We have audited the financial statements of Arnoldo Mondadori Editore S.p.A., as of and for the year ended December 31, 2006, comprising the balance sheet, the statement of operations, changes in shareholder's equity and cash flows and the related explanatory notes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 7, 2006.

3. In our opinion, the financial statements present cleary and give a true and fair view of the financial position, the result of operations, the changes in shareholder's equity and the cash flows of Arnoldo Mondadori Editore S.p.A. as of December 31, 2006 and for the year then ended in accordance with IFRS as adopted by the European Union and the standards issued in accordance with art. 9 of Italian Legislative Decree n° 38/2005.

Milan, Italy
April 5, 2007

Reconta Ernst & Young S.p.A.
Signed by Pellegrino Libroia (Partner)

To the Shareholders of
Arnoldo Mondadori Editore S.p.A.

1. We have audited the consolidated financial statements of Arnoldo Mondadori Editore S.p.A. and its subsidiaries (the "Mondadori Group"), as of and for the year ended December 31, 2006, comprising the consolidated balance sheet, the consolidated statement of operations, changes in shareholder's equity and cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 7, 2006.

3. In our opinion, the consolidated financial statements present cleary and give a true and fair view of the financial position, the result of operations, the changes in shareholder's equity and the cash flows of Mondadori Group as December 31, 2006 and for the year then ended in accordance with IFRS as adopted by the European Union and the standards issued in accordance with art. 9 of Italian Legislative Decree n° 38/2005.

Milan, Italy
April 5, 2007

Reconta Ernst & Young S.p.A.
Signed by Pellegrino Libroia (Partner)

Graphic design: Bob Noorda