ARNOLDO MONDADORI EDITORE S.p.A.

Share Capital €67,451,756.32
Head Offices in Milan
Administrative Offices in Segrate (MI)

Report on the first half of 2006

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Report of the Board of Directors

The Mondadori Group's business activities

During the first half of 2006 the Mondadori Group, with revenues of €810.1 million (-1.9% compared with the same period of the previous year) maintained its leadership in the sectors of reference.

As already indicated in the report on the first quarter, the non-renewal of the government paper contribution, worth €7.2 million in the first half of 2005, represents a significant element of discontinuity compared with the figures of the previous year.

Consequently, figures have also been provided of the results net of the paper contribution to facilitate a like-for-like comparison with the results of last year.

Net profit for the first half of 2006 came to €45.1 million, compared with €51.9 million in the same period of 2005 (€45 million net of paper contribution).

Profit before taxation amounted to €80.4 million, compared with €84.4 million in the same period of the previous year (€77.2 million net of paper contribution).

Consolidated operating profit came to €82.1 million, compared with €89.7 million at 30 June 2005 (€82.5 million net of paper contribution).

Consolidated gross operating profit came to €98.4 million, compared with €106.8 million for the same period of the previous year (€99.6 million net of paper contribution).

If, in addition to the paper contribution, net development costs for Radio R101 are excluded, gross operating profit increased by 2.3% compared with the first half of 2005.

Gross cash flow at 30 June 2006 came to €61.4 million, compared with €69 million at 30 June 2005 (€61.8 net of paper contribution).

The Group's net financial position showed a deficit of €121.7 million, compared with €32.2 million at the end of 2005. This figure takes account of the distribution of €147.3 million in dividends.

What follows are comments on the Group's consolidated results for the first half of the year to 30 June 2006.

Results for the period

Income statement	**€m 30 June 2006**	**€m 30 June 2005**	**Change %**
Income from sales of goods and services	810.1	825.5	(1.9%)
Personnel costs	132.6	134.9	(1.7%)
Cost of sales and management	581.8	588.4	(1.1%)
Income (charges) from investments (calculated on a net equity basis)	2.7	4.6	(41.3%)
Gross operating profit	**98.4**	**106.8**	**(7.9%)**
- as a proportion of revenues	*12.1%*	*12.9%*	
Depreciation of property, plant and machinery	15.6	16.1	(3.1%)
Depreciation of intangible assets	0.7	1.0	(30.0%)
Operating profit	**82.1**	**89.7**	**(8.5%)**
- as a proportion of revenues	*10.1%*	*10.9%*	
Net financial income (charges)	(1.7)	(5.4)	(68.5%)
Other income (charges)	-	0.1	n.s.
Profit for the period before taxation	**80.4**	**84.4**	**(4.7%)**
Tax charges	34.9	31.9	9.4%
Minority interest	0.4	0.6	(33.3%)
Net profit	**45.1**	**51.9**	**(13.1%)**

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

Consolidated revenues amounted to €810.1 million, an fall of 1.9% on the first half of 2005. The following table illustrates the business volumes for each business area.

Business volumes by business area	**€m 30 June 2006**	**€m 30 June 2005**	**Change %**
Books	192.2	188.0	2.2%
Magazines	395.2	425.7	(7.2%)
Advertising services	174.6	173.6	0.6%
Printing	235.0	224.1	4.9%
Direct	12.6	14.5	(13.1%)
Retail	64.4	58.2	10.7%
Radio	4.1	1.6	156.2%
Corporate and other business	7.5	7.7	(2.6%)
Total sales	**1,085.6**	**1,093.4**	**(0.7%)**
Intergroup sales	(275.5)	(267.9)	2.8%
Total consolidated revenues	**810.1**	**825.5**	**(1.9%)**

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

Revenues by geographical area	**€m 30 June 2006**	**€m 30 June 2005**	**Change %**
Italy	757.5	777.4	(2.6%)
EU countries	42.2	35.7	18.2%
USA	3.6	3.4	5.9%
Others	6.8	9.0	(24.4%)
Total consolidated revenues	**810.1**	**825.5**	**(1.9%)**

Book division

	€m 30 June 2006	**€m 30 June 2005**
Book sales	189.0	185.7
Other revenues	3.2	2.3
	192.2	**188.0**
Operating costs	(160.6)	(167.7)
Gross operating profit	**31.6**	**20.3**
Amortisations & depreciations	(1.3)	(1.5)
Operating profit	**30.3**	**18.8**

According to Demoskopea figures, the first half of 2006 was particularly dynamic for the book market. In fact, despite essential stability in terms of copies sold (+0.6%), there was a 3.7% increase in terms of value compared with the same period of 2005.
In this context, the Mondadori Group maintained intact its absolute market leadership with a 29.6% share in terms of volume and 27.2% in terms of value, as can be seen from the following tables.

Publisher	**Volume market share 1st half 2006**	**Volume market share 1st half 2005**	**Delta**
Mondadori	17.1%	18.4%	(1.3)
Einaudi	5.5%	5.1%	0.4
Sperling & Kupfer + Frassinelli	2.8%	2.9%	(0.1)
Piemme	3.9%	4.0%	(0.1)
Other Mondadori Group companies	0.3%	0.2%	0.1
Total Mondadori Group	**29.6%**	**30.6%**	**(1.0)**
Rizzoli Group	13.0%	13.6%	(0.6)
Longanesi Group	9.5%	7.9%	1.6
Feltrinelli	5.5%	5.3%	0.2

The Group’s net revenues in this sector amounted to €192.2 million, an increase of 2.2% on the first six months of 2005.

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

Books	**€m 30 June 2006**	**€m 30 June 2005**	**Change %**
Edizioni Mondadori	79.2	73.4	7.9%
Einaudi	24.3	21.8	11.5%
Art books and exhibition organization	20.9	21.1	(0.9%)
Sperling & Kupfer Group	16.0	14.7	8.8%
School textbook sector	16.7	16.6	0.6%
Piemme	21.5	20.1	7.0%
Distribution & logistics	10.4	18.0	(42.2%)
Total consolidated sales	**189.0**	**185.7**	**1.8%**

Edizioni Mondadori

In the first half of 2006 Mondadori confirmed the positive trend already highlighted in the first quarter, with revenues of €79.2 million, an increase on the same period of the previous year of 7.9%.

Of particular not in the new non-fiction area was the success of Federico Rampini's *L'Impero di Cindia* which, with sales of 80,000 copies, improved in only two months the already satisfactory sales of *Secolo cinese,* and the new book by Magdi Allam *Io amo l'Italia,* which sold more than 75,000 copies within two months of publication. It is also worth mentioning the success of first-time author Roberto Saviano with *Gomorra*, which sold 40,000 copies.
The first half of 2006 for Mondadori was also a period of experimentation, for example with the book *Notte prima degli esami*, from the film that was the surprise hit of the spring, which has already sold over 100,000 copies.

Also on the film side, to coincide with the release of the Hollywood adaptation of "Il Codice da Vinci", Mondadori benefited from a new wave of sales of the book. Other initiatives during the period attracted additional attention of readers to Dan Brown: as well as the Miti edition of *Verità del ghiaccio*, and the *Codice da Vinci* and *Angeli e demoni* editions in the Oscar series. The end of June, meanwhile, saw the publication of *Crypto*, the highly-anticipated techno-thriller, published for the first time in Italy.

New initiatives were also developed in the Reference sector with satisfying results, including the new *Devoto-Oli* which, produced in cooperation with Edumond Le Monnier, achieved very positive sales (18,000 copies), and a new line of dictionaries, the result of cooperation with the leading publisher in the sector, the German company Langenscheidt.

In the Children's sector, the new author Rafael Abalos met with an enthusiastic public response with sales of 25,000 copies for his new book *Grimpow*; also of note was the first volume of a new trilogy by Licia Troisi, a young Italian author, that has already sold more than 250,000 copies.

The Paperback area saw a confirmation of the positive launch of the Oscar campaign, with an increase in revenues of 30.8% compared with 2005, generated in balanced manner between the bookstore and large-scale retail channels.

Giulio Einaudi Editore

The first half of 2006 saw an 11.5% increase in revenues compared with the same period of last year, this was due to an excellent performance in the bookstore channel (+16.7%), while the installment sector saw a fall of 9.3%, due mainly to the closure of a number of agencies.

Among the titles that performed particulalry well during the period were: *La ragazza del secolo scorso* by Rossana Rossanda (135,000 copies), *Parole e canzoni with DVD* by Vasco Rossi (68,000 copies in 3 months), *L'uomo a rovescio* by Fred Vargas (40,000 copies), *Non lasciarmi* by Kazuo Ishiguro (30,000 copies), *Istanbul* by Orhan Pamuk (20,000 copies), *Diario di un gatto con gli stivali* by Roberto Vecchioni (25,000 copies), *L'albero dei Giannizzeri* by Jason Goodwin (30,000 copies), *Scemo di guerra with DVD* by Ascanio Celestini (16,000 copies).

Art publishing and exhibitions

During the first half of 2006 art and illustrated book publishing and the organisation of exhibitions generated revenues of €20.9 million, essentially in line with the revenues of the same period of the previous year.
Performance in the editorial area was positive, thanks mainly to the add-on sales phenomenon and co-editions, but also to the contribution of activities in the cultural heritage sector, with the success of the exhibitions *Gentile da Fabriano* and *Musa pensosa*.
The same sector also saw the launch of catalogue publishing activities for the Museo d'Arte Donna Regina in Naples, part of a cooperation project with the regional council for Campania to valorise the region's cultural and historical assets.

Sperling & Kupfer Group

The Sperling & Kupfer Group closed the first half of 2006 with revenues of €16.0 million, in an increase of 8.8% on the same period of the previous year, thanks to a positive performance of all of the company's lines, especially in the bookstore and large-scale retail channels.

Excellent sale results were achieved for the latest books by two of the most important authors in the portfolio: *Cell* by Stephen King, which sold more than 120,000 copies, and *Rosso Corallo* by Sveva Casati Modignani, which in just two months from publication sold more than 150,000 copies, sustaining at the same time the sales of other titles in the catalogue.

Among the titles in the non-fiction sector that performed well, we would point to a book by a new author for the company, Antonio Caprarica, whose *Dio ci salvi dagli inglesi* sold 35,000 copies, and the publication at the beginning of the year of *Cuori neri* by Luca Telese (36,000 copies).

There was also a positive trend in the revenues of Frassinelli, with the spring publication of *Tre settimane, un mondo* by Nicholas and Micah Sparks (60,000 copies).

Edumond Le Monnier

Net revenues in the first half of 2006 for Edumond Le Monnier SpA came to €16.7 million, an increase of 0.6% on the first half of the previous year.
This figure is not particulalry significant given the high seasonality of the education publishing business, in which revenues are heavily concentrated in the last quarter of the year. In the sectors that are not strictly connected with education – miscellaneous, university, contract publishing and periodicals – there was a good increae in revenues, even if of modest proportions compared with the core business.
As far as adoptions of new titles and back catalogue titles are concerned, initial indications are reassuring. Of particular note is the excellent performance of titles produced for primary schools: *Ciliegie*, a reading course for first through third years, which has seen more than 100,000 adopted, and *Exploro*, subsidiary texts for the fourth and fifth years, which, in its various editions, has seen adoptions of around 70,000 copies.
Also in other areas adoption rates appear positive, with a slight decline in the first level secondary schools, resulting from the settling after a period of uncertainty caused by educational reforms. Among the new titles that have performed particularly well, were *Latino,* a two-year course, *Comunicarte*, an innovative course in the history of art and the new edition of *Narrami o Musa*.

Piemme

In the first half of 2006 Edizioni Piemme generated revenues of €21.5 million, an increase of 7.0%.
In the single editorial lines, there were significant results in fiction, non-fiction and manuals, with an increase in revenues of 43% compared with the same period of the previous year. This growth was due not only to the excellent sales of *Cacciatore di aquiloni* by Khaled Hosseini, but also the sales of new titles. The success of historical thrillers and novels continued, a field in which Piemme has a solid tradition; sales in the Pocket sector were stable, while there was a fall in the Religion sector, which was up against an anomalous 2005 which was marked by the death of Pope John Paul II.

The Children's line repeated its growth trend thanks mainly to the *Battello a Vapore,* which benefits from the extensive expansion of the range, the effect of sales of the series such as *Ulysses Moore* and *Valentina*, the relaunch of characters such as *Scooby Doo* and above all the cult series *Barbapapà*. The development of the Geronimo Stilton line was more contained and continued its diversification across different price bands and in the educational sector (*Il mio primo dizionario d'Italiano*).
There was a notable success, in terms of both sales and image, from the add-on sales initiative with *Corriere della Sera*.

Distribution and logistics

First half sales for the distribution of third-party publishers confirmed the negative trend first highlighted in the first quarter of the year, with a fall of 42.2% compared with the previous year. This result was essentially due to the termination of distribution contracts for a number of third-party publishers and a slight reduction of business for other publishers distributed. However, it is expected that this shortfall will be widely compensated in the second half by the distribution of Edizioni Piemme, which will begin from 1 August.

Magazine division

	€m 30 June 2006	**€m 30 June 2005**
Magazine revenues	390.1	420.9
Other revenues	5.1	4.8
	395.2	**425.7**
Operating costs	(335.3)	(353.4)
Gross operating profit	**59.9**	**72.3**
Amortizations and depreciations	(0.7)	(0.8)
Operating profit	**59.2**	**71.5**

The Magazine Division generated consolidated revenues in the period of €395.2 million a fall of 7.2% compared with the same period of the previous year, entirely the result of a fall in circulation revenues (-8.9%).

What follows is a brief outline of the situation, divided into the main determining areas.

Circulation

During the first six months of the year, the Magazine Division conducted an editorial revision of the main titles.
In circulation terms we would point to the significant relaunch of *Grazia* (+18.2%), the launch of the pocket edition of *Donna Moderna* (+2.9%), the excellent performance of *Economy* (+27%) and *Panorama* (+5.4%) and the extraordinary stability of *Chi*, despite fierce competition in the celebrities segment.
The fall in revenues (-8.9%) was mainly due to three factors: the ongoing, though stabilising, effect of launches in the TV listings segment; the adoption of marketing policies, such as the reduction in the cover price of *Grazia* during the promotional phase of the relaunch and the publication of the pocket version *Donna Moderna*; lower support for circulation due to the reduction in the number of add-on sales initiatives, especially in the women's segment.
The overall market for TV titles reached a peak, in terms of copies, in the first half of 2005 following the new launches. The normal settling of circulation one year on has consequently seen a fall in the number of total copies sold in the entire segment of around 14 million. The number of copies sold by the Mondadori Group have therefore fallen in consequence.

Add-on sales

In the first six months of 2006 Mondadori Magazines were focused on redefining its main lines of revenues and costs, consistent with the declared strategy of maintaining profitability. Revenues from add-on sales fell by 12.7%, as a result of the decision to abandon the sale of VHS cassettes (considered definitively obsolete), a drastic reduction in the offer of goods for women (a sector now considered at risk) and a containment of initiatives in the music CDs area (music being increasingly exploited by other channels). Investments were however made in DVDs, the undisputed area of leadership (which grew by 4% in both volume and value) and the multiplication of initiatives in a sector deemed to be still dynamic; books.
It is more difficult to compare the performance of editorial products with the first half of last year, in which excellent results were achieved for such initiatives as “Le Garzantine”. Of the initiatives launched in the first half of this year, some of unquestionable success such as “I libri della religione”, “L'enciclopedia della natura”, to sequel to “I Meridiani”, have not been sufficient to match the outstanding results of the Garzantine in 2005.
These actions, combined with a careful control of costs, returns and investments in communications have kept profitability at the significant level of last year.
In particular, on those sales initiatives that are defined as “optional” (similar to those used by newspapers), despite a marked increase in the number of initiatives, profitability remained around 30%.

Advertising services

	€m 30 June 2006	€m 30 June 2005
Advertising revenues	172.4	169.9
Other revenues	2.2	3.7
	174.6	**173.6**
Operating costs	(173.1)	(172.5)
Gross operating profit	**1.5**	**1.1**
Amortizations and depreciations	(0.1)	(0.1)
Operating profit	**1.4**	**1.0**

The market

The total value of advertising investments in Italy the first half of 2006 show growth of 4% compared with the same period of the previous year.

Variations in terms of different media were quite different: there was a slight increase in television (+1.7%), while print media showed more sustained growth (+4.9%), thanks to the combined performance of newspapers (+2.5%) and magazines (+8.6%).
The latter benefited from the entry of a number of new titles, excluding which growth in magazines would have been at a level only slightly higher than the end 2005.

Advertising market	**€m 30 June 2006**	**€m 30 June 2005**	**Change %**
Television	2,685.3	2,639.5	1.7%
Total print media	1,583.2	1,509.0	4.9%
- Magazines	647.3	595.8	8.6%
- Newspapers	935.9	913.2	2.5%
Radio	233.9	204.4	14.4%
Outdoor	106.0	103.1	2.9%
Cinema	34.6	38.7	(10.5%)
Internet	92.9	60.5	53.5%
Total advertising market	**4,735.9**	**4,555.2**	**4.0%**

Source: Nielsen Media Research (Advertising market AdEx – Estimate of net investments)

Among other media, radio grew by 14.4% while internet, making its debut in the Nielsen figures, with a very significant +53.5%, showed an increasing interest on the part of investors.

Advertising division

Mondadori Pubblicità closed the period with revenues of €174.6 million, a 0.6% increase on the figure for the same period of the previous year; in particular, advertising sales for Mondadori titles showed an overall increase of 2.1%. The significant, in percentage terms, increase in the radio sector should be underlined and there were positive signals in the performance of the internet sector.

The portfolio of titles in the first half of the year by the company, compared with that of the first half of 2005, doesn't highlight some significant differences. The increase appears lower than that of the market, which grew essentially on account of new launches.

Sales during the first half of the year were characterised by good performances in the following sectors: fashion, cosmetics, FMCGs and finance, with positive effects above all for women's and family titles; the male segment remained stable.

Of particular note in the women's segment were sales for *Chi* (up by 15%) and *Grazia* which, benefiting from the relaunch in March, saw sales increase by 6%; sales were good in the interiors and design segment and for *Sorrisi e Canzoni TV* while, signs of difficulty among the joint-ventures could be seen in the first half of the year for *Focus* (Gruner&Jahr-Mondadori).

Printing division

	€m 30 June 2006	**€m 30 June 2005**
Printing revenues	235.0	224.1
Other revenues	-	-
	235.0	**224.1**
Operating costs	(216.3)	(202.8)
Gross operating profit	**18.7**	**21.3**
Amortizations and depreciations	(11.3)	(11.5)
Operating profit	**7.4**	**9.8**

During the first half of 2006 there was a 4.9% growth in revenues compared with the previous year, Total sales amounted to €235.0 million, against €224.1 million for the same period of 2005.

The excellent results obtained in the last year in the hardback and paperback books market have been confirmed; in particular, the continuation of the positive trend in printing editorial products used as add-ons with newspapers and magazines, with a higher share going to illustrated books.

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

During the period, the cost of paper grew slightly, as already announced last year.

The capital investments at the Verona printing plant, involving the installation of a new rotogravure system, has now been completed and has been in operation since last June.

Meanwhile, actions continue on targeted projects to improve efficiencies and reduce costs through continuous improvement programmes.

The level of activities of the plants is better illustrated by revenues net of the cost of paper and transport, as in the following table.

Printing revenues net of paper costs	**€m 30 June 2006**	**€m 30 June 2005**	**Change %**
Magazines	67.5	67.1	0.6%
Books	45.6	40.0	14.0%
Catalogues & promotional materials	14.8	13.2	12.1%
Directories	1.2	1.9	(36.8%)
Total printing revenues net of paper costs	**129.1**	**122.2**	**5.6%**

Direct marketing

	€m 30 June 2006	€m 30 June 2005
Revenues from sales	12.6	14.5
Other revenues	-	-
	12.6	**14.5**
Operating costs	(10.9)	(13.0)
Gross operating profit	**1.7**	**1.5**
Amortizations and depreciations	(0.2)	(0.2)
Operating profit	**1.5**	**1.3**

Cemit continued its efforts to review its portfolio of services which has been considerably affected, as previously announced, by new limits imposed by changes in privacy legislation.
The first half saw a fall of 13.1% in revenues, spread differently across the two quarters: following the 27.3% fall in Q1, there was a 2.9% increase in Q2.
The restructuring process which began in 2005 has made it possible to reduce structural costs by about 10% in the period of reference.

Retail

	€m 30 June 2006	€m 30 June 2005
Revenues from sales	64.4	58.2
Other revenues	-	-
	64.4	**58.2**
Operating costs	(64.3)	(57.8)
Gross operating profit	**0.1**	**0.4**
Amortizations and depreciations	(1.1)	(1.2)
Operating profit	**(1.0)**	**(0.8)**

Revenues in the Retail area grew by 10.7% (to €64.4 million) compared with the same period of last year.

In the first six months of the year **Mondadori Franchising** continued its development, recording a 25% increase in sales
During the period the number of bookstores increased from 155 (as of 30 June 2005) to 177; the new "Edicolè" formula, meanwhile, now has 53 outlets, compared with 11 at the end of June 2005.

Mondadori Retail continued its development and restructuring activities for the directly owned network of bookstores, recording a 5.4% increase in revenues (€ 44.6 million). This strategy has led to the opening of five new outlets located in shopping malls and the closure of two stores. An agreement has also been reached with the city council of Milan to open a large Multicenter in Piazza Duomo.

Radio division

	€m 30 June 2006	€m 30 June 2005
Revenues from sales	4.1	1.6
Other revenues	-	-
	4.1	**1.6**
Operating costs	(9.8)	(3.8)
Gross operating profit	**(5.7)**	**(2.2)**
Amortizations and depreciations	(0.4)	(0.2)
Operating profit	**(6.1)**	**(2.4)**

The first quarter of 2006 was characterised by a massive communication campaign focusing on both the brand and the editorial product, in particular support for the Morning Show “La Carica di 101” (with a campaign across TV, print, outdoor, newspapers, events, etc.).

The second quarter saw a reduction in communication activities, ahead the consolidation of ratings and alongside an aggressive policy of advertising by competitors.
An important advertising campaign was launched in the summer, planned exclusively on Mondadori magazines, and focused on the music that characterises Radio R101.

Investments in new frequencies continued during the period, making it possible to break the population coverage level of 85%.

The intense communication activities of the first six months of the year and the quality of the product have allowed Radio R101 to reach, according to the first figures produced by Audiradio in June, a daily average of around 1.4 million listeners: this figure is almost double that of the first half of 2005. Of particular significance is the loyalty indicator which rose from 12.9 in June 2005 to the current level of 21.7.

Net revenues (publisher’s share) for the company showed significant growth in the first half of 2006 reaching €4.1 million, corresponding to gross advertising sales of €6.6 million.

Corporate and other business

The Corporate includes parent company functions engaged in service activities for the companies of the Group and the Business divisions.

Such activities concern mainly ITC, accounting, management control and planning, treasury and finance, human resources, legal and corporate affairs and communications. Revenues derive essentially from the billing of subsidiary and associated companies and other bodies for the abovementioned services.

Financial situation

The Mondadori Group's financial situation as of 30 June 2006 showed a deficit of €121.7 million, as illustrated in the following table:

Net financial position	**€m 30 June 2006**	**€m 31 December 2005**	**€m 30 June 2005**
Cash and other equivalent liquid assets	49.4	73.1	56.2
Financial investments at fair value	461.5	442.9	545.5
Gains (losses) from derivatives	(38.9)	2.0	7.7
Other financial gains (losses)	(46.3)	(29.4)	(44.9)
Financing (short and medium/long term)	(184.6)	(57.5)	(188.6)
Bonds	(257.0)	(295.3)	(301.2)
Convertible bonds	(105.8)	(103.6)	(103.5)
Net financial position	**(121.7)**	**32.2**	**(28.8)**

The figure for the first half of 2006 also takes account of dividend payments for €147.3 million (€85.4 million in 2005).

Trends in interest rates and exchange rates

2006 continues in the wake of 2005, with sustained global economic growth for the year forecast at around 3.7% according to the most recent projections. The USA (+3.4%) China (+10.0%) and India (+7.5%) are the principal drivers of such growth, while Europe (+2.6%) shows growth prospects that, while lower than before, in any case suggest that a recovery is finally underway and offer hope for GDP growth in Europe during the year.

All central banks and national bodies with credit control functions have implemented increases in interest rates, albeit at different levels. In the USA the FOMC increased the rate on Fed Funds four times, from 4.25% to 5.25%. The European Central Bank did the same and, since December 2005, has intervened four times (the latest on 3 August) raising the minimum rate from 2% to 3%.
These actions are aimed at limiting the risks to price stability deriving from excessive growth.

With regard to Italy, the most recent forecasts confirm the level of GDP growth at around 2.3% in the second quarter of 2006, in line with the previous quarter. A similar result is expected for the remainder of the year.

In this macroeconomic scenario, during the first half of 2006 the €/$ exchange rate strengthened, ranging between a minimum of 1.1820 (at the beginning of the year) and a maximum of 1.2963, with an average value for the period of 1.2307 while the €/£ exchange rate ranged between a minimum in mid-May of 0.6765 and a maximum in April of 0.7013 (an average of 0.6872).

In terms of market interest rates, Euribor 3 months (Act/360) went up from 2.488% at the end of December 2005 to 3.056% at the end of June 2006 due to the actions of the European Central Bank on basic interest rates. In the same period the average cost of money for the Mondadori Group was 2.728%.

The overall credit lines available to the Group at 30 June 2006 came to more than €1 billion.

The Group's short-term borrowing facilities, for a total of €568 million, were used for about €180 million as of 30 June 2006. Such facilities are made up of self-liquidating credit lines and stand-by loans with a duration of less than 18 months minus one day.

Medium-long-term lines of €463.7 million 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, and €109.9 million in convertible bonds, guaranteed by Mondadori shares, expiring in 2008. As at 30 June 2006 medium/long-term lines of facilitated credit for publishers, amounted to €51.6 million, out of a total of credit facilities of €54.6 million.

Report on the first half of 2006 Amounts expressed in €m

Mondadori International

At 30 June 2006, the company's financial surplus amounted to €436 million, the portfolio was made up as follows:

- cash products, bonds and bank deposits for €368 million;
- hedge fund investments for around €68 million (broadly diversified by management and strategy).

The composition of the portfolio (asset allocation) is characterised by a risk (volatility) factor of 0.8%.

The return of the financial portfolio in the first half of 2006 was 2.96% (calculated on an annual basis).

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

Personnel

As of 30 June 2006 Group companies employed 4,404 people (4,450 at 31 December 2005), while the average number of personnel during the period amounted to 4,407 (4,520 in the same period in 2005).

The reduction in personnel compared with December and June of 2005 is mainly due to changes in the Printing Division where it has been possible to implement early retirement and mobility projects.

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

Personnel	**30 June 2006**	**31 December 2005**	**30 June 2005**
Arnoldo Mondadori Editore SpA:			
- Managers, journalists and office staff	1,480	1,488	1,486
- Manual workers	101	107	109
	1,581	**1,595**	**1,595**
Italian subsidiaries:			
- Managers, journalists and office staff	1,557	1,576	1,594
- Manual workers	1,122	1,134	1,189
	2,679	**2,710**	**2,783**
Foreign subsidiaries:			
- Managers, journalists and office staff	41	42	44
- Manual workers	103	103	104
	144	**145**	**148**
Total	**4,404**	**4,450**	**4,526**

The containment in personnel costs, which fell by 2.1% compared with the first half of 2005, was due to a reduction in total salaries and leaving incentives, with a consequent fall in social charges.
To this should be added the lower impact of costs for stock options resulting from the postponement, to the month of July, of the approval of the assignment plan for 2006.

Capital investments

During the first half of 2006 the Group made capital investments for €30.4 million, €26.8 million of which operational.

As is usual, the area mostly affected was the printing plants of Mondadori Printing SpA and Artes Graficas Toledo SA with €24.4 million, €22.3 million operational, for buildings, plant and machinery.

Disinvestments during the period amounted to a residual €9.3 million and essentially balanced across all categories.

Results of Arnoldo Mondadori Editore SpA

On 30 June 2006, the balance sheet of the parent company Arnoldo Mondadori Editore SpA, prepared in line with IAS/IFRS standards, showed a net profit of €54.0 million, a fall compared with the figure for the same period of the previous year (€59.7).
The reduction is primarily due to the effect of goverment paper contributions booked in the first half of 2005.

Comparison between the net assets and profit of the parent company and consolidated net assets and profit

The following table gives an overview of the net assets and profit of the parent company Arnoldo Mondadori Editore SpA in the first half of 2006 with the consolidated results of the Group.

Report on the first half of 2006 Amounts expressed in €m

	Net assets €,000	Net profit for the period €,000
Parent company	**400,024**	**53,984**
Evaluation on an net assets basis of non consolidated companies	1,788	(705)
Dividends from consolidated companies	0	(19,040)
Writedowns of consolidated companies	27,514	6,211
Elimination of intergroup profits	(7,452)	(1,140)
Elimination of the effects of intragroup corporate operations	(27,393)	535
Assets and profits contribution, net of the above items, of consolidated companies	24,227	5,276
Consolidated balance	**418,708**	**45,121**

Other information

Related party transactions

There were no operations of an unusual or atypical nature, or unconnected with the normal management of the business.
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.
Operations conducted with the Fininvest Group were of an exclusively commercial nature.

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

The acquisition of Emap France

In the month of June an agreement was reached with Emap Plc for the acquisition of the entire capital of Emap France.
The operation was defined on the basis of an enterprise value of €545 million, which led to an outlay by the Mondadori Group, on 31 August 2006, of €551 million, including contractually agreed adjustments of €6 million.

Emap France is France's third largest publisher in terms of volume (10% compared with 13% for Prisma Press and 25% for Hachette); in terms of value there is a greater alignment between the three major players: Hachette and Prisma Press have market shares of around 13%, while Emap France has 12%. A breakdown of the market share in advertising sees Hachette with 17%, Prisma Press with 11% and Emap France with 10%.

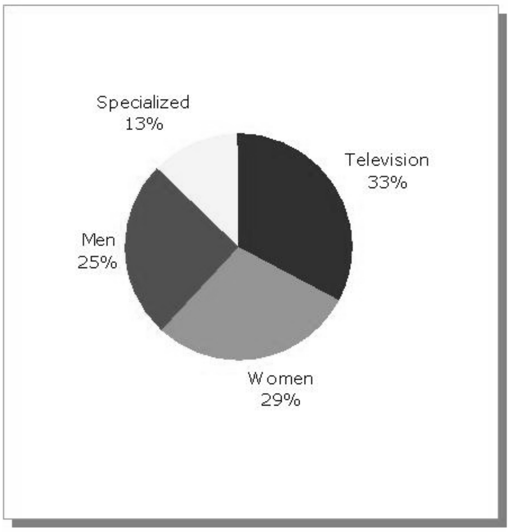
France is Europe's largest magazine market in terms of revenues: total revenues for the sector amount to €4.7 billion, compared with €3.7 billion in Germany and €3.4 billion in Great Britain (2004 figures).
On the advertising side, magazines' share of the total advertising market is 31%; while in Germany the figure is 23% and in Great Britain it is 14% (source: ZenithOptimedia, December 2005).

In its last financial year Emap France, with 1,238 employees, recorded net revenues of €440 million, equally spread across subscriptions, newsstand sales and advertising.

The company's more than 40 titles include TV listings magazines (including *Télé Star* and *Télé Poche*), women's (including *Top Santé, Biba* and *20ans*), and male (including *FHM* e *Max*), "senior" (*Pleine Vie*) and specialised titles (Emap France is the leader in various segments leader, including car magazines).
The following table provides a breakdown of 2005 revenues and the frequency/circulation of the main titles of Emap France.

Report on the first half of 2006 Amounts expressed in €m

EMAP FRANCE 2005
Gross revenues breakdown



Key Titles

TV	Frequency	Circulation
Télé Star	Weekly	1,399,307
Télé Poche	Weekly	733,898
Télé Star Jeux	Monthly	197,504
Women		
Pleine Vie	Monthly	967,812
Modes & Travaux	Monthly	456,255
Top Santé	Monthly	432.017
Closer	Weekly	420,378
Nous Deux	Weekly	369,098
Biba	Monthly	219,816
20 ans	Monthly	110,635
Men		
Science & Vie	Monthly	347,854
Auto Plus	Weekly	323,288
FHM	Monthly	169,430
Science & Vie Junior	Monthly	166,515
L'Auto Journal	Quarterly	129,646
ADDX	Monthly	103,191
Specialized		
Le Chasseur Francais	Monthly	494,514
L'Ami des Jardins	Monthly	179,004

The acquisition of Emap France represents an operation of considerable strategic importance as it signals the entry of Mondadori, in a relevant position, to Europe's largest magazine market and presents an opportunity to take advantage of a series of synergies both on the costs and revenues sides.
The deal is a decisive step in the Group's international growth and development, launched in recent years with a series of partnerships with leading foreign publishers, investments in Spain and Latin America and in the Balkans, right up to the recent licensing agreements for Modadori titles in Europe and Asia.

With the acquisition of Emap France, the "new" Mondadori – which will be increasingly focused on high value added publishing – will become one of Europe's biggest magazine publishers.

More detailed information is available from the formal document published in accordance with Consob regulations.

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. The term of the authorisation was fixed to the date of the approval of the company's financial statements for the year to 31 December 2006.

Given that 10% of the share capital amounts to 25,942,983 ordinary shares and that at the date of the shareholders' resolution the company held, directly or indirectly through its subsidiary Mondadori International S.A, a total of 19,034,067 ordinary shares, the new authorisation gave the Board of Directors the authority to purchase on the market a maximum of a further 6,908,916 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.

This authorisation to effect buy backs and make use of Company shares is will allow the Board of Directors 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 conversions rights, deriving from financial instruments issued by the company, its subsidiaries or third parties.

During the first half of 2006 Arnoldo Mondadori Editore acquired on the market 20,000 company shares. In the same period Arnoldo Mondadori Editore sold, within the context and under the conditions established by stock option plans approved by the Shareholders, 1,270,000 shares at a unit price of €6.471, 533,206 shares at unit price of €6.85 and 30,000 shares at a unit price of €7.749.

As of 30 June 2006, the number of company shares in the portfolio amounted to 18,189,067 (or 7.0112% of the share capital) of which 13,671,581 are directly held in the portfolio of Arnoldo Mondadori Editore SpA and 4,517,486 are held by the subsidiary Mondadori International S.A.

Stock option plan for the three-year period 2006/2007/2008

Following the termination of the Stock Option plan for the previous three-year period 2003/2004/2005, at the AGM of 26 April 2006 the Shareholders approved a Stock Option Plan for the three-year period 2006/2007/2008. Participants in the Plan will be identified by the Board of Directors from: managers of the company or its subsidiaries with functions critical for the attainment of the group's strategic objectives; directors of the company and its subsidiaries; journalists of the company and its subsidiaries with the position of editor or co-editor; managers of the holding company who carry out their function in the interest of the company.

The purpose of the Plan is essentially to give the company and its subsidiaries a tool with which to promote loyalty and render the management more directly involved in the results.

In line with the Shareholders' resolution, in the month of July, the Board of Directors approved 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.
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 personal and non-transferable share options, involving 73 participants from the categories identified by the AGM resolution for the plan on 26 April. 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.
Subordinate to these requirements, the exercise of options on allocated shares for 2006 may be effected exclusively in the period between 1st January 2009 and 31st December 2011.

Expectations for the current year

As regards the business performance for the year 2006, the Mondadori Group expects to confirm, on a like-for-like basis, the operating results of 2005, while also absorbing current business development costs.
To this will be added the contribution, for the last four months of the year, of the recently acquired business activities in France.

For the Board of Directors
The Chairman
Marina Berlusconi

Consolidated financial statements to 30 June 2006

Report on the first half of 2006 Amounts expressed in €,000

Consolidated balance sheet

Assets	Notes	**Period to 30 June 2006**	**Year ended at 31 December 2005**
Intangible assets	1	**223,875**	**219,409**
Real estate investments	2	**4,859**	**5,523**
Land and buildings		86,879	87,399
Plant and machinery		87,292	76,303
Other fixed assets		39,699	45,211
Property, plant and machinery	3	**213,870**	**208,913**
Investments valued at net equity		103,013	106,649
Other investments		2,214	2,156
Total investments	4	**105,227**	**108,805**
Non-current financial assets		**-**	**-**
Advance tax assets	5	**38,152**	**37,090**
Other non-current assets	6	**2,760**	**3,078**
Total non-current assets		**588,743**	**582,818**
Tax credits	7	**24,275**	**30,390**
Other current assets	8	**78,314**	**65,481**
Inventories	9	**119,705**	**127,022**
Trade receivables	10	**414,104**	**411,085**
Shares and other current financial assets	11	**477,965**	**482,204**
Cash and other equivalent liquid assets	12	**49,430**	**73,056**
Total current assets		**1,163,793**	**1,189,238**
Assets destined for sale or disposal		**-**	**-**
Total assets		**1,752,536**	**1,772,056**

Report on the first half of 2006 Amounts expressed in €,000

Consolidated balance sheet

Liabilities	Notes	**Period to 30 June 2006**	**Year ended at 31 December 2005**
Share capital		**67,452**	**67,452**
Share premium reserve		**285,309**	**283,747**
Treasury shares		**(125,642)**	**(137,662)**
Other reserves and results carried forward		**146,468**	**178,163**
Profit (loss) for period		**45,121**	**114,724**
Shareholders' equity pertaining to Group	13	**418,708**	**506,424**
Third-party shareholders' capital and reserve	14	**3,279**	**4,026**
Total shareholders' equity		**421,987**	**510,450**
Reserves	15	**14,630**	**15,637**
Severance indemnities	16	**100,483**	**98,983**
Non-current financial liabilities	17	**453,325**	**451,733**
Deferred tax liabilities	5	**28,220**	**25,998**
Other non-current liabilities		**-**	**-**
Total non-current liabilities		**596,658**	**592,351**
Income tax payables	18	**26,592**	**25,111**
Other current liabilities	19	**162,900**	**187,748**
Trade payables	20	**348,594**	**385,032**
Payables to banks and other financial liabilities	17	**195,805**	**71,364**
Total current liabilities		**733,891**	**669,255**
Liabilities destined for sale or disposal		**-**	**-**
Total liabilities		**1,752,536**	**1,772,056**

For the Board of Directors
The Chairman
Marina Berlusconi

Report on the first half of 2006 Amounts expressed in €,000

Consolidated income statement

	Note	Period to 30 June 2006	Period to 30 June 2005
Income from sales and services to third parties	21	**810,103**	**825,546**
Decrease (increase) in inventories	9	7,247	5,964
Purchase of raw, ancillary and consumable goods and materials	22	241,282	255,854
Purchase of services	23	333,893	329,616
Personnel costs	24	132,559	134,904
Various charges (income)	25	(546)	(3,069)
Income (charges) from investments valued at net equity	26	2,743	4,567
Gross operating profit		**98,411**	**106,844**
Depreciations of property, plant and machinery	2-3	15,581	16,076
Depreciations of intangible assets	1	728	1,027
Operating profit		**82,102**	**89,741**
Financial income (charges)	27	(1,704)	(5,431)
Income (charges) from other investments	28	32	95
Results before tax		**80,430**	**84,405**
Income taxes	29	34,896	31,937
Results from current activities		**45,534**	**52,468**
Income (charges) from assets/liabilities destined for sale or closure		-	-
Minority interest	14	(413)	(617)
Net profit		**45,121**	**51,851**
Net profit per share (in €)	30	0.19	0.22
Diluted net profit per share (in €)	30	0.19	0.22

For the Board of Directors
The Chairman
Marina Berlusconi

Changes in shareholders’ equity

Amounts expressed in €,000

Changes in consolidated shareholders' equity to 30 June 2005

€,000	Share capital	Share premium	Treasury share reserve	Stock option reserve	Fair value reserve	Translation reserve	Other reserves	Profit (loss) for the period	Total Group	Minority interests	Total
At 1 January 2005	**67,452**	**283,747**	**(130,207)**	**2,374**	**(12)**	**116**	**143,459**	**112,023**	**478,952**	**3,478**	**482,430**
- Destination result							26,642	(26,642)	-		-
- Dividends paid								(85,381)	(85,381)		(85,381)
- Changes in scope of consolidation											-
- Translation of financial statements in foreign currencies						766			766		766
- Treasury share operations			547				287		834		834
- Stock options				1,173					1,173		1,173
- Other changes					(50)		1,450		1,400	(454)	946
- Profit (loss) for the period								51,851	51,851	617	52,468
At 30 June 2005	**67,452**	**283,747**	**(129,660)**	**3,547**	**(62)**	**882**	**171,838**	**51,851**	**449,595**	**3,641**	**453,236**

Changes in consolidated shareholders' equity to 30 June 2006

€,000	Share capital	Share premium	Treasury share reserve	Stock option reserve	Fair value reserve	Translation reserve	Other reserves	Profit (loss) for the period	Total Group	Minority interests	Total
At 1 January 2006	**67,452**	**283,747**	**(137,662)**	**4,715**	**-**	**1,373**	**172,075**	**114,724**	**506,424**	**4,026**	**510,450**
- Destination result											-
- Dividends paid							(32,623)	(114,724)	(147,347)		(147,347)
- Changes in scope of consolidation											
- Translation of financial statements in foreign currencies						(909)			(909)		(909)
- Treasury share operations			12,020				(73)		11,947		11,947
- Stock options		1,562		(789)					773		773
- Other changes							2,699		2,699	(1,160)	1,539
- Profit (loss) for period								45,121	45,121	413	45,534
At 30 June 2006	**67,452**	**285,309**	**(125,642)**	**3,926**	**0**	**464**	**142,078**	**45,121**	**418,708**	**3,279**	**421,987**

For the Board of Directors
The Chairman
Marina Berlusconi

Consolidated cash flow statement

Report on the first half of 2006 Amounts expressed in €,000

Cash flow statement

Cash flow statement	**€,000 30 June 2006**	**€,000 30 June 2005**
Net profit for the period	45,121	51,851
Adjustments		
Depreciation, amortisation and writedowns	16,309	17,103
Stock options	772	1,173
Charges to provisions and leaving entitlements	6,669	9,348
Capital losses (gains) on disposal of intangible assets, property, plant and equipment	(532)	(1,032)
Capital losses (gains) on disposal of financial assets	(1,087)	255
Capital losses (gains) on evaluations of financial assets	(5,433)	(6,239)
(Income) charges from investments booked at net equity	(2,128)	(4,567)
Adjusted net profit from operating activities	**59,691**	**67,892**
(Increase) decrease in trade receivables	(1,822)	(24,441)
(Increase) decrease in inventories	6,968	6,356
Increase (decrease) in trade payables	(49,144)	6,859
Net changes in income tax receivables/payables	7,596	(8,431)
Payment of advances and leaving entitlements	(6,321)	(6,049)
Changes in forward/deferred taxes	1,160	3,146
Net changes in other current assets/liabilities	(20,602)	(13,605)
Cash flows from (used in) operating activities	**(2,474)**	**31,727**
(Investments in) disposals of intangible assets	(3,868)	(39)
(Investments in) disposals of property, plant and equipment	(24,033)	(7,881)
(Investments in) disposals of equity investments	5,284	5,569
Purchase (sale) of treasury stock	12,020	834
(Investments in) disposals of securities and other non-current financial assets	10,759	(53,281)
Cash flows from (used in) investing activities	**162**	**(54,798)**
Net changes in other non-current financial assets/liabilities	126,033	27,482
Dividends paid	(147,347)	(85,381)
Cash flows from (used in) financing activities	**(21,314)**	**(57,899)**
Increase (decrease) in cash and cash equivalents	**(23,626)**	**(80,970)**
Cash and cash equivalents at beginning of period	**73,056**	**137,190**
Cash and cash equivalents at end of period	**49,430**	**56,220**

Composition of cash and cash equivalents		
Cash, cheques and valuables in hand	614	201
Bank and post office deposits	48,816	56,019
	49,430	**56,220**

Please note that the figures to 30 June 2005 are different to those published in the interim half year report for last year in terms of a number of items, in conformity with the structure of the statement published to 31 December 2005.

For the Board of Directors
The Chairman
Marina Berlusconi

Notes to the financial statements

Accounting principles and notes to the financial statements

1. General information

The main corporate purpose of Arnoldo Mondadori Editore SpA 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 SpA 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 SpA, is quoted on the MTA (automated stock markets) of Borsa Italiana SpA, 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 period to 30 June 2006 was authorised by a resolution of the Board of Directors on 12 September 2006.

2. Form and content

The interim report for the period to 30 June 2006 has been prepared as per IAS 34 and Art. 81 of the Consob resolution n°. 11971/1999.

The interim report does not contain all of the information required for companies' annual reports and should therefore be read together with the consolidated annual report for the year to 31 December 2005.

The accounting principles adopted for the interim report are the same as those adopted in the preparation of the Group's consolidated annual report for the year to 31 December 2005.

It should be noted that amendments relating to accounting principles:

- IAS 19 –Employee benefits-
- IFRIC 4 –Determining whether a contractual agreement contains leasing arrangements-
- IFRS 7 –Financial instruments: detailed notes-
- IAS 39 –Coverage for intercompany operations-

Obligatory since 1 January 2006 have had no impact on the results or the financial position of the Group.

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.

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

3. Seasonal business

Given the highly seasonal nature of the educational publishing business, for this area higher revenues and profits are expected for the second half of the year.
Revenues in this sector are determined by the adoption of set textx in schools and are therefore concentrated at the beginning of the academic year.

4. 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;

Report on the first half of 2006 Amounts expressed in €,000

- 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 SpA, 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 scope of consolidation of the Mondadori Group is as follows.

Name	**Registered office**	**Business**	**Currency**	**Share capital expressed in local currency**	**% held as of 30/06/06**	**% held as of 31/12/05**
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
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
Mondadori Sistemi di Comunicazione 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	€	388,800.00	100.00	100.00
Foreign subsidiaries						
Arnoldo Mondadori Deutschland GmbH	Munich	Services	€	25,564.50	99.99	99.99
Ame France Sarl	Paris	Services	€	20,000.00	99.99	99.99
Ame Publishing Ltd	New York	Services	US $	50,000.00	99.99	99.99
Arnoweb SA	Luxembourg	Financial	€	36,256,900.00	99.99	99.99
Artes Graficas Toledo SA	Toledo	Printing	€	5,409,000.00	100.00	100.00
Misa Finance Fund Plc	Ireland	Financial	Euro	73,578,286.00	99.99	99.99
					(*)	99.99
Mondadori International SA	Luxembourg	Financial	Euro	393,625,900.00	99.99	99.99
Prisco Spain Sa	Barcelona	Financial	Euro	60,101.30	100.00	100.00

(*) liquidated in 2006.

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Name	Registered office	Business	Currency	Share capital expressed in local currency	% held as of 30/06/06	% held as of 31/12/05
Companies valued using the proportionate method						
ABS Finance Fund Sicav	Luxembourg	Financial	€	399,256,227.02	85.20	61.35
Companies valued at net equity						
Aci Mondadori SpA	Milan	Publishing	€	590,290.00	50.00	50.00
Ag. Lombarda Distrib. Giornali e Riviste Srl	Milan	Trade	€	400,000.00	50.00	50.00
Attica Publications SA	Athens	Publishing	€	4,590,000.00	41.66	41.66
BOL Books on Line Italia SpA					(**)	50.00
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
Grupo Editorial Random House Mondadori	Barcelona	Publishing	€	10,002,000.00	50.00	50.00
Gruner und 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 Publishing	€	1,040,000.00	50.00	50.00
Press Tv SpA	Milan	Publishing	€	1,500,000.00	50.00	50.00
Roccella Scarl	Naples	Services	€	100,000.00	29.70	29.70
Rock FM Srl		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)	Venice	Services	€	10,000.00	34.00	34.00
Venezia Musei Soc. per i servizi museali Scarl	Venice	Services	€	10,000.00	34.00	34.00
Companies valued at cost						
AME France Sas	Paris	Services	€	37,000.00	99.99	-
Audiradio SA	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	Luxembourg	Financial	US$	36,337,500	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	Milan	Services	€	985,094.00	0.59	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
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

(**) liquidated in 2006.

5. Conversion of financial statements in foreign currencies

All amounts in the consolidated financial statements of the Mondadori Group are expressed in euros, 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 euros 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.

6. 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 the periods to 30 June 2005 and 2006 is included in the notes that follow.

7. 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 30 June 2006.

7.1 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**
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 are shown in the following table:

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.

7.2 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.

7.3 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.

Report on the first half of 2006 Amounts expressed in €,000

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.

7.4 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.

7.5 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.

7.6 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.

7.7 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.

7.8 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.

7.9 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:

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 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.

7.10 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.

7.11 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.

7.12 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.

7.13 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 SpA 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

7.14 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.

7.15 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.

Financial assets valued 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 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.

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 valued 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.

7.16 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.

7.17 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).

7.18 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).

7.19 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 expires, 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 that refers to options that have not been exercised is reclassified to retained earnings.

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.

7.20 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.

7.21 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.

7.22 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.

7.23 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.

7.24 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.

7.25 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.

8. 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.

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

9. 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 recognised as goodwill under assets. If this difference is negative it is recognised directly in the income statement.

10. 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 bond denominated in US dollars (US Private Placement) underwritten by American institutional investors. In order to hedge the risk of fair value on this situation, the Group has 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.

Currency exchange risk

In order to hedge exchange risks resulting from the sale of US dollars and sterling 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.

The Group is also 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 mainly medium- and long-term loans (bonds, convertible bonds, subsidised loans) with non-banking financial institutions, making it possible if necessary to make use of bank guarantees already held by the Group.

Report on the first half of 2006 Amounts expressed in €,000

1- Intangible assets

The composition of and changes in intangible assets are described and commented on below:

Intangible assets	€ ,000 30 June 2006	€ ,000 31 December 2005
Intangible assets with finite useful lives	3,136	2,812
Intangible assets with indefinite useful lives	220,739	216,597
Total intangible assets	**223,875**	**219,409**

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

Investments relate mainly to the purchase of software; "Other changes" include the writedowns of fully amortised values.

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

Intangible assets with finite useful lives	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 2004	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	4,381	9,156	731	102	0	14,370
Accumulated amortisation and impairment losses at 31 December 2004	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	2,795	8,027	684	52	0	11,558
Net book value at 31 December 2004	2,120	1,709	104	377	48	4,358
Net book value at 31 December 2005	**1,586**	**1,129**	**47**	**50**	**0**	**2,812**

Report on the first half of 2006 Amounts expressed in €,000

Intangible assets with finite useful lives	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	-	14,370
Investments	549	390	30	6	75	1,050
Disposals	-	(8)	-	-	-	(8)
Other changes	-	5	-	77	-	82
Cost at 30 June 2006	4,930	9,543	761	185	75	15,494
Accumulated amortisation and impairment losses at 31 December 2005	2,795	8,027	684	52	-	11,558
Amortisation	246	458	15	9	-	728
Writedowns/reinstatement of value	-	-	-	-	-	0
Disposals	-	(8)	-	-	-	(8)
Other changes	-	4	(1)	77	-	80
Accumulated amortisation and impairment losses at 30 June 2006	3,041	8,481	698	138	0	12,358
Net book value at 31 December 2005	1,586	1,129	47	50	0	2,812
Net book value at 30 June 2006	**1,889**	**1,062**	**63**	**47**	**75**	**3,136**

The following data refer to intangible assets with an indefinite useful life.

The most significant investments during the period were for the acquisition of new radio frequencies by R101.

An impairment test was carried out on 31 December 2005; during the period there were no events that necessitated further checks.

Intangible assets with indefinite useful lives	Titles	Series	Imprints	Radio frequencies	Goodwill	Total
Cost at 31 December 2004	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 30 June 2005	98,158	31,509	5,769	77,102	13,778	226,316
Impairment at 31 December 2004	8,331	-	20	-	51	8,402
Writedown/reinstatement of value	1,123	-	14	180	-	1,317
Impairment at 31 December 2005	9,454	0	34	180	51	9,719
Net book value at 31 December 2004	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**

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Intangible assets with indefinite useful lives	Titles	Series	Imprints	Radio frequencies	Goodwill	Total
Cost at 31 December 2005	98,158	31,509	5,769	77,102	13,727	226,265
Investments	-	1,238	-	5,900	489	7,627
Disposals	-	-	-	(3,485)	-	(3,485)
Other changes	-	-	-	-	-	0
Cost at 30 June 2006	98,158	32,747	5,769	79,517	14,216	230,407
Impairment at 31 December 2005	9,454	-	34	180	-	9,668
Writedown/reinstatement of value	-	-	-	-	-	0
Impairment at 30 June 2006	9,454	0	34	180	0	9,668
Net book value at 31 December 2005	88,704	31,509	5,555	76,922	13,727	216,597
Net book value at 30 June 2006	**88,704**	**32,747**	**5,735**	**79,337**	**14,216**	**220,739**

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 1st half 2006**	**€,000 1st half 2005**
Expenses for taking over shop leasing contracts	246	267
Software	458	646
Licences, patents and rights	15	22
Other intangible assets	9	92
Total amortisation and impairment of intangible assets	**728**	**1,027**
Writedowns of intangible assets	-	-
Reinstatement of value of intangible assets	-	-
Total writedowns (reinstatement) of intangible assets	**0**	**0**
Total amortisation and impairment of intangible assets	**728**	**1,027**

Titles and imprints mainly refer to the purchase of Silvio Berlusconi Editore which took place in 1994. Every title and every imprint represents a cash-generating unit.

Series mainly refer to the purchase on the market of the school textbook division of Edumond Le Monnier SpA, 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.

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An impairment test was carried out on 31 December 2005; during the period there were no events that necessitated further checks.

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 31 December 2004	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 31 December 2004	-	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 31 December 2004	2,624	10,062	12,686
Net book value at 31 December 2005	**954**	**4,569**	**5,523**

There were no significant operations during the period.

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 30 June 2006	954	7,904	8,858
Accumulated depreciation and impairment losses at 31 December 2005	-	3,916	3,916
Depreciation	-	114	114
Writedowns/reinstatement of value	-		0
Disposals	-		0
Other changes	-	(31)	(31)
Accumulated depreciation and impairment losses at 30 June 2006	0	3,999	3,999
Net book value at 31 December 2005	954	4,569	5,523
Net book value at 30 June 2006	**954**	**3,905**	**4,859**

Report on the first half of 2006 Amounts expressed in €,000

The fair value of investment property at 30 June 2006 was around €12 million.

Depreciation of investment property

The depreciation charge for the year amounted to €114 thousand, included in the income statement under "Depreciation and impairment of property, plant and equipment", compared to €199 thousand in the same period of 2005.

There are no restrictions on the use of assets classified as investment property.

3- Property, plant and equipment

The following table shows changes in 2005 and the first half of 2006.

Property, plant and equipment €,000	Land	Business buildings	Plant and equipment	Other assets	Total
Cost at 31 December 2004	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 31 December 2004	-	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 31 December 2004	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**

Investments relate mainly to the Group's printing facilities. The new integrated rotogravure system has now been completed at the Verona plant with the purchase of a new rotogravure machine with the aim of maintaining the excellent level of printing quality.

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No impairment losses were recognised in the current or previous year as the result of impairment tests.

Tangible fixed assets include property having a carrying value of €5,041 thousand (€5,090 thousand at 31 December 2005), which acts as a security for loans.

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	-	744	22,130	7,482	30,356
Disposals	-	-	(1,014)	(11,234)	(12,248)
Other changes	-	239	(10,691)	(325)	(10,777)
Cost at 30 June 2006	20,546	95,824	394,959	114,546	625,875
Accumulated depreciation and impairment losses at 31 December 2005	-	27,988	308,231	73,412	409,631
Depreciation	-	1,473	10,514	3,480	15,467
Writedowns/reinstatement of value	-	-	-	-	0
Disposals	-	-	(970)	(2,016)	(2,986)
Other changes	-	30	(10,108)	(29)	(10,107)
Accumulated depreciation and impairment losses at 30 June 2006	0	29,491	307,667	74,847	412,005
Net book value at 31 December 2005	20,546	66,853	76,303	45,211	208,913
Net book value at 30 June 2006	**20,546**	**66,333**	**87,292**	**39,699**	**213,870**

Other tangible fixed assets include:

Other tangible fixed assets	**€,000 30 June 2006**	**€,000 31 December 2005**
Industrial and commercial equipment	5,873	5,734
Electronic office machines	4,717	5,017
Furniture and fixtures	4,437	4,505
Motor vehicles and transport vehicles	2,067	1,977
Leasehold improvements	2,541	2,285
Other assets	513	543
Assets under construction and advances	19,551	25,150
Total other tangible fixed assets	**39,699**	**45,211**

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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 €15,467 thousand, and was made up as follows:

Depreciation of property, plant and equipment	**€,000 1st half 2006**	**€,000 1st half 2005**
Buildings used in business activities	1,473	1,443
Plant and machinery	10,514	10,718
Equipment	656	466
Electronic office machines	1,468	1,855
Furniture and fixtures	450	431
Motor vehicles and transport vehicles	479	472
Leasehold improvements	360	452
Other assets	67	40
Total depreciation of property, plant and equipment	**15,467**	**15,877**

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

Leased assets

The following table shows the value of leased assets at 30 June 2006 classified under fixed assets.

in €,000	**30 June 2006**			**31 December 2005**		
	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	(936)	1,987	2,923	(893)	2,030
Plant and machinery	68,186	(67,800)	386	78,272	(77,685)	587
Other assets	1,391	(1,365)	26	1,586	(1,551)	35
Total leased assets	**72,500**	**(70,101)**	**2,399**	**82,781**	**(80,129)**	**2,652**

No new contracts were stipulated during the period; the values shown 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.

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4- Investments

Investments in companies accounted for using the equity method and in other companies amounted to €105,227 thousand.

Investments	**€,000 30 June 2006**	**€,000 31 December 2005**
Investments accounted for using the equity method	103,013	106,649
Investments in other companies	2,214	2,156
Total investments	**105,227**	**108,805**

Changes in investments accounted for using the equity method in 2005 and the first half of 2006 are set out below.

No significant investments were made in the first half of 2006; consequently, changes in investments accounted for using the net equity method are largely due to dividend distribution and the results obtained from investments.

Investments - Investments accounted for using the equity method - €,000	Net value
Balance at 1 January 2005	100,952
Movements during 2005:	
- purchases	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	22
- disposals and other movements	(859)
- revaluations	5,186
- writedowns	(3,058)
- dividends	(4,927)
Balance at 30 June 2006	**103,013**

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The following table sets out details of investments accounted for using the equity method.

Investments accounted for using the equity method – Detail-	**€,000 30 June 2006**	**€,000 31 December 2005**
Investments in joint ventures:		
- Gruner und Jahr/Mondadori SpA	3,029	5,152
- Agenzia Lombarda Distribuzione Giornali e Riviste Srl	247	317
- Harlequin Mondadori SpA	274	434
- Hearst Mondadori Editoriale Srl	232	426
- Mondadori Rodale Srl	442	1,003
- Edizioni Electa Bruno Mondadori Srl	283	329
- Edizioni EL Srl	1,964	2,034
- Grupo Editorial Random House Mondadori SL	33,171	30,678
- Attica Publications SA	40,736	40,892
- Aci Mondadori SpA	1,018	838
- Press Tv SpA	-	318
- Mondolibri SpA	12,454	13,595
Total investments in joint ventures	**93,850**	**96,016**
Investments in associated companies:		
- Mach 2 Libri SpA	2,700	2,796
- Società Europea di Edizioni SpA	6,380	7,773
- Venezia Musei Scarl	7	7
- Venezia Musei Società per i servizi museali Scarl	5	5
- Venezia Accademia Scarl	20	-
- Consorzio Covar	3	3
- Consorzio Forma	1	2
- Roccella Scarl	30	30
- Rock FM Srl	17	17
Total investments in associated companies	**9,163**	**10,633**
Total investments accounted for using the equity method	**103,013**	**106,649**

The quoted value of the shares of the Attica Group is not considered representative of their fair value, as only 15% of the group’s shares are floated on the market and the volume of trading during the year was limited in terms of both quantities and amount.

The following tables illustrate the movements in investments in other companies, stated at cost since fair value was not available.

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Investments – Investments in other companies - €,000	Net book value
Balance at 1 January 2005	2,472
Movements during 2005:	
- purchases	20
- disposals and other movements	(4)
- revaluations	-
- writedowns	(332)
- dividends	-
Balance at 31 December 2005	**2,156**
Movements during 2006:	
- purchases	58
- disposals and other movements	-
- revaluations	-
- writedowns	-
- dividends	-
Balance at 30 June 2006	**2,214**

The following table illustrates details of investments in other companies.

Investments in other companies – Detail -	**€,000 30 June 2006**	**€,000 31 December 2005**
Other investments:		
- 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	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
- Ame France Sas	37	-
- Audiradio	21	-
Total investments in other companies	**2,214**	**2,156**

5- Deferred tax assets and liabilities

The following tables sets out details of deferred tax assets and liabilities.

	€,000 30 June 2006	€,000 31 December 2005
Deferred tax assets - IRES	35,413	34,386
Deferred tax assets - IRAP	2,739	2,704
Total deferred tax assets	**38,152**	**37,090**
Deferred tax liabilities - IRES	25,354	23,472
Deferred tax liabilities - IRAP	2,866	2,526
Total deferred tax liabilities	**28,220**	**25,998**

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

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

Amounts expressed in €,000	**30 June 2006**			**31 December 2005**		
	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	9,955	33%	3,285	10,637	33%	3,511
Difference between book value and tax basis of investment property and property, plant and equipment	13,909	33%	4,590	14,676	33%	4,841
Provision for bad debts	12,397	33%	4,091	11,972	33%	3,951
Inventory provision	10,922	33%	3,604	11,037	33%	3,642
Writedowns of advances to authors	4,925	33%	1,625	5,647	33%	1,864
Provisions	18,700	33%	6,171	20,401	33%	6,733
Agents' termination indemnity	1,973	33%	651	2,284	33%	754
Unused tax losses	9,073	33%	2,994	2,135	33%	705
Elimination of unrealised intragroup profits	11,868	33%	3,916	10,051	33%	3,317
Other temporary differences	13,580	33%	4,486	15,354	33%	5,068
Total for IRES purposes	**107,302**		**35,413**	**104,194**		**34,386**
Difference between book value and tax basis of intangible assets	9,955	4.25%	423	10,637	4.25%	453
Difference between book value and tax basis of investment property and property, plant and equipment	13,909	4.25%	591	14,676	4.25%	619
Inventory provision	8,901	4.25%	378	9,018	4.25%	384
Writedowns of advances to authors	1,438	4.25%	61	1,436	4.25%	61
Provisions	16,440	4.25%	699	14,508	4.25%	616
Agents' termination indemnity	304	4.25%	13	331	4.25%	14
Elimination of unrealised intragroup profits	11,868	4.25%	504	10,051	4.25%	426
Other temporary differences	1,683	4.25%	70	3,081	4.25%	131
Total for IRAP purposes	**64,498**		**2,739**	**63,738**		**2,704**

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

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

Amounts expressed in €,000	**30 June 2006** Amount of temporary difference	Tax rate	Deferred tax liabilities	**31 December 2005** Amount of temporary difference	Tax rate	Deferred tax liabilities
Capital gains	5	33%	2	26	33%	9
Difference between book value and tax basis of intangible assets	13,601	33%	4,488	9,176	33%	3,028
Difference between book value and tax basis of investment property and property, plant and equipment	40,366	33%	13,321	36,556	33%	12,063
Employees' leaving entitlement	9,409	33%	3,105	9,161	33%	3,023
Agents' termination indemnity	154	33%	51	139	33%	46
Leased assets	2,183	33%	720	2,383	33%	786
Other temporary differences	11,110	33%	3,667	13,689	33%	4,517
Total for IRES purposes	**76,828**		**25,354**	**71,130**		**23,472**
Difference between book value and tax basis of intangible assets	11,372	4.25%	483	9,176	4.25%	389
Difference between book value and tax basis of investment property and property, plant and equipment	40,684	4.25%	1,729	36,615	4.25%	1,556
Agents' termination indemnity	735	4.25%	31	654	4.25%	28
Leased assets	2,183	4.25%	93	2,383	4.25%	102
Other temporary differences	12,488	4.25%	530	10,620	4.25%	451
Total for IRAP purposes	**67,462**		**2,866**	**59,448**		**2,526**

The net change in deferred tax assets and liabilities led to a tax charge €612 thousand recognised as described in note 29.

Unrecognised deferred taxes in €,000	**30 June 2006**	**31 December 2005**
Temporary differences excluded from the determination of deferred tax assets and liabilities	-	-
Unused tax losses available for carryforward	8,331	8,331

Unused tax losses available for carryforward that expire in 2007 amount to €5,319 thousand and those that expire in 2008 amount to €3,012 thousand.

Deferred tax liabilities have not been recognised for temporary differences arising from investments in joint ventures, subsidiaries and associated companies as the Group 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.

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6- 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.

Other non-current assets	**€ ,000 30 June 2006**	**€ ,000 31 December 2005**
Guarantee deposits	325	342
Earnest money	-	-
Advance IRE withholding tax on the employees' leaving entitlement	1,692	2,103
Other	743	633
Total other non-current assets	**2,760**	**3,078**

7- Tax receivables

The composition of and changes in tax receivables are described and commented on below:

Tax receivables	**€ ,000 30 June 2006**	**€ ,000 31 December 2005**
Receivables from tax authorities for IRAP	400	278
Receivables from tax authorities for IRES	298	13,801
Receivables from Fininvest for IRES	-	-
Receivables from tax authorities for VAT to be recovered	15,673	12,188
Receivables from tax authorities for tax reimbursements	7,904	4,123
Total tax receivables	**24,275**	**30,390**

The reduction in the balance compared with the previous year is mainly due to tax credits matured during 2005 for costs sustained for the purchase and use of paper.

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8- Other current assets

The composition of and changes in other current assets are described and commented on below:

Other current assets	**€ ,000** **30 June 2006**	**€ ,000** **31 December 2005**
Advances to agents	4,576	778
Advances to authors and collaborators	49,284	43,627
Advance to suppliers	6,820	2,460
Advances to personnel	940	736
Receivables for insurance compensation	-	-
Advances to social security institutions	530	15
Receivable for guarantee deposits	249	247
Earnest money	413	413
Prepayments	2,397	8,014
Other	13,105	9,191
Total other current assets	**78,314**	**65,481**

The balance is the result of the seasonal nature of some business as well as an increase in advances to authors due to the positive performance of the book division.

9- Inventories

Inventories	**€ ,000** **30 June 2006**	**€ ,000** **31 December 2005**
Raw materials and consumables	15,160	14,653
Provision for raw materials and consumables	(475)	(463)
Total raw materials and consumables	**14,685**	**14,190**
Work in progress and semi-finished goods	21,993	34,126
Provision for work in progress and semi-finished goods	(1,054)	(1,054)
Total work in progress and semi-finished goods	**20,939**	**33,072**
Contract work in progress	6,918	10,975
Provision for contract work in progress	-	(30)
Total work in progress	**6,918**	**10,945**
Finished products and goods for resale	87,783	79,068
Provision for finished products and goods for resale	(10,620)	(10,253)
Total finished products and goods for resale	**77,163**	**68,815**
Advances	**-**	**-**
Total inventories	**119,705**	**127,022**

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The balance of inventories is the result of the seasonal nature of some business, especially, school textbooks, which are concentrated in Q2 and Q3, contributing to the value of finished goods, as well as initiatives in the magazine sector determined a fall in the value of work in progress.

It should be noted that, compared with June 2005, the value of inventories rose by 4.1%.

Inventories – Provisions - €,000	Raw materials	Work in progress and semi-finished goods	Contract work in progress	Finished products and goods for resale
Balance at 31 December 2004	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	12	-	-	1,273
- utilisations	-	-	(30)	(906)
- other movements	-	-	-	-
Balance at 30 June 2006	**475**	**1,054**	**0**	**10,620**

Provisions for inventories was determined by the saleability of finished goods and the eventual unproductive return on work in progress and semi-finished goods.

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 first half of 2005 and the first half of 2006.

Decrease (increase) in inventories	**€,000 1st half 2006**	**€,000 1st half 2005**
Changes in finished products	(9,159)	(6,424)
Charge to finished products provision	1,273	1,036
Utilisation of finished products provision	(906)	(1,484)
	(8,792)	**(6,872)**
Changes in semi-finished products	12,133	9,703
Charge to finished products provision	-	-
Utilisation of finished products provision	-	-
	12,133	**9,703**
Changes in work in progress	4,057	3,898
Charge to finished products provision	-	-
Utilisation of finished products provision	(30)	-
	4,027	**3,898**
Changes in raw material and goods	(133)	(777)
Charge to finished products provision	12	12
Utilisation of finished products provision	-	-
	(121)	**(765)**
Total decrease (increase) in inventories	**7,247**	**5,964**

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10- Trade receivables

"Trade receivables" compared with the figures for December and June 2005 were essentially in line; in both cases the increase was less than one percentage point.

Details of receivables from associated, parent and affiliated companies are contained in the attachment "Balances and transactions with related parties".
Commercial transactions with these companies are carried out in accordance with normal market conditions.

Trade receivables	**€,000 30 June 2006**	**€,000 31 December 2005**
Receivables from customers	359,910	352,912
Receivables from associated companies	50,105	53,665
Receivables from parent companies	-	12
Receivables from affiliated companies	4,089	4,496
Total trade receivables	**414,104**	**411,085**

There are no trade receivables with a due date over five years; the average collection period in the 12 months to 30 June 2006 was 85.0 days (88.3 days in in the same period of 2005).

The following table contains details of "Trade receivables". Also exposure in different sectors of the market in which the Group operates confirmed the general trend, with the exception of printing, which increased by about 7% due to an increase in revenues.

Trade receivables - Receivables from customers -	**€,000 30 June 2006**	**€,000 31 December 2005**
Trade receivables	507,752	497,170
Customers - returns to be received	(123,998)	(119,037)
Provision for bad debts	(23,844)	(25,221)
Total receivables from customers	**359,910**	**352,912**

Trade receivables Receivables from customers – provision	**€,000 30 June 2006**	**€,000 31 December 2005**
Balance at beginning of year	25,221	30,179
Movements during period:		
- provisions	1,237	5,748
- utilisations	(2,434)	(10,701)
- changes in scope of consolidation	-	-
- other movements	(180)	(5)
Total receivables from customers	**23,844**	**25,221**

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11- Other current financial assets

Other current financial assets	**€,000 30 June 2006**	**€,000 31 December 2005**
Financial receivables from customers	-	-
Financial receivables from associated companies	13,619	9,715
Financial receivables from parent companies	-	-
Financial receivables from affiliated companies	-	-
Financial receivables from others	2,697	26,839
Total financial receivables	**16,316**	**36,554**
Financial assets at fair value with changes through the income statement	461,490	442,870
Available-for-sale financial assets	-	-
Assets resulting from derivative instruments	159	2,780
Total other current financial assets	**477,965**	**482,204**

"Financial assets at fair value through the income statement" and "Financial receivables from others" consist of investments of liquidity made by Mondadori International and Arnoldo Mondadori Editore SpA.
The Group mainly invests in monetary market products and bonds with floating interest rates, with fund management mandates given only to primary international financial institutions; the balance in this respect amounts to € 397.5 million.
The Group also has investments totalling €64 million mainly invested in hedge funds, with the objective of absolute return which are distinguished by the widespread diversification of the financial institutions utilised and the strategy employed.

Monetary/bond products are mainly allocated inside the Luxembourg rate securities broker, ABS Finance Fund, whose main administrators are Morgan Stanley, Lazard, BNP Paribas and HSBC. A portion amounting to €90 million is invested either directly by Mondadori International or by management and investment mandate in funds (Barclays and Generali) or through the direct purchase of floating rate bonds. A further portion of €53 million is invested by Arnoldo Mondadori Editore SpA in a guaranteed minimum return capitalisation policy issued by DWS (Deutsche Bank 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.

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Assets and liabilities resulting from derivative instruments

The following table illustrates the assets and liabilities resulting from derivative instruments held at 30 June 2006:

Assets and liabilities in derivative instruments – Details - €,000	Type of derivative	Fair value at 30 June 2006	Fair value at 31 December 2005
Non-current financial assets	-	-	
Current financial assets			
-Currency derivatives	*Trading*	159	(8)
-Options purchased for 2003 stock option plan	*Trading*	-	2,780
Non-current financial liabilities			
-*Cross currency swap*	*Fair value hedge*	(39,086)	(766)
Current financial liabilities			
-Options sold for stock option plan 2003	*Trading*	-	(4)

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.

<u>Currency derivatives</u>

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 30 June 2006, there were following outstanding operations to hedge currency exchange risks:

- forward contracts for the sale of US $3,600 thousand (€2,914 thousand);
- forward contracts for the sale of £4,400 thousand (€6,378 thousand).

The fair value of these derivatives at 30 June 2006 was a gain of €159 thousand.

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Loan derivatives

Loan derivatives refer exclusively to a cross currency swap operation set up in 2003 to cover exchange and interest rate risks linked to the US Private Placement debenture loan. The loan of A$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 2012, 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.

Stock option plan derivatives

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 of around €14,000.

12- Cash and cash equivalents

Cash and cash equivalents	**€,000 30 June 2006**	**€,000 31 December 2005**
Cash and valuables	614	705
Cheques	-	41
Bank deposits	48,421	71,344
Post office deposits	395	966
Total cash and cash equivalents	**49,430**	**73,056**

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 30 June 2006.

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

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Net financial position		**€,000 30 June 2006**	**€,000 31 December 2005**
A.	Cash	614	746
	-Bank deposits	48,421	71,344
	-Post office deposits	395	966
B.	Other liquidity	48,816	72,310
C.	**Liquidity and other financial assets (A+B)**	**49,430**	**73,056**
D.	Shares held for sale	-	-
	-Amounts due from associated companies	13,619	9,715
	-Financial assets at fair value	461,490	442,870
	-Derivatives and other financial instruments	2,856	29,619
E.	Current receivables and other financial assets	477,965	482,204
F.	**Current financial assets (D+E)**	**477,965**	**482,204**
G.	Current bank debts	36,594	2,164
	-Bonds	-	-
	-Mortgages	86	89
	-Loans	133,264	5,542
H.	Current portion of non-current debt	133,350	5,631
	-Amounts due to associated companies	6,232	18,211
	-Derivatives and other financial debts	19,629	45,358
I.	Other current financial debts	25,861	63,569
L.	**Due to banks and other current financial liabilities (G+H+I)**	**195,805**	**71,364**
M.	**Current net financial position (C+F-L)**	**331,590**	**483,896**
	-Bonds	362,838	398,885
	-Mortgages	-	-
	-Loans	51,292	51,884
N.	Portion of non-current debt	414,130	450,769
O.	Other non-current financial liabilities	39,195	964
P.	**Non-current financial debt (N+O)**	**453,325**	**451,733**
Q.	**Net financial position (M-P)**	**(121,735)**	**32,163**

13- 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 SpA.

Share capital

The share capital of the parent company, Arnoldo Mondadori Editore SpA, 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 SpA shares, amounting to €285,309 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.
- €1,562 thousand drawn from the "Reserve for stock options" following the options exercised during the period.

Treasury shares

This item, which amounts to €125,642 thousand (€137,662 thousand at 31 December 2005), represents the value at the balance sheet date of treasury shares in portfolio, with 13,671,581 ordinary shares held by Arnoldo Mondadori Editore SpA and 4,517,486 ordinary shares held by Mondadori International SA.

Reserve for stock options

This reserve, which amounts to €3,926 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 24.

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Translation reserve

The translation reserve, which amounts to €464 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 30 June 2006		**Exchange rate at 31 December 2005**	
	average	**spot**	**average**	**spot**
US dollars	1.23	1.27	1.24	1.18
Argentinian pesos	3.77	3.92	3.65	3.58
Chilean pesos	644.07	684.75	696.65	606.37
Colombian pesos	2,907.37	3,274.68	2,902.37	2,697.42
Mexican pesos	13.36	14.29	13.59	12.51
Uruguayan pesos	29.52	30.19	30.70	27.96
Venezuelan bolivares	2,638.48	2,729.87	2,586.98	2,533.17
Roumanian new leu	3.55	3.57	3.58	3.67
Bulgarian leva	1.96	1.96	1.96	1.96
Serbian dinars	87.03	85.9	83.09	85.5
Hungarian fiorins	272.39	283.35	248.05	248.54

Other reserves and retained earnings

At 30 June 2006, "Other reserves and retained earnings" amounted to €128,588 thousand, including €13,490 thousand for the legal reserve and €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.
The residual balance represents retained earnings.

14- 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 30 June 2006	2,646	633	-
Result for period to 30 June 2006	321	92	-

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15- 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	30 June 2006
Agents' contractual risks	674	-	-	-	674
Litigation	8,311	873	(1,623)	-	7,561
Equity investment provision	1,108	562	-	(85)	1,585
Tax disputes	2,059	-	-	-	2,059
Other risks	3,485	97	(666)	(165)	2,751
Total provisions	**15,637**	**1,532**	**(2,289)**	**(250)**	**14,630**

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

16- 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** **30 June 2006**	**€,000** **31 December 2005**
Employees' leaving entitlement (TFR)	94,259	92,479
Agents' termination indemnity (FISC)	5,551	5,783
Termination indemnity for journalists (IFGP)	673	721
Total leaving entitlements and termination indemnities	**100,483**	**98,983**

Employees' leaving entitlement – Details - €,000	TFR	FISC	IFGP
Balance at 31 December 2005	92,479	5,783	721
Changes during 2006:			
- provisions	6,115	380	7
- utilisations	(6,054)	(465)	(55)
- reversals	-	-	-
- discounting	1,744	-	-
- change in scope of consolidation	-	-	-
- others	(25)	(147)	-
Balance at 30 June 2006	**94,259**	**5,551**	**673**

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

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

Actuarial assumptions used for the employees' leaving entitlement (TFR)	**30 June 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	Tables IPS 55	Tables IPS 55
- probability of disability	Tables INPS 2000	Tables INPS 2000
- probability of leaving for other reasons	0.50% ÷ 6.00%	0.50% ÷ 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 30 June 2006**	**€,000 31 December 2005**
Current cost of the employees' leaving entitlement	7,968	7,834
Financial charges	1,744	1,916
Actuarial (gains) losses	(1,853)	(1,953)
Total cost of employees' leaving entitlement	**7,859**	**7,797**

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)	**30 June 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	0.5%-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.

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17- 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	**30 June 2006**	**31 December 2005**
Bonds	Eur3M+0.667%	-	257,006	257,006	295,280
Convertible bonds	4.37%	105,832	-	105,832	103,605
Loans	1.922%	30,828	20,464	51,292	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		109	-	109	167
Amounts due to shareholders for loans		-	-	-	31
Liabilities resulting from derivative instruments		39,086	-	39,086	766
Other financial liabilities		-	-	-	-
Total non-current financial liabilities		**175,855**	**277,470**	**453,325**	**451,733**

Financial liabilities include:

- €257,006 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 2012, 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%;
- €105,832 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, and in line with the contract, a new conversion price was determined. The bonds are currently convertible at a price of €8.2183 (as opposed to €8.4782) for a total number of 13,372,587 Mondadori shares (as opposed to 12,962,657). The effective interest rate derives from the application of IAS 32 which demands the separation of the equity option (included in the other equity reserves) 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. As a result of the merger of Mondadori Finance into Mondadori International, which took place in December 2005, this loan has now been taken over by Mondadori International.
- for €51,292 thousand for a subsidised long term loan for publishers. The effective interest rate is the average of the ten subsidised loans currently held by the Group.

Non-current financial liabilities include balances with a due date of over 5 years totalling €277,470 thousand.

Amounts payable to banks and other financial payables amounted to €195,805 thousand and include:

Amounts payable to banks and other financial payables €,000	Effective interest rate	**30 June 2006**	**31 December 2005**
Bank overdrafts		36,594	2,164
Bonds		-	-
Convertible bonds		-	-
Loans	2.97%	133,350	5,631
Amounts due to suppliers		778	305
Amounts due to associated companies		6,232	18,211
Amounts due to parent companies		-	-
Amounts due to affiliated companies		-	-
Amounts due for lease agreements		103	99
Amounts due to shareholders for loans		-	-
Liabilities resulting from derivative instruments		-	8
Other financial payables		18,748	44,946
Total amounts payable to banks and other financial payables		**195,805**	**71,364**

These include:

- €36,594 thousand for current account overdrafts;
- €133,350 thousand the subsidised short-term loan granted in accordance with the law for publishers (€3,350 thousand) and short term loans using stand-by credit lines held by the company (€130,000 thousand);
- €6,232 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”;
- €18,748 thousand in other financial payables, including the residual financial debt for the acquisition of the radio broadcaster R101, which expires in March 2007 (of around €17 million). This debt has discounted to present value.

All loans granted to the Group are expressed in euros with the exception of the US Private Placement loan which is expressed in US dollars.

No mortgage security has been given in respect of he US Private Placement debenture loan in question 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 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 (calculated for a period of 12 consecutive months) must be less than or equal to 2.75;
- 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 Mondadori Group has always respected the financial parameters established by the contract since the first analysis was carried out in December 2003.

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 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.
This confirmed that the financial parameters established in the contract were being totally respected.

Information concerning derivative financial instruments is contained in section 11 – Non-current financial assets.

Report on the first half of 2006 Amounts expressed in €,000

18- Income tax payables

Income tax payables are made up as follows:

Income tax payables	**€,000 30 June 2006**	**€,000 31 December 2005**
Payables due to tax authorities for IRAP	3,050	934
Payables due to tax authorities for IRES	650	1,867
Tax payables due to Fininvest for IRES	22,892	22,310
Total income tax payables	**26,592**	**25,111**

The item "tax payables due to Fininvest for IRES" refers to tax payables owed to Fininvest SpA by the companies participating in the tax consolidation.

19- Other current liabilities

Other current liabilities consist of the following:

Other current liabilities	**€,000 30 June 2006**	**€,000 31 December 2005**
Customer advances	33,881	35,076
Income tax payables	8,860	15,715
Amounts due to pension funds and social security institutions	15,916	19,043
Other payables	104,243	117,914
Total other current liabilities	**162,900**	**187,748**

Compared with the figures for 31 December 2005, this item is affected by the seasonal nature of some business, the figures for 30 June 2005 and 2006 are essentially in line.

It should be noted that "Tax payables" at 31 December 2005 included a substitute tax of €5,267 thousand for the effects of adjustments in the value of some assets.

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The main changes in "Other payables" is due to a marked fall in the amount "Due to agents", in line with the seasonal nature of the book division's business.

Other current liabilities - Other payables -	**€,000 30 June 2006**	**€,000 31 December 2005**
Payroll and other amounts due to personnel	32,370	34,483
Due to authors and collaborators	49,222	48,692
Due to agents	6,634	13,789
Due to subscription and instalment customers	8,133	10,241
Due to shareholders for dividends	185	176
Due to directors and statutory auditors	843	1,188
Prepaid rental income	782	865
Other payables, accrued expenses and deferred income	6,074	8,480
Total other payables	**104,243**	**117,914**

20- Trade payables

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

Trade payables	**€,000 30 June 2006**	**€,000 31 December 2005**
Suppliers	312,203	354,304
Associated companies	32,784	28,500
Parent companies	6	42
Affiliated companies	3,601	2,186
Total trade payables	**348,594**	**385,032**

Also "Payables to suppliers", due to seasonal factors, can not be compared to the figure for December.
Compared with 30 June 2005 there was a fall of around 5%, which was largely the result of acquisitions and matured rights on add-on sales, revenues for which fell by almost 13%.

Amounts due to associated, parent and affiliated companies refer to commercial transactions carried out under normal market conditions.
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 over the 12 months preceding 30 June 2006 was 106.67 days (112.41 days in the same period of 2005).

Report on the first half of 2006 Amounts expressed in €,000

21- Revenues from sales and services

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

Revenues from sales and services	**€,000 1st half 2006**	**€,000 1st half 2005**	**Change %**
Revenues from the sale of goods:			
- books	162,397	162,593	(0.1%)
- magazines	276,974	311,870	(11.2%)
- direct	482	515	(6.4%)
- retail	63,782	57,844	10.3%
- other goods	1,522	1,776	(14.3%)
Revenues from services:			
- sales of publishing rights	10,242	7,001	46.3%
- advertising services	172,186	169,537	1.6%
- printing and graphic work	98,017	86,646	13.1%
- direct	11,862	13,771	(13.9%)
- tickets and exhibition organisation	3,206	4,581	(30.0%)
- other services	9,433	9,412	0.2%
Total revenues from sales and services	**810,103**	**825,546**	**(1.9%)**

The total figure shows a fall of 1.9%, even if the various business have their own dynamic.

Of particular interest is the increase in revenues from the sale of publication rights (+46.3%) by the book division, within which there was also the marked decline in revenues from exhibition organisation; this was the result of variations in the calendar of events which in the first half of 2005 was rich and varied.

In the magazine area, especially as a result of a fall in revenues from add-on sales, saw a fall of more than 11%.

Revenues from the direct division were lower than in 2005 due to the non renewal of contracts active last year; the retail area, meanwhile, also due to the opening of a number of new outlets and the Edicolè initiative (innovative new spaces for the sale of magazines and books) saw revenues increase during the period.

Overall, advertising grew by 1.6%; sales were excellent for R101 and Mondadori magazines, while the performance was less strong for third-party magazines and newspapers.

Finally, the printing division saw significant rise in revenues from third-party clients, while maintaining a high level of production and services for the publishers of the Group.

Report on the first half of 2006 Amounts expressed in €,000

22- Cost of raw materials and consumables and goods for resale

The "cost of raw materials and consumables and goods for resale" reflected the performance of the Group's business; with a marked fall in the item "Goods for resale" especially due to the reduction in add-on sales.

Cost of raw materials and consumables and goods for resale	**€,000 1st half 2006**	**€,000 1st half 2005**
Paper	101,587	99,883
Electricity, water, gas, fuel	9,108	7,482
Other production materials	18,209	17,015
Total cost of raw materials	**128,904**	**124,380**
Goods for resale	101,270	116,645
Consumption and maintenance materials	3,220	2,840
Others	7,888	11,989
Total cost of consumable materials and goods for resale	**112,378**	**131,474**
Total cost of raw materials and consumables and goods for resale	**241,282**	**255,854**

23- Cost of services

The largest increases in the cost of services refer to:

- rights and royalties for authors (in the book division);
- contracted out processing and printing as a result of the increased volume of business in the book division.

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Cost of services	€,000 1st half 2006	€,000 1st half 2005
Rights and royalties	70,655	68,852
Third-party consultancy and collaboration	33,123	30,812
Commissions	21,443	21,837
Third-party processing	70,676	68,280
Transport and shipping	30,205	28,758
Purchase of advertising space and publicity expenses	29,128	36,476
Travel and other expense reimbursements	5,476	5,497
Maintenance	4,641	4,934
Warehousing and porter costs	2,387	2,755
Postal and telephone	3,011	2,688
Catering and cleaning services	4,573	3,499
Market research	2,227	3,100
Insurance	2,391	2,093
Publisher's share	28,875	30,338
Job order services	3,423	3,857
Bank services and commission	575	627
Directors' and statutory auditors' fees	2,062	1,564
Other services	19,022	13,149
Total cost of services	**333,893**	**329,116**

"Directors' and statutory auditors' fees" represent the fees paid to Directors and Statutory Auditors for €1,915 thousand and €147 thousand respectively.

24- Personnel costs

These are made up of:

Personnel costs	€,000 1st half 2006	€,000 1st half 2005
Salaries and wages	95,803	96,065
Stock options	773	1,173
Social charges	28,226	29,303
Leaving entitlement	6,115	5,881
Termination indemnities and similar	7	8
Other	1,635	2,974
Total personnel costs	**132,559**	**135,404**

The reduction in personnel costs is due to a fall in the number of employees, as can be seen in the table below, and the lower impact of stock options, given that the 2006 plan was assigned with a Board of Directors' resolution on 18 July.

Consequently, the figures included in the income statement for the period includes accruals for the assignments made in 2004 and 2005.

Report on the first half of 2006 Amounts expressed in €,000

Personnel	Spot 1st half 2006	Spot 1st half 2005	Average 1st half 2006	Average 1st half 2005
Managers	180	169	178	168
Journalists	465	455	466	458
White-collars and intermediates	2,433	2,500	2,436	2,493
Blue-collars	1,326	1,402	1,327	1,401
Total	**4,404**	**4,526**	**4,407**	**4,520**

Information about stock option plans

Following the expiry on 28 April 2003 of the previous stock option plan for the period 200/2001/2002, shareholders resolved in general meeting to renew the Stock Option Plan regarding the company's shares for the three-year period 2003-2004-2005.

The Plan is directed at managers of the company, its subsidiaries and the parent company 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.

Shareholders' entrusted the "Stock Option" Committee, nominated by the meeting itself from among directors not employed by the company, with the task of managing the plan, granting the Committee 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 Committee with the task of defining the Regulations for implementing the Stock Option Plan, to be presented to the Board of Directors for approval.

In particular, the regulations drawn up by the Committee 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 Editore SpA 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. The options allocated in 2005 can be exercised between the 1 January of the third year and the 31 December of the fifth year after the year of being granted.

Report on the first half of 2006 Amounts expressed in €,000

The Regulations also specify that the participants in the Plan are chosen, by the Committee, from among those managers of the company and its subsidiaries who are responsible for running an organisational unit, managers of the company and its subsidiaries whose activities have a determining impact on the attainment of the Group's strategic objectives, directors of the company, directors of the company's subsidiaries, journalists employed by the company or its subsidiaries who are editors or deputy-editors of titles and managers who work for the Parent Company with the title of "direttore" and who carry out activities in favour of the company.
The Regulations further specify that the Committee 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 Committee, 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.
The Committee has identified the performance parameters of an economic and/or financial nature for the Stock Option Plan 2003-2005 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.

The following table illustrates the situation at 30 June 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
In circulation at 1/1/2006	533,206	1,945,000	2,170,000	2,595,000
- assigned during year	-	-	-	-
- cancelled during year	-	-	-	-
- exercised during year	(533,206)	(1,270,000)	(30,000)	-
- expired during year	-	-	-	-
In circulation at 30/06/2006	-	675,000	2,140,000	2,595,000
Exercise term	1/1/2005-31/12/2006	1/1/2006-31/12/2007	1/1/2007-31/12/2008	1/1/2008-31/12/2010
Exercise price in €	6.85	6.471	7.749	7.87
Exercisable at 30/06/2006	-	675,000	-	-

It should be noted that options in the 2004 plan were exercised in the period in respect of contractual forecasts that allows for the early exercise of rights due to retirement and that the weighted average price of the shares on the date of exercise, for the options exercised during the year, was €7.76.

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**
Exercise price of the option	6.471	7.749	7.87
Option term (residual period)	2	3	5
Market price of the underlying shares at the grant date in €	6.234	7.793	7.865
Expected volatility of share price	30.00%	20.00%	18.45%
Dividend yield	4.00%	4.00%	4.45%
Risk free interest rate for the option term	2.80%	3.50%	2.65%

Report on the first half of 2006 Amounts expressed in €,000

25- Other (income) expense

This item is made up as follows:

Other (income) expense	€,000 1st half 2006	€,000 1st half 2005
Other revenues and income	(22,558)	(30,783)
Cost of use of third-party assets	13,655	12,479
Various operating costs	8,357	15,235
Total other (income) expense	**(546)**	**(3,069)**

There was a fall in "Other (income) expense" in the period as a result of the grant for paper consumption, that matured during the previous year, for a total of approximately €6.3 million.

The figures at 30 June 2005 differs from those published in the interim report for 2005 due to a reclassification of income of a financial nature booked under "Financial income (expense)" for a total of € 432 thousand.

Other (income) expense - Other revenues and income -	€,000 1st half 2006	€,000 1st half 2005
Revenue grants	3,050	7,532
Capital gains on disposal of fixed assets	563	1,116
Supplier rebates and other third-party contributions	2,606	2,386
Insurance reimbursements	55	173
Rental income	817	664
Prior year income	433	2,196
Expenses recovered from third parties	11,247	11,251
Others	3,787	5,465
Total other revenues and income	**22,558**	**30,783**

The increase in rent payable is mainly due to bookstores and retail.

Other (income) expense - Cost of third party assets -	€,000 1st half 2006	€,000 1st half 2005
Rental expense	10,236	9,278
Data processing, leasing and hire purchase payments	3,398	3,178
Others	21	23
Total cost of third party assets	**13,655**	**12,479**

The marked fall in "other expense" is the result of lower charges for settlements and bad debts and lower charges to provisions for debts and risks, made possible by an improvement in aging.

Report on the first half of 2006 Amounts expressed in €,000

Other (income) expense - Other operating costs -	**€,000 1st half 2006**	**€,000 1st half 2005**
Compensation and settlements	1,527	1,943
Bad debts	1,738	2,833
Charges to provisions	3,177	6,220
Utilisation of provisions	(4,723)	(4,241)
Contributions and grants	1,293	1,371
Prior year expenses	484	2,326
Capital losses on the sale of fixed assets	31	84
Information material, entertainment expenses and gifts	1,555	1,776
Taxes and dues	2,108	1,309
Other expense	1,167	1,614
Total other operating costs	**8,357**	**15,235**

26- Income (expense) from investments accounted for using the equity method

The following table shows the results for 2006 and 2005 of companies accounted for using the equity method.

The figures at 30 June 2005 differs from those published in the interim report for 2005 due to a reclassification of capital gains from the liquidation of assets booked under "Income (expense) from other investments", for €95 thousand

Income (expense) from investments accounted for using the equity method	**€,000 1st half 2006**	**€,000 1st half 2005**
- Hearst Mondadori Editoriale Srl	96	51
- Gruner und Jahr/Mondadori SpA	402	1,220
- Harlequin Mondadori SpA	65	165
- Agenzia Lombarda Distribuzione Giornali e Riviste Srl	(5)	77
- Aci Mondadori SpA	196	117
- Mondadori Rodale Srl	80	182
- Attica Publications SA	(156)	504
- Società Europea di Edizioni SpA	(1,393)	185
- Grupo Editorial Random House Mondadori SL	3,350	2,395
- Edizioni Electa Bruno Mondadori Srl	(46)	18
- Mach 2 Libri SpA	264	611
- Venezia Musei Società per i servizi museali Scarl	-	1
- Edizioni EL Srl	178	139
- Press Tv SpA	(318)	(240)
- BOL Books on line Italia SpA	(11)	(161)
- Mondolibri SpA	(566)	(527)
- Venezia Musei Scarl	-	-
- Venezia Accademia Scarl	-	(5)
- Rock FM Srl	(7)	(165)
- Consorzio Forma	(1)	-
Gains (losses) from the sale/liquidation of assets	615	-
Total income (expense) from investments accounted for using the equity method	**2,743**	**4,567**

Report on the first half of 2006 Amounts expressed in €,000

27- Financial income (expense)

This item is made up as follows:

The figures at 30 June 2005 differs from those published in the interim report for 2005 due to a reclassification of income of a financial nature, erroneously booked under "Other expense (income)", for €432 thousand.

Financial income (expense)	**€,000 1st half 2006**	**€,000 1st half 2005**
Interest from banks and post offices	508	394
Interest from associated companies	181	157
Interest from other companies	3	29
Interest from bonds and loans	-	-
Financial income from derivative instrument operations	3,658	4,581
Other interest and financial income	1,732	1,495
Total interest income and other financial income	**6,082**	**6,656**
Interest to banks	154	81
Interest to associated companies	175	146
Interest to other companies	7	42
Interest paid for bonds, mortgages and loans	11,268	9,732
Financial expense from derivative instrument operations	22	2,683
Financial charges from discounting assets/liabilities	1,744	2,510
Other interest paid and financial expense	741	2,444
Total interest expense and other financial expense	**14,111**	**17,638**
Realised foreign exchange gains	277	243
Unrealised foreign exchange gains	32	301
Realised foreign exchange losses	(439)	(956)
Unrealised foreign exchange losses	(65)	(21)
Total profit (loss) on foreign exchange operations	**(195)**	**(433)**
Income (expense) from share valuations	5,433	6,239
Capital gains on share disposals	1,218	114
Losses on share disposals	(131)	(369)
Total financial income (expense) deriving from shares	**6,520**	**5,984**
Total financial income (expense)	**(1,704)**	**(5,431)**

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28- Income (expense) from other investments

Income (expense) from other investments	**€,000 1st half 2006**	**€,000 1st half 2005**
Dividends	-	-
Revaluations	-	-
Writedowns	-	-
Capital gains from disposals/liquidations of investments and businesses	32	95
Capital losses on disposals/liquidations of investments and businesses	-	-
Total income (expense) from other investments	**32**	**95**

The figures at 30 June 2005 differs from those published in the interim report for 2005 due to a reclassification of capital gains from the liquidation of assets booked under "Income (expense) from investments accounted for using the equity method", for €95 thousand

29- Income taxes

Income taxes for the periods to 30 June 2006 and 2005 are set out in the following table:

Income taxes	**€,000 1st half 2006**	**€,000 1st half 2005**
IRES tax on income for the year	23,740	11,169
IRAP for the year	10,544	10,287
Total current taxes	**34,284**	**21,456**
Deferred tax (income) expense - IRES	293	10,581
Deferred tax (income) expense - IRAP	319	(100)
Total deferred tax (income) expense	**612**	**10,481**
Total income taxes	**34,896**	**31,937**

30- 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.

	1st half 2006	1st half 2005
Net profit for the period (€ ,000)	45,121	51,851
Average number of ordinary shares outstanding (thousands)	240,250	239,692
Basic profit per share (€)	**0.19**	**0.22**

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.

	1st half 2006	1st half 2005
Net profit for the period (€ ,000)	45,121	51,851
Average number of ordinary shares outstanding (thousands)	240,250	239,692
Number of options with dilutive effect (thousands)	112	471
Diluted earnings per share (€)	**0.19**	**0.22**

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.

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 to 30 June 2006.

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Balances with related parties at 30 June 2006

	Trade receivables	Financial receivables	Trade payables	Financial payables	Tax payables	Revenues	Purchase of raw materials	Purchase of services	Other (income) expense	Financial income (expense)
Parent companies:										
- Fininvest SpA	-	-	6	-	22,892	-	-	-	5	-
Associated companies										
- Gruner und Jahr/Mondadori SpA	2,452	-	2,571	663	-	2,077	11,047	5,904	(1,345)	(68)
- Mach 2 Libri SpA	22,177	161	162	-	-	20,383	-	678	-	-
- Agenzia Lombarda Distribuzione Giornali e Riviste Srl	304	-	-	-	-	9,769	-	894	5	-
- Venezia Accademia Scarl	-	2	64	-	-	-	-	109	-	-
- Venezia Musei Scarl	32	-	1	-	-	-	-	-	-	-
- Venezia Musei Società per i servizi museali Scarl	147	-	101	-	-	122	32	385	-	-
- Hearst Mondadori Editoriale Srl	1,719	447	6,577	-	-	2,356	1,520	3,993	(493)	(12)
- Harlequin Mondadori SpA	1,236	-	-	3,049	-	59	3,710	-	(65)	(44)
- Mondadori Rodale Srl	3,408	853	7,907	-	-	4,289	4,927	5,513	(1,243)	(30)
- Attica Group	318	-	-	-	-	82	-	-	(30)	-
- Rock FM Srl	33	2,712	125	-	-	48	-	114	-	25
- Euromedia Luxembourg	-	-	-	1,916	-	338	-	-	-	-
- BOL Books on line Italia SpA	-	-	1	-	-	-	-	-	-	-
- Edizioni Electa Bruno Mondadori Srl	398	-	-	-	-	559	-	-	-	4
- Edizioni EL Srl	620	-	2,845	-	-	231	2,352	18	(237)	-
- Grupo Editorial Random House Mondadori SL	67	4,937	7	-	-	632	-	-	-	97
- Società Europea di Edizioni SpA	8,216	-	3,661	-	-	7,933	-	9,298	2	-
- Aci Mondadori SpA	2,391	-	3,434	604	-	3,484	2,534	2,359	(739)	(18)
- Press Tv SpA	787	4,507	1,181	-	-	1,749	1,678	186	(225)	52
- COVAR	4	-	-	-	-	-	-	-	-	-
- Mondolibri SpA	5,796	-	4,147	-	-	6,940	109	1,038	(831)	-
Total associated companies	**50,105**	**13,619**	**32,784**	**6,232**	**0**	**61,051**	**27,909**	**30,489**	**(5,201)**	**6**

Amounts expressed in €,000

Balances with related parties at 30 June 2006

	Trade receivables	Financial receivables	Trade payables	Financial payables	Tax payables	Revenues	Purchase of raw materials	Purchase of services	Other (income) expense	Financial income (expense)
Affiliated companies:										
- Pagine Italia SpA	3,210	-	-	-	-	2,496	-	-	-	-
- RTI SpA	411	-	33	-	-	436	-	183	(536)	-
- Publitalia 80 SpA	-	-	2,492	-	-	7	-	8,884	-	-
- Medusa Video Srl	28	-	872	-	-	10	-	716	(3)	-
- Promoservice Italia Srl	300	-	4	-	-	-	-	1	-	-
- Fininvest Gestione Servizi SpA (ex Finedim Italia SpA)	-	-	-	-	-	-	-	-	18	-
- Il Teatro Manzoni SpA	-	-	-	-	-	-	-	13	-	-
- Mediolanum Vita SpA	-	-	-	-	-	-	-	-	-	-
- Mediolanum SpA	-	-	-	-	-	17	-	-	-	-
- Banca Mediolanum SpA	20	-	-	-	-	115	-	-	-	-
- Medusa Film SpA	10	-	-	-	-	9	-	-	-	-
- Alba Servizi Aerotrasporti SpA	-	-	24	-	-	-	-	-	36	-
- Radio e Reti Srl	107	-	167	-	-	108	-	160	-	-
- Isim SpA	-	-	2	-	-	-	-	-	-	-
- Consorzio Aeromobili Fininvest	-	-	-	-	-	-	-	-	-	-
- Videotime SpA	3	-	5	-	-	6	-	-	(2)	-
- Mediaset SpA	-	-	-	-	-	-	-	-	-	-
- Milan A.C. SpA	-	-	2	-	-	-	-	-	5	-
- Eis Roma Srl	-	-	-	-	-	-	-	-	-	-
- Eis Srl	-	-	-	-	-	-	-	-	-	-
- Elettronica Industriale SpA	-	-	-	-	-	-	-	-	-	-
- Medusa Multicinema SpA	-	-	-	-	-	-	-	-	-	-
Total affiliated companies	**4,089**	**0**	**3,601**	**0**	**0**	**3,204**	**0**	**9,957**	**(482)**	**0**

Report on the first half of 2006 Amounts expressed in €,000

Balances and transactions with related parties as of and for the year ended 31 December 2005 and to 30 June 2005

	Trade receivables	Financial receivables	Trade payables	Financial payables	Tax payables	Revenues	Purchase of raw materials	Purchase of services	Other (income) expense	Financial income (expense)
Parent companies:										
- Fininvest SpA	12	-	42	-	22,310	-	-	-	-	-
Associated companies										
- Gruner und Jahr/Mondadori SpA	2,586	1,165	13,409	2,066	-	1,894	10,012	6,720	(1,187)	(67)
- Mach 2 Libri SpA	18,823	-	311	-	-	17,131	-	667	-	-
- Agenzia Lombarda Distribuzione Giornali e Riviste Srl	452	-	4	-	-	10,948	-	1,032	11	-
- Venezia Accademia Scarl	9	24	161	-	-	4	10	148	(4)	-
- Venezia Musei Scarl	32	-	1	-	-	-	1	-	-	-
- Venezia Musei Società per i servizi museali Scarl	447	-	724	-	-	140	2	336	-	-
- Hearst Mondadori Editoriale Srl	1,868	-	2,310	1,508	-	2,285	1,870	3,331	(446)	(12)
- Harlequin Mondadori SpA	3,527	74	-	6,450	-	328	5,301	-	(186)	(32)
- Mondadori Rodale Srl	3,345	-	3,345	3,991	-	4,270	5,828	4,893	(1,405)	(20)
- Attica Group	358	-	-	-	-	27	-	-	-	-
- Rock FM Srl	21	-	65	2	-	-	-	35	-	-
- Euromedia Luxembourg	-	-	-	1,262	-	-	-	-	-	-
- BOL Books on line Italia SpA	4	-	-	2	-	809	1	3	(6)	-
- Edizioni Electa Bruno Mondadori Srl	8	537	-	-	-	539	-	-	(1)	7
- Edizioni EL Srl	523	-	2,735	-	-	190	2,149	19	(214)	-
- Grupo Editorial Random House Mondadori SL	623	5,939	90	-	-	432	-	-	-	129
- Società Europea di Edizioni SpA	9,434	-	2,684	-	-	5,869	-	8,902	(95)	-
- Aci Mondadori SpA	2,836	-	1,529	2,928	-	3,735	3,180	2,132	(1,039)	(13)
- Press Tv SpA	1,265	1,976	343	2	-	2,284	992	236	(264)	19
- COVAR	4	-	-	-	-	-	-	-	-	-
- Mondolibri SpA	7,500	-	789	-	-	6,583	117	952	(938)	-
Total associated companies	**53,665**	**9,715**	**28,500**	**18,211**	**0**	**57,468**	**29,463**	**29,406**	**(5,774)**	**11**

Report on the first half of 2006 Amounts expressed in €,000

Balances and transactions with related parties as of and for the year ended 31 December 2005 and to 30 June 2005

	Trade receivables	Financial receivables	Trade payables	Financial payables	Tax payables	Revenues	Purchase of raw materials	Purchase of services	Other (income) expense	Financial income (expense)
Affiliated companies:										
- Pagine Italia SpA	3,413	-	20	-	-	3,300	-	-	-	-
- RTI SpA	459	-	64	-	-	187	-	-	(1)	-
- Publitalia 80 SpA	144	-	1,514	-	-	-	-	17,402	-	-
- Medusa Video Srl	12	-	450	-	-	-	9	418	(3)	-
- Promoservice Italia Srl	300	-	-	-	-	-	-	-	(125)	-
- Fininvest Gestione Servizi SpA (ex Finedim Italia SpA)	4	-	-	-	-	-	-	-	18	-
- Il Teatro Manzoni SpA	3	-	16	-	-	-	-	13	7	-
- Mediolanum Vita SpA	-	-	-	-	-	-	-	-	-	-
- Mediolanum SpA	23	-	-	-	-	2	-	-	-	-
- Banca Mediolanum SpA	72	-	-	-	-	152	-	-	-	-
- Medusa Film SpA	16	-	42	-	-	9	-	-	-	-
- Alba Servizi Aerotrasporti SpA	-	-	-	-	-	-	-	-	-	-
- Radio e Reti Srl	7	-	74	-	-	9	-	82	-	-
- 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	-	-	-	-	-	3	-
- Medusa Multicinema SpA	15	-	-	-	-	-	-	-	-	-
Total affiliated companies	**4,496**	**0**	**2,186**	**0**	**0**	**3,659**	**9**	**17,915**	**(101)**	**0**

Commitments and contingent liabilities

At 30 June 2006, the Mondadori Group had made commitments for a total of €167,128 thousand (€167,271 thousand at 31 December 2005).

These include €2,038 thousand for contracts to purchase plant and machinery (€11,263 thousand at 31 December 2005), while the residue is represented by €38 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.

For the Board of Directors
Chairman
Marina Berlusconi

Segment information

Amounts expressed in €,000

Primary segment information for the period to 30 June 2006

	Books	Magazines	Advertising services	Printing	Direct	Retail	Radio	Corporate and other business	Consolidation adjustments	Consolidated financial statements
Revenues from sales and services to external customers	**177,573**	**283,505**	**172,461**	**97,195**	**12,344**	**63,906**	**102**	**3,017**	**-**	**810,103**
Revenues from sales and services to other sectors	**14,618**	**111,721**	**2,174**	**137,807**	**221**	**466**	**3,954**	**4,517**	**(275,478)**	**-**
Income (expense) from investments using equity method	3,810	277	-	-	49	-	-	(1,393)	-	2,743
Gross operating profit	**31,573**	**59,855**	**1,500**	**18,749**	**1,654**	**55**	**(5,661)**	**(9,314)**	**-**	**98,411**
Operating result	**30,285**	**59,247**	**1,359**	**7,359**	**1,513**	**(968)**	**(6,094)**	**(10,599)**	**-**	**82,102**
Financial income (expense)	-	-	-	-	-	-	-	(1,704)	-	(1,704)
Profit before taxes and minority interests	**30,285**	**59,247**	**1,359**	**7,359**	**1,513**	**(968)**	**(6,094)**	**(12,271)**	**-**	**80,430**
Income taxes	-	-	-	-	-	-	-	34,896	-	34,896
Result attributable to minority interests	413	-	-	-	-	-	-	-	-	413
Net result	**29,872**	**59,247**	**1,359**	**7,359**	**1,513**	**(968)**	**(6,094)**	**(47,167)**	**-**	**45,121**
Depreciation, amortisation and impairment	1,288	608	141	11,390	141	1,023	433	1,285	-	16,309
Non-monetary costs	3,176	3,696	1,054	2,315	93	572	150	1,272	-	12,328

	Books	Magazines	Advertising services	Printing	Direct	Retail	Radio	Corporate and other business	Consolidation adjustments	Consolidated financial statements
Investments	**3,997**	**436**	**189**	**24,593**	**18**	**1,596**	**6,642**	**1,557**	**-**	**39,028**
Investments accounted for using the equity method	38,458	45,704	-	-	12,454	-	17	6,380	-	103,013
Other assets	352,216	238,816	160,843	318,524	12,022	48,220	90,755	41,374	(203,069)	1,059,701
Financial assets	-	-	-	-	-	-	-	527,395	-	527,395
Tax assets	-	-	-	-	-	-	-	62,427	-	62,427
Total assets	**390,674**	**284,520**	**160,843**	**318,524**	**24,476**	**48,220**	**90,772**	**637,576**	**(203,069)**	**1,752,536**
Other liabilities	150,848	233,385	160,378	188,375	10,043	41,858	6,419	38,370	(203,069)	626,607
Financial liabilities	-	-	-	-	-	-	-	649,130	-	649,130
Tax liabilities	-	-	-	-	-	-	-	54,812	-	54,812
Total liabilities	**150,848**	**233,385**	**160,378**	**188,375**	**10,043**	**41,858**	**6,419**	**742,312**	**(203,069)**	**1,330,549**

Amounts expressed in €,000

Primary segment information for the period to 30 June 2005

	Books	Magazines	Advertising services	Printing	Direct	Retail	Radio	Corporate and other business	Consolidation adjustments	Consolidated financial statements
Revenues from sales and services to external customers	**176,398**	**316,744**	**170,627**	**86,044**	**14,286**	**57,844**	**12**	**3,591**	**-**	**825,546**
Revenues from sales and services to other sectors	**11,628**	**108,998**	**2,998**	**138,098**	**234**	**309**	**1,617**	**3,984**	**(267,866)**	**-**
Income (expense) from investments using equity method	3,323	1,947	-	-	(688)	-	(165)	245	-	4,662
Gross operating profit	**20,294**	**72,331**	**1,123**	**21,291**	**1,503**	**352**	**(2,220)**	**(7,303)**	**-**	**107,371**
Operating result	**18,821**	**71,460**	**1,001**	**9,753**	**1,288**	**(792)**	**(2,435)**	**(8,828)**	**-**	**90,268**
Financial income (expense)	-	-	-	-	-	-	-	(5,863)	-	(5,863)
Profit before taxes and minority interests	**18,821**	**71,460**	**1,001**	**9,753**	**1,288**	**(792)**	**(2,435)**	**(14,691)**	**-**	**84,405**
Income taxes	-	-	-	-	-	-	-	31,937	-	31,937
Result attributable to minority interests	616	-	-	-	-	-	-	1	-	617
Net result	**18,205**	**71,460**	**1,001**	**9,753**	**1,288**	**(792)**	**(2,435)**	**(46,629)**	**-**	**51,851**
Depreciation, amortisation and impairment	1,473	871	122	11,538	215	1,144	215	1,525	-	17,103
Non-monetary costs	311	1,192	-	-	-	58	208	-	-	1,769

Primary segment information for the year to 31 December 2005

	Books	Magazines	Advertising services	Printing	Direct	Retail	Radio	Corporate and other business	Consolidation adjustments	Consolidated financial statements
Investments	**2,773**	**1,200**	**344**	**34,201**	**118**	**1,559**	**84,174**	**2,382**	**-**	**126,751**
Investments accounted for using the equity method	36,318	48,946	-	-	13,595	-	17	7,773	-	106,649
Other assets	325,438	244,825	152,887	326,385	13,929	49,600	84,761	41,499	(196,657)	1,042,667
Financial assets	-	-	-	-	-	-	-	555,260	-	555,260
Tax assets	-	-	-	-	-	-	-	67,480	-	67,480
Total assets	**361,756**	**293,771**	**152,887**	**326,385**	**27,524**	**49,600**	**84,778**	**672,012**	**(196,657)**	**1,772,056**
Other liabilities	155,011	231,238	153,633	215,902	11,843	49,671	15,436	51,323	(196,657)	687,400
Financial liabilities	-	-	-	-	-	-	-	523,097	-	523,097
Tax liabilities	-	-	-	-	-	-	-	51,109	-	51,109
Total liabilities	**155,011**	**231,238**	**153,633**	**215,902**	**11,843**	**49,671**	**15,436**	**625,529**	**(196,657)**	**1,261,606**

Amounts expressed in €,000

Secondary segment information for the period to 30 June 2006

	Books	Magazines	Advertising services	Printing	Direct	Retail	Radio	Corporate and other business	Consolidation adjustments	Consolidated financial statements
Italian market	189,258	389,626	167,008	200,696	10,466	64,372	4,056	7,534	(275,478)	757,538
Other EU markets	1,745	3,419	6,049	29,282	1,733	-	-	-		42,228
USA market	263	205	113	3,015	7	-	-	-	-	3,603
Other countries	925	1,976	1,465	2,009	359	-	-	-	-	6,734
Revenues from sales and services	**192,191**	**395,226**	**174,635**	**235,002**	**12,565**	**64,372**	**4,056**	**7,534**	**(275,478)**	**810,103**
Italian market	371,241	243,784	160,843	305,352	24,476	48,220	90,772	191,916	(200,560)	1,236,044
Other EU markets	19,433	40,736	-	13,172	-	-	-	444,858	(2,042)	516,157
USA market	-	-	-	-	-	-	-	802	(467)	335
Other countries	-	-	-	-	-	-	-	-	-	-
Total assets	**390,674**	**284,520**	**160,843**	**318,524**	**24,476**	**48,220**	**90,772**	**637,576**	**(203,069)**	**1,752,536**
Italian market	3,997	436	189	22,420	18	1,596	6,642	1,549	-	36,847
Other EU markets	-	-	-	2,173	-	-	-	1	-	2,174
USA market	-	-	-	-	-	-	-	7	-	7
Other countries	-	-	-	-	-	-	-	-	-	-
Total investments	**3,997**	**436**	**189**	**24,593**	**18**	**1,596**	**6,642**	**1,557**	**0**	**39,028**

Secondary segment information for the period to 30 June 2005 and the year to 31 December 2005

	Books	Magazines	Advertising services	Printing	Direct	Retail	Radio	Corporate and other business	Consolidation adjustments	Consolidated financial statements
Italian market	184,131	421,892	165,944	194,935	11,033	58,153	1,629	7,575	(267,865)	777,427
Other EU markets	1,942	1,811	5,134	23,819	3,029	-	-	-	(1)	35,734
USA market	153	130	93	3,003	-	-	-	-	-	3,379
Other countries	1,800	1,909	2,454	2,385	458	-	-	-	-	9,006
Revenues from sales and services	**188,026**	**425,742**	**173,625**	**224,142**	**14,520**	**58,153**	**1,629**	**7,575**	**(267,866)**	**825,546**
Italian market	344,516	252,879	152,887	313,831	27,524	49,600	84,778	228,914	(193,398)	1,261,531
Other EU markets	17,240	40,892	-	12,554	-	-	-	442,056	(2,893)	509,849
USA market	-	-	-	-	-	-	-	1,042	(366)	676
Other countries	-	-	-	-	-	-	-	-	-	-
Total assets	**361,756**	**293,771**	**152,887**	**326,385**	**27,524**	**49,600**	**84,778**	**672,012**	**(196,657)**	**1,772,056**
Italian market	2,773	1,200	344	33,973	118	1,559	84,174	2,342	-	126,483
Other EU markets	-	-	-	228	-	-	-	25	-	253
USA market	-	-	-	-	-	-	-	15	-	15
Other countries	-	-	-	-	-	-	-	-	-	-
Total investments	**2,773**	**1,200**	**344**	**34,201**	**118**	**1,559**	**84,174**	**2,382**	**0**	**126,751**

Financial statements of
Arnoldo Mondadori Editore SpA to 30 June 2006

Report on the first half of 2006 Amounts expressed in €,000

BALANCE SHEET

ASSETS *(in €,000)*	**PERIOD TO 30 June 2006**	**YEAR ENDED AT 31 December 2005**
INTANGIBLE ASSETS	92,691	92,793
INVESTMENT PROPERTY	1,608	1,892
Land and buildings	17,350	17,255
Plant and machinery	4,990	5,689
Other tangible fixed assets	6,452	5,664
PROPERTY, PLANT AND EQUIPMENT	**28,792**	**28,608**
INVESTMENTS	739,011	712,581
NON-CURRENT FINANCIAL ASSETS	0	0
DEFERRED TAX ASSETS	15,318	16,023
OTHER NON-CURRENT ASSETS	1,335	1,686
TOTAL NON-CURRENT ASSETS	**878,755**	**853,583**
TAX RECEIVABLES	17,862	23,005
OTHER CURRENT ASSETS	45,391	41,891
INVENTORIES	27,916	42,184
TRADE RECEIVABLES	244,671	232,238
OTHER CURRENT FINANCIAL ASSETS	95,694	100,922
CASH AND CASH EQUIVALENTS	31,166	43,444
TOTAL CURRENT ASSETS	**462,700**	**483,684**
ASSETS HELD FOR SALE	0	0
TOTAL ASSETS	**1,341,455**	**1,337,267**

Report on the first half of 2006 Amounts expressed in €,000

BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY (in €,000)	**PERIOD TO 30 June 2006**	**YEAR ENDED AT 31 December 2005**
Share capital	67,452	67,452
Share premium reserve	285,309	283,747
Treasury shares	-90,804	-102,824
Other reserves and retained earnings	84,083	128,292
Profit (loss) for the year	53,984	101,290
TOTAL SHAREHOLDERS' EQUITY	**400,024**	**477,957**
PROVISIONS	10,262	10,740
EMPLOYEES' LEAVING ENTITLEMENT AND TERMINATION INDEMNITIES	45,149	43,803
NON-CURRENT FINANCIAL LIABILITIES	296,092	296,046
DEFERRED TAX LIABILITIES	12,529	11,708
OTHER NON-CURRENT LIABILITIES		
TOTAL NON-CURRENT LIABILITIES	**364,032**	**362,297**
INCOME TAXES PAYABLE	21,877	18,357
OTHER CURRENT LIABILITIES	94,577	103,571
TRADE PAYABLES	200,079	204,953
PAYABLES TO BANKS AND OTHER FINANCIAL LIABILITIES	260,866	170,132
TOTAL CURRENT LIABILITIES	**577,399**	**497,013**
LIABILITIES HELD FOR SALE	0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,341,455**	**1,337,267**

For the Board of Directors
The Chairman
Marina Berlusconi

Report on the first half of 2006 Amounts expressed in €,000

INCOME STATEMENT

(in €,000)	**PERIOD TO 30 June 2006**	**PERIOD TO 31 December 2005**
REVENUES FROM SALES AND SERVICES	**536,997**	**564,991**
DECREASE (INCREASE) IN INVENTORIES	14,267	8,100
COST OF RAW MATERIALS AND CONSUMABLES AND GOODS FOR RESALE	104,137	121,947
COST OF SERVICES	287,506	298,940
PERSONNEL COSTS	64,643	66,310
OTHER INCOME (EXPENSE)	-7,801	-8,809
GROSS OPERATING PROFIT	**74,245**	**78,503**
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	2,287	2,621
AMORTISATION AND WRITEDOWNS OF INTANGIBLE ASSETS	219	405
OPERATING PROFIT	**71,739**	**75,477**
FINANCIAL INCOME (EXPENSE)	-5,186	-6,750
INCOME (EXPENSE) FROM INVESTMENTS	15,523	17,655
PROFIT BEFORE INCOME TAXES	**82,076**	**86,382**
INCOME TAXES	28,092	26,665
NET PROFIT	**53,984**	**59,717**

For the Board of Directors
The Chairman
Marina Berlusconi

Table of significant investments as per art. 120 of Legislative Decree no. 58/1998

ARNOLDO MONDADORI EDITORE SPA

As per art. 120 of Legislative Decree no. 58/1998 pursuant to art. 126 of Consob regulation no. 11971 of 14/05/1999

30 June 2006

NAME	SHARE CAPITAL	TOTAL % SHARE HELD	DIRECT/INDIR. HOLDING	SHAREHOLDERS	% HELD	HEAD OFFICE	TAX CODE	ESTABLISHMENT DATE
ACI-Mondadori SpA (Italy)	€ 590,290	50%	direct	Arnoldo Mondadori Editore SpA	50%	Milan - via Bianca di Savoia 12	13277400159	17/11/2000
Agenzia Lombarda Distribuzione Giornali e Riviste Srl (Italy)	€ 400,000	50%	direct	Arnoldo Mondadori Editore SpA	50%	Milan - via Senato 18	10463540152	02/10/1991
BOL Books on Line Italy SpA in liquidation (Italy)	€ 1,000,000	50%	direct	Arnoldo Mondadori Editore SpA	50%	Milan - via Lampedusa 13	13074160154	22/02/2000
Cemit Interactive Media SpA (Italy)	€ 3,835,000	100%	direct	Arnoldo Mondadori Editore SpA	100%	San Mauro Torinese (TO) - via Toscana 9	04742700018	13/12/1984
Editrice Portoria SpA in bankruptcy (Italy)	€ 364,000	16.785%	direct	Arnoldo Mondadori Editore SpA	16.785%	Milan - via Chiossetto 1	02305160158	26/03/1975
Edizioni EL Srl (Italy)	€ 620,000	50%	indirect	Giulio Einaudi Editore SpA	50%	Trieste - San Dorligo della Valle - via J. Ressel 5	00627340326	07/05/1984
Edizioni Electa Bruno Mondadori Srl (Italy)	€ 10,400	50%	indirect	Edumond Le Monnier SpA	50%	Milan - via Trentacoste 7	06976090156	05/05/1983
Edizioni Frassinelli Srl (Italy)	€ 10,400	100%	indirect	Sperling & Kupfer Editori SpA	100%	Milan - via Bianca di Savoia 12	07254880151	12/01/1984
Edizioni Piemme SpA (Italy)	€ 566,661	80%	direct	Arnoldo Mondadori Editore SpA	80%	Milan - viale Bianca Maria 25	00798930053	29/09/1982
Edumond Le Monnier SpA (Italy)	€ 10,608,000	100%	direct	Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	03261490969	01/10/2001
Electa Napoli SpA (Italy)	€ 155,000	60%	indirect	Mondadori Electa SpA	60%	Naples - via Giovanni Capurro 1	04230890636	27/09/1983
Fied SpA (Italy)	€ 416,000	100%	direct	Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	04591640158	26/10/1979
Giulio Einaudi Editore SpA (Italy)	€ 23,920,000	100%	direct	Arnoldo Mondadori Editore SpA	100%	Turin - via U. Biancamano 2	08367150151	03/06/1986
Gruner + Jahr/Mondadori SpA (Italy)	€ 2,600,000	50%	direct	Arnoldo Mondadori Editore SpA	50%	Milan - corso Monforte 54	09440000157	10/09/1988
Harlequin Mondadori SpA (Italy)	€ 258,250	50%	direct	Arnoldo Mondadori Editore SpA	50%	Milan - via Marco D'Aviano 2	05946780151	15/10/1980
Hearst Mondadori Editoriale Srl (Italy)	€ 99,600	50%	direct	Arnoldo Mondadori Editore SpA	50%	Milan - via Bianca di Savoia 12	12980290154	17/12/1999
Mach 2 Libri SpA (Italy)	€ 646,250	24%	direct	Arnoldo Mondadori Editore SpA	20%	Peschiera Borromeo (MI) - via Galileo Galilei 1	03782990158	06/05/1983
			indirect	Sperling & Kupfer Ed. SpA	4%			
Mondadori Electa SpA (Italy)	€ 1,593,735	100%	direct	Arnoldo Mondadori Editore SpA	100%	Milan - via Trentacoste 7	01829090123	23/02/1989
Mondadori Franchising SpA (Italy)	€ 1,954,000	100%	direct	Arnoldo Mondadori Editore SpA	100%	Verucchio (RN) - Fraz. di Villa Verucchio - via Statale Marecchia n. 51-51/a	08853520156	28/05/1987
Mondadori Printing SpA (Italy)	€ 45,396,000	100%	direct	Arnoldo Mondadori Editore SpA	57.05%	Milan - via Bianca di Savoia 12	12319410150	28/11/1997
			indirect	Mondadori International SA	42.95%			
Mondadori Pubblicità SpA (Italy)	€ 3,120,000	100%	direct	Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	08696660151	12/02/1987
Mondadori Retail SpA (Italy)	€ 2,700,000	100%	direct	Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	00212560239	19/11/1946
Mondadori Sistemi di comunicazione Srl (Italy)	€ 95,000	100%	direct	Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	03864370964	19/02/2003
Mondadori-Rodale Srl (Italy)	€ 90,000	50%	direct	Arnoldo Mondadori Editore SpA	50%	Milan - via Bianca di Savoia 12	13066890156	25/02/2000
Mondolibri SpA (Italy)	€ 1,040,000	50%	direct	Arnoldo Mondadori Editore SpA	50%	Milan - via Lampedusa n. 13	12853650153	25/06/1999
Monradio Srl (Italy)	€ 3,020,000	100%	direct	Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	04571350968	15/10/2004
Novamusa Gelmar Biblioteca Nazionale Scarl (Italy)	€ 10,200	20%	indirect	Electa Napoli	20%	Rome - Via Ennio Quirino Visconti 8	06573391007	9/04/2001
Novamusa Val di Mazara Scarl (Italy)	€ 90,000	20%	indirect	Electa Napoli	20%	Messina - Via Acireale Z.I.R.	02812180830	20/04/2005
Novamusa Valdemone Scarl (Italy)	€ 90,000	20%	indirect	Electa Napoli	20%	Messina - Via Acireale Z.I.R.	02704670831	16/04/2003
Novamusa Valdinoto Scarl (Italy)	€ 90,000	20%	indirect	Electa Napoli	20%	Messina - Via Acireale Z.I.R.	02704680830	16/04/2003
Press Tv SpA (Italy)	€ 1,500,000	50%	direct	Arnoldo Mondadori Editore SpA	50%	Milan - via Bianca di Savoia 12	03619240967	08/07/2002
Roccella Scarl (Italy)	€ 100,000	49.5%	indirect	Electa Napoli SpA	49.5%	Naples - via Giovanni Capurro 1	05053571211	21/03/2005
Società Europea di Edizioni SpA (Italy)	€ 2,775,601.92	39.27%	direct	Arnoldo Mondadori Editore SpA	31.28%	Milan - via G. Negri 4	01790590150	27/02/1974
			indirect	Fied SpA	7.99%			
Sperling & Kupfer Editori SpA (Italy)	€ 1,555,800	100%	direct	Arnoldo Mondadori Editore SpA	100%	Milan - via Bianca di Savoia 12	00802780155	03/11/1927
Venezia Accademia Società Consortile a rl (Italy)	€ 15,000	26%	indirect	Mondadori Electa SpA	26%	Venice Mestre - via Manin 51	03377400274	21/03/2002
Venezia Musei Società Consortile a rl in liquidation (Italy)	€ 10,000	34%	indirect	Mondadori Electa SpA	34%	Venice Mestre - via Manin 51	03233710270	9/05/2000
Venezia Musei Società per i servizi museali Scarl (Italy)	€ 10,000	34%	indirect	Mondadori Electa SpA	34%	Venice Mestre - via Manin 51	03534350271	22/04/2004
ABS Finance Fund Sicav (Luxembourg)	€ 399,256,227.02	85.2%	indirect	Mondadori International SA	85.2%	Luxembourg - 19-21 Boulevard du Prince Henri		03/02/1999
Ame France S.a.r.l. France	€ 20,000.00	100%	indirect	Mondadori International SA	100%	France - Paris - 9-11, avenue Franklin D. Roosevelt		23/06/2004
Ame Service SAS	€ 37,000.00	100%	indirect	Ame France Sarl	100%	France - Paris - 9-11, avenue Franklin D. Roosevelt		29/06/2006
Ame Publishing Ltd. (USA)	USD 50,000	100%	indirect	Mondadori International SA	100%	U.S.A. - New York N.Y. - 740 Broadway		01/02/1982
Arnoldo Mondadori Deutschland GmbH (Germany)	€ 25,564.59	100%	indirect	Mondadori International SA	100%	Germany - Munich - Tal 21		14/05/1970
Arnoweb SA (Luxembourg)	€ 36,256,900	99.9998%	direct	Arnoldo Mondadori Editore SpA	99.9998%	Luxembourg - 25C, Boulevard Royal		16/12/1999
Artes Graficas Toledo SA Spain	€ 5,409,000	100%	indirect	Mondadori Printing SpA	100%	Spain - Toledo - C/Jarama S/N - Poligono Industrial		03/10/1974
Attica Publications SA Greece	€ 4,590,000	41.66%	indirect	Mondadori International SA	41.66%	Greece - Athens - Maroussi, 40 Kifissias Avenue		01/08/1994
Euromedia Luxembourg Two SA in liquidation (Luxembourg)	USD 36,337,500	11.765%	indirect	Arnoweb SA	11.765%	Luxembourg - 33, rue Notre Dame		13/03/2000
Grupo Editorial Random House Mondadori SL Spain	€ 10,002,000	50%	indirect	Arnoweb SA	33.99%	Spain - Barcelona, Calle Travessera de Gracia 47/49		07/03/1991
			direct	Arnoldo Mondadori Editore SpA	6.01%			
			indirect	Prisco Spain SA	10%			
Misa Finance Fund PLC in liquidation (Ireland)	€ 174,613	99.9998%	indirect	Mondadori International SA	99.9998%	Irleand - Dublin - I.F.S.C. - 2, Harbourmaster Place		12/06/2003
Mondadori Belgium SA in liquidation (Belgium)	€ 62,000	99.984%	direct	Arnoldo Mondadori Editore SpA	99.984%	Belgium - Brussels - Avenue Louise 109		22/03/2001
Mondadori International SA (Luxembourg)	€ 393,625,900	99.99%	direct	Arnoldo Mondadori Editore SpA	99.99%	Luxembourg - 25C, Boulevard Royal		18/09/1970
Prisco Spain SA (Spain)	€ 60,101.30	100%	direct	Arnoldo Mondadori Editore SpA	100%	Spain - Barcelona, Calle Travessera de Gracia 47/49		06/12/1988

Mondadori Group

Report of the External Auditors

**AUDITORS' REPORT ON THE REVIEW
OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2006
OF ARNOLDO MONDADORI EDITORE S.p.A.**
(Translation from the original Italian version)

Ernst & Young

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Auditors' report on the review of the Interim Consolidated Financial Statements as of and for the six-month period ended June 30, 2006 pursuant to Article 81 of the Consob Regulation, adopted by the resolution no. 11971 of May 14, 1999 and subsequent modifications and integrations

(Translation from the original Italian version)

To the Shareholders of
Arnoldo Mondadori Editore S.p.A.

1. We have performed a review of the interim Consolidated Financial Statements represented by the Consolidated Balance Sheet, the Consolidated Statement of Income, the Statement of Changes in Consolidated Shareholders' Equity and the Consolidated Statement of Cash flows and related Notes of Mondadori Group (the "Interim Consolidated Financial Statements") as of and for the six-month period ended June 30, 2006, included in the half-year Management Report. The Management Report is the responsibility of the Arnoldo Mondadori Editore S.p.A.'s management. Our responsibility is to prepare this report based on our review. We have also reviewed the other financial information contained in the Management Report solely for the purpose of evaluating its consistency with the remaining part of the Management Report.

2. Our review was conducted in accordance with auditing standards governing the review of interim financial statements recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its resolution No. 10867 of July 31, 1997. A review consists mainly of obtaining information with respect to the Interim Consolidated Financial Statements and the consistency of the accounting principles applied, through discussions with appropriate members of management and analytical procedures applied to the financial data presented in such financial statements. A review does not include performing auditing procedures such as tests of compliance of internal controls and substantive procedures on assets and liabilities. Consequently, the scope of a review engagement provides significantly less assurance than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on the Interim Consolidated Financial Statements included in the Management Report of Arnoldo Mondadori Editore S.p.A. as of and for the six-month period ended June 30, 2006, as we do in connection with reporting on our audits of the annual Consolidated Financial Statements of Arnoldo Mondadori Editore S.p.A..

3. With respect to the consolidated comparative data as of and for the year ended December 31, 2005 and for the six-month period ended June 30, 2005, reference

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should be made to our audit report issued on April 7, 2006 and to our review report issued on October 25, 2005, respectively.

4. Based on our review, we did not become aware of any significant modifications that should be made to the Interim Consolidated Financial Statements identified in paragraph 1 of this report, in order for them to be in accordance with IAS 34 and in conformity with criteria for the presentation of the half-year Management Report, pursuant to art. 81 of Consob regulations as adopted with its resolution no. 11971 of May 14, 1999 and subsequent modifications and integrations.

Milan, September 26, 2006

Reconta Ernst & Young S.p.A.
Signed by: Pellegrino Libroia, Partner