# ARNOLDO MONDADORI EDITORE S.p.A.

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

# Interim report on the half year to 30 June 2007

# *Corporate Boards*

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(*) Secretary

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**Acting Statutory Auditors**
Achille Frattini
Franco Carlo Papa

**Substitute Statutory Auditors**
Francesco Antonio Giampaolo
Francesco Vittadini

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# *Report of the Board of Directors*

## *The Mondadori Group's business activities*

In the first six months of the year there were signs of weakness in the markets of reference for the Mondadori Group's businesses compared with the same period of 2006.

In particular, in Italy:

- in the consumer magazine sector, there was a 10% fall in circulation, with an sharp downturn in the final months of the first half; the negative trend in add-on sales, already noted in the first months of the year, continued; and advertising investments failed to confirm the recovery that was seen in March and consequently, ended the period at a level only slightly above that of the first six months of 2006 (+1.8%);
- while there was essential stability in the book market, performance is more difficult to determine due to changes in measurement criteria.

In France, in the magazine area, there was a fall in circulation of 3.1% compared with the first half of 2006 and also advertising saw a shortfall due to both general (elections) and more specific factors (legislative changes in the retail sector).

In this context, the Mondadori Group has recorded marked increases in both total revenues and operating profit compared with the previous year, thanks to stability in like-for-like terms, a positive performance in developing areas and the contribution of the activities in France acquired in the second half of 2006.

**Consolidated revenues** to 30 June 2007 came to €960.6 million, an increase of 18.6% on the €810.1 million of the first half of 2006.
Since 1 January 2007, the absorption of the magazine distribution activities by the subsidiary Press-Di, has led to a change in the accounting procedure and distribution revenues are now booked at a premium rather than in terms of costs and revenues.
A reclassification of distribution activities for Magazines Italy, using the same method as for 2006, the increase in consolidated revenues would be 23.9% thanks to the contribution of Mondadori France (€194 million); net of Mondadori France, total revenues would have been essentially in line with the previous year (-1.1%).

**Consolidated gross operating profit** for the first six months of the year came to €119.6 million, an increase of 21.5% on the €98.4 million of the previous year, as a proportion of revenues, a rise to 12.4% from the 12.1% of the first half of 2006. A contribution, of around €1.5 million, was made this year by non-recurring elements, on the positive side (legislative changes in the accounting of severance payment funds) and on the negative side (personnel management issues).

**Consolidated operating profit** to 30 June 2007, came to €97.9 million, a 19.2% increase on the €82.1 million of the same period of 2006, despite increased amortisation and depreciation of material and immaterial assets for around €5.4 million; 10.2% as a proportion of revenues, compared with 10.1% for the same period of 2006.

**Profit before taxation** in the period came to €85.9 million, a 6.8% increase on the €80.4 million of the first half of 2006, despite financial costs deriving from a higher level of average indebtedness during the period of around €587 million.

**Consolidated net profit** to 30 June 2007 came to €46.2 million, an increase of 2.4% on the €45.1 million of the same period of the previous year, despite a higher tax rate, largely due to the inclusion in the period of non-taxable income.

**Gross cash flow** in the first half of 2007 amounted to €67.9 million, compared with €61.4 million in the same period of 2006.

The Group's **net financial position** went from -€554.7 million at the end of 2006 to -€673.9 million: the change during the period is mainly due to investments (€37.4 million), dividend payments (€84.7 million) and taxes (€64 million).

What follows are comments on the Group's consolidated results for the first half of the year to 30 June 2007.

## *Results for the period*

| **Income statement** | €m<br>**30 June 2007** | €m<br>**30 June 2006** | Change<br>**%** |
|---|---|---|---|
| Income from sales of goods and services | 960.6 | 810.1 | 18.6% |
| Personnel costs | 179.0 | 132.6 | 35.0% |
| Cost of sales and management | 662.9 | 581.8 | 13.9% |
| Income (charges) from investments (calculated on a net equity basis) | 0.9 | 2.7 | (66.7%) |
| **Gross operating profit** | **119.6** | **98.4** | **21.5%** |
| *- as a proportion of revenues* | *12.4%* | *12.1%* | |
| Depreciation of property, plant and machinery | 18.1 | 15.6 | 16.0% |
| Depreciation of intangible assets | 3.6 | 0.7 | n.s. |
| **Operating profit** | **97.9** | **82.1** | **19.2%** |
| *- as a proportion of revenues* | *10.2%* | *10.1%* | |
| Net financial income (charges) | (12.0) | (1.7) | n.s. |
| Other income (charges) | - | - | |
| **Profit for the period before taxation** | **85.9** | **80.4** | **6.8%** |
| Tax charges | 39.3 | 34.9 | 12.6% |
| Minority interest | 0.4 | 0.4 | - |
| **Net profit** | **46.2** | **45.1** | **2.4%** |

(*)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 €960.6 million, an increase of 18.6% (-1.1% on a like-for-like basis) compared with the first half of 2006. The following table illustrates the business volumes for each business area.

| **Business volumes by business area** | **€m 30 June 2007** | **€m 30 June 2006** | **Change %** |
|---|---|---|---|
| Books | 192.8 | 192.2 | 0.3% |
| Magazines | 549.0 | 395.2 | 38.9% |
| Advertising services | 176.4 | 174.6 | 1.0% |
| Printing | 222.4 | 235.0 | (5.4%) |
| Direct | 13.2 | 12.6 | 4.8% |
| Retail | 77.8 | 64.4 | 20.8% |
| Radio | 5.3 | 4.1 | 29.3% |
| Corporate and other business | 8.4 | 7.5 | 12.0% |
| **Total sales** | **1,245.3** | **1,085.6** | **14.7%** |
| Intergroup sales | (284.7) | (275.5) | 3.3% |
| **Total consolidated revenues** | **960.6** | **810.1** | **18.6%** |

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

| **Revenues by geographical area** | **€m 30 June 2007** | **€m 30 June 2006** | **Change %** |
|---|---|---|---|
| Italy | 716.3 | 757.5 | (5.4%) |
| France | 200.5 | 6.9 | n.s. |
| EU countries | 34.1 | 35.3 | (3.4%) |
| USA | 3.4 | 3.6 | (5.6%) |
| Others | 6.3 | 6.8 | (7.4%) |
| **Total consolidated revenues** | **960.6** | **810.1** | **18.6%** |

## *Book division*

| | **€m 30 June 2007** | **€m 30 June 2006** |
|---|---|---|
| Book sales | 188.9 | 189.0 |
| Other revenues | 3.9 | 3.2 |
| | **192.8** | **192.2** |
| Operating costs | (165.4) | (160.6) |
| **Gross operating profit** | **27.4** | **31.6** |
| Amortisations & depreciations | (1.3) | (1.3) |
| **Operating profit** | **26.1** | **30.3** |

Since January 2007 measurement of performance in the trade books area (fiction and non-fiction) has been carried out, following a joint initiative by Mondadori, RCS and G.e.m.s., by Nielsen Bookscan. Due to the different methods used, starting with the panel, compared with Demoskopea, the figures for 2007 cannot be compared with those of the previous year.
The table below indicates market share in terms of value as indicated by Nielsen Bookscan for the first half of 2007 and, for now, regarding only the bookstore channel, from which it emerges that Mondadori is still, by a wide margin, Italy's leading book publishing group, and is more than double the size of its main competitor.

| **Publisher** | **Market share 1st Half 2007** |
|---|---|
| Mondadori | 13.3% |
| Einaudi | 5.2% |
| Mondadori Electa | 1.3% |
| Sperling & Kupfer + Frassinelli | 2.5% |
| Piemme | 4.5% |
| Other Mondadori Group companies | 0.5% |
| **Total Mondadori Group** | **27.3%** |
| Rizzoli Group | 13.5% |
| Longanesi Group | 8.4% |
| Feltrinelli | 3.9% |

***Source: Nielsen Bookscan, figures represent value***

The Group's net revenues in this sector for the first half of 2007 amounted to €192.8 million, an increase of 0.3% on the first six months of 2006.

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

| **Books** | **€m 30 June 2007** | **€m 30 June 2006** | **Change %** |
|---|---|---|---|
| Edizioni Mondadori | 68.0 | 79.2 | (14.1%) |
| Einaudi | 26.4 | 24.3 | 8.6% |
| Art publishing and exhibition | 24.1 | 20.9 | 15.3% |
| Sperling & Kupfer Group | 14.9 | 16.0 | (6.9%) |
| School textbook sector | 14.4 | 16.7 | (13.8%) |
| Piemme | 27.3 | 21.5 | 27.0% |
| Distribution & logistics | 13.8 | 10.4 | 32.7% |
| **Total consolidated sales** | **188.9** | **189.0** | **(0.1%)** |

## *Edizioni Mondadori*

In the first half of 2007 Edizioni Mondadori generated revenues of €68 million, a fall on the figures for the same period of the previous year (-14.1%). The main reason for this was the end of the Dan Brown effect, which for this period means the lack of a title such as *Crypto*, which was published in the first half of 2006 and, for the moment, was the last of the series to be published.

Among the successful new titles to be published in the period were the new Andrea Camilleri, *Il colore del sole*, which sold 220,000 copies, while a number of titles related to the world of entertainment and sport performed particularly well: from *A un passo dal sogno* by the duo Sfondrini-Zanforlin (more than 200,000 copies) to the book by Alessandro Del Piero, *Dieci+* (130,000 copies).

Other successful 2007 new titles included *I love shopping per il baby* by Sophie Kinsella (150,000 copies) and *La tredicesima Storia* by Diane Setterfield (60,000 copies), while a book by first-time author Mario Calabresi, *Spingendo la notte più in là*, has sold 60,000 copies.

A number of titles first published in 2006 have also made a contribution to the results of the first half of this year. *Gomorra* by Roberto Saviano and *Inchiesta su Gesù* by Corrado Augias and Mauro Pesce have been consistently successful in bookstores, while *Come Dio Comanda* by Niccolò Ammaniti saw markedly increased sales, even before the award of the Premio Strega 2007, in early July.

In the Oscar paperback segment, the repetition of the big promotional campaig in early spring led to an increase of around 6% on the previous year, while the paperback edition of *L'Ombra del vento* by Carlos Ruiz Zafon achieved sales of 380,000 copies.

The Mondadori Ragazzi (children's books) segment enjoyed the success of two important new titles: *Un ponte per Terabithia* by Katherine Paterson, linked to the film of the same name, and *Le due guerriere*, the new book of the second fantasy trilogy by Licia Troisi, now widely recognised as one of the leading exponents in the genre in Italy and abroad.

## *Giulio Einaudi Editore*

In the first half of 2007 Einaudi saw its weight in the retail channel (bookstores and large-scale retailers) increase by 7.4% compared with the same period of the previous year.

This increase was the result of the excellent performance of new titles and the success of the promotional campaigns that were based, for the first time, on cut price offers. In the instalment segment, an increase in revenues from Einaudi publications was achieved alongside a fall in the imprints promoted, leading to an overall situation essentially in line with the same period of 2006.

Particularly successful title included thrillers by Fred Vargas (*Nei boschi eterni*, 80,000 copies sold in the period), and Giancarlo De Cataldo (*Nelle mani giuste*, 60,000 copies), as well as *Mi fido di te* by the duo Abate-Carlotto (60,000 copies). *Manituana*, the new choral novel by the Wu Ming collective, repeated the success of the previous titles, while a masterpiece by Philip Roth, *Everyman*, sold 65,000 copies.

There were also very good results for DVDs sold along with books, thanks mainly to *Parole e canzoni*+DVD by Ligabue and *Piazza Fontana*+DVD by Lucarelli. Finally, also of note was the ongoing success of Nobel prize-winner Orhan Pamuk, who thanks to the new titles of 2007 *Il libro nero* and *Neve*, and the 2006 success of *Il mio nome è rosso*, achieved overall sales of 130,000 copies.

### *Art publishing and exhibitions*

Mondadori Electa closed the first half of 2007 with an increase in revenues of 15.3% compared with the same period of 2006.

The Arts Heritage sector was fundamental to the essential stability in the period compared with 2006 where there was a substantial increase in revenues (+30.3%), mainly due to exhibition organisation activities. A good performance was also recorded by museum bookshops, with an almost 13% increase in revenues, largely the result of the good start in June of the Venice Biennale.

The slowdown in add-on sales continued to affect the book sector, where there was a fall of 32% in the first six months compared with the previous year.

It should be noted that the new Mondadori Electa bookstore (which is run in cooperation with the German book publisher Walther Koenig) on the third floor of the Multicenter Mondadori in Piazza Duomo in Milan has been open since the second half of April.

### *Sperling & Kupfer*

Sperling & Kupfer ended the first half of 2007 with net revenues of €14.9 million, a fall of 13,8% compared with the same period of the previous year.

This reduction is mainly the result of a fall in sales through the large-scale retail channel. The results were positive, meanwhile, in revenues from add-on sales which tripled compared with the corresponding period of last year.

Of the titles published in the first half of 2007 those of some of the company's leading authors stand out. For example, Danielle Steel, in January, with *Appuntamento al buio* (50,000 copies sold), Stephen King with *Le Notti di Salem* in February (50,000 copies) and Mary Higgins Clark, in March, with *Due bambine in blu* (30,000 copies). Following last year's success, April saw the publication of the new book by Antonio Caprarica, *Com'è dolce Parigi…o no!?* (50,000 copies). The following months saw the publication of *Meno male che ci sei,* by Maria Daniela Raineri, a first-time and very promising author, aimed at a mainly young female readership.
Demand also in 2007 continues to be positive for *Io e Marley*, published in the second half of 2006 and which has now sold more than 200,000 copies.

## *Edumond Le Monnier*

Edumond Le Monnier generated first half 2007 revenues of €14.4 million, a fall of 13.8% compared with the first half of the previous year.

Due to the very high seasonal nature of the school textbook business, this figure is not especially significant, given that revenues are always highly concentrated in the second half of the year.

The fall in revenues takes account of production delays that will be entirely recovered by the end of the summer.

The promotional activities were completed at the end of the first half and, in general, there was a continued growth in the primary school segment, with the confirmation of the excellent results in reading in the first cycle.

In the first level secondary school segment, there was a slight reduction in the catalogue while the level of new titles remained good. Of the significant new titles, in terms of texts adopted, of particular note was the new edition of *Scambi tra civiltà* by Calvani, a new grammar by Marcello Sensini, *L'italiano di tutti* e *La nuova geografia* by Mursia Scuola, *Geoviaggi*, highly appreciated for the layout and the illustrations used in the large tables and diagrams.

Market share remained very high in the second level secondary school segment with very high levels of adoptions of the Sensini grammar books, the two-year history course, the three-year physics course and Latin course, including the evergreen Tantucci which is now the market leader. In the science area particularly successful was the *Geometria* course by Cateni-Fortini and *Dentro la matematica*, both published under the Le Monnier imprint, and which constitute a satisfactory return on the investments made for the development of this market segment.

In the university segment, of particular note was the publication of the first two titles in the series created by agreements with the Fondazione per la Sussidiarietà and the Fondazione Meeting di Rimini to encourage understanding of the dynamics in social and cultural fields.

## *Piemme*

During the first half of 2007 Piemme saw a continuation of the growth trend that has characterised recent years, with an increase in net revenues compared to the same period of 2006 of €5.8 million, or +27%.

The marked growth in the trade book area was due to the performance, in the fiction segment, of *Mille Splendidi Soli*, the new book by Kalhed Hosseini which in a very short time sold more than 450,000 copies. In the meantime, the first book by the same author, *Il Cacciatore di aquiloni*, reached 900,000 copies.

Early June saw the successful launch of a new paperback line called “PIEMME Besteller” which marks a radical change in the management of this product segment.
There was also overall growth compared with 2006 for the Junior sector, with a positive performance for the new Stilton titles, where a new series of comic strips and the new character, Oscar Tortuga, were launched, as well as the establishment of the Tea Stilton series.

The Battello a Vapore imprint had a positive reaction to the new series called Criptoanimali, while Barbapapà continues to perform well and there was outstanding growth for the GOL! series, currently the only football series for children. Order for all of the classic series remained excellent.

### *Distribution and logistics*

Book distribution activities in the first half of 2007 saw a significant increase in revenues compared with the previous year.

There are a number of factors that explain this growth: first of all, the substantial volume of deliveries of Mondadori Paperbacks, thanks to the success of the promotional campaign aimed at specific customers, there was also an excellent result from Piemme and the confirmation of a positive performance by the publishers distributed that contributed to the growth in this area. Likewise, the effective pursuit of productivity improvements thanks to the optimisation of production resources while service standards remain at a qualitatively excellent level.

## *Magazine Division*

| | **€m 30 June 2007** | **€m 30 June 2006** |
|---|---|---|
| Magazine revenues | 534.1 | 390.1 |
| Other revenues | 14.9 | 5.1 |
| | **549.0** | **395.2** |
| Operating costs | (460.8) | (335.3) |
| **Gross operating profit** | **88.2** | **59.9** |
| Amortizations and depreciations | (2.9) | (0.7) |
| **Operating profit** | **85.3** | **59.2** |

## *Italy*

The revenues generated by the Magazine Division in Italy in the first half of the year amounted to in Italy €355.0 million. A straight comparison with the same period of last year is misleading, in that the spin off of the distribution activities to Press Di Distribuzione Stampa Multimedia Srl (a wholly-owned subsidiary of Arnoldo Mondadori Editore SpA) has meant that, from the first half of 2007, different criteria are used for the accounting of the distribution business.

Revenues from Mondadori titles were down by 2.5%.

This reduction can be attributed to the following phenomena:

- a fall in circulation revenues (-1.7%), where there was a fall in the number of copies sold, only partially compensated by increases in cover prices introduced in 2006 and 2007;
- a marked stability in revenues from add-on sales which saw, in a market that was 20% down, revenues in line with those of the first half of the previous year;
- a reduction in advertising revenues (-4.2%), penalised by a marked reduction in pages sold, only partly compensated by a recovery in rates.

Of the most significant features of the first half of the year we would underline the following:

- a marked acceleration in the editorial "tightening up" of a number of titles (*Tu*, *Grazia*, *Flair*, *Casaviva*, *Casafacile*, *Travel*, *Cucina no Problem*, *PC Professionale*) some already completed, others underway;
- the launch of two new titles in areas of high advertising potential, *First*, a monthly supplement to *Panorama* and *Grazia Casa* which completes the Mondadori offer in the interiors segment. Both have been well received, especially by the advertising market;
- the relaunch of *Panorama*;
- the closure of *Per Me* which was penalised by overcrowding in the segment of women's psychology titles and by a poor response on the advertising side;
- the development of internet activities involving a number of titles. In this area, online advertising revenues saw an overall increase of 70%;
- a general cost control effort in the operating areas, especially the technical, sales and editorial departments have resulted in an excellent recovery in management efficiencies.

The following section provides a brief overview of the situation, divided by the determining areas.

## *Circulation*

In a market which has seen a 10% fall in the newsstand channel (in terms of cover prices), the segments in which the Division operates nevertheless performed better than its competitors, with an overall 0.5 point recovery in market share.
In women's magazines, positive performances were recorded by *Donna Moderna* (+5%), which managed to maintain volume and benefiting from a cover price increase introduced in mid-2006.

The extraordinary growth of *Chi* (+13%) which, despite a cover price increase in July 2006, has confirmed the positive trend that began some time ago.

The up market area saw an increase in revenues of 2% thanks to the stability of *Grazia* and *Flair*, growth in the Design and Architecture segments and positive results in the cooking segment, which more than compensated for the slowdown in the interiors segment.

In the TV listings segment, where there was an overall decline of 8%, *TV Sorrisi e Canzoni* was able to contain the fall to 4%.

The fall in revenues was also significantly affected by the relaunch of *Panorama* based, among other things, on a significant price cut to €1.

On the positive side, meanwhile, there was growth in the male segment, with increased revenues for *Economy*, *Travel*, *PC Professionale*, compared with the same period of 2006.

## *Add-on sales*

During the period, the market saw a sharp fall in the performance of add-on sales (-20% in terms of value). There was a marked downturn for editorial products and miscellaneous goods (-30%) while, with difficulty, there was growth for DVDs (+30%) and music products.

In this area, the business developed by Mondadori remained the market's best performer with revenues in line with those of the same period of 2006 and a growing market share in the segment.

In particular, there was a positive response to the offers of *TV Sorrisi e Canzoni*, both musical and editorial, and those of *Panorama* in the cinema segment.

### *Digital Publishing*

In the first half of the years there was a radical review of the *Panorama* web site (along the lines of the web 2.0 model) and the new brand *Ten Magazine*, aimed at young men, went online.
The advertising company altered the structure of its dedicated structure, and generated a 70% increase in sales, an increase that was decidedly higher than the market average (+45%).
From September a new organisational structure will bring together the Italian and French activities under a single manager.

### *International activities*

There was an excellent performance by the "Grazia International Network".
*Grazia UK* confirmed its position as one of the best performing titles in the UK market, with an average sale of more than 220,000 copies and average increase on an annual basis of 26%.

March saw the launch of the Russian edition of *Grazia* through an agreement with Independent Media. And the initial market response has been excellent.
The existing 7 editions of *Grazia* were joined at the end of August by a weekly Dutch edition and the launch in India is expected before the end of the year.

The Attica Group saw excellent growth in all of the countries in which it operates (Greece, Romania, Bulgaria and Serbia). In Greece the positive results were driven by add-on sales initiatives involving DVDs with TV titles which have met with marked success.

## *France*

The Magazine Division's activities in France generated first half 2007 consolidated revenues of €194 million. In the face of positive results in terms of circulation, there was a fall of in advertising, the result of a difficult period for the French market.

Gross operating profit for the period was €27.3 million, thanks particularly to the excellent performance of *Closer* and ongoing management cost controls, which have made it possible to compensate the effects of the shortfall in circulation and advertising revenues.

No comparison can be made with the same period of the previous year in that the division was bought by the Mondadori Group during the third quarter of 2006.

### *Circulation*

In terms of circulation, the Group's titles saw an overall positive performance during the period. In particular, newsstand sales of *Closer* were particularly positive, putting the title at the top of its reference market. *Auto Plus*, meanwhile, performed extremely well following its re-launch at the beginning of the year.

Overall, sales through the subscription channel remained at the level of previous months in all areas of the business.

### *Advertising*

There was a slowdown in advertising sales during the period, largely as a result of the presidential elections – which had a big impact on the media planning activities of companies in France – and the possibility, since January 2007, for companies in the large-scale retail sector to advertise their products and service on television.

In specific terms, the Star titles performed well and there were excellent results for *Closer*, while the Homme, Loisirs and Femme titles saw a slowdown in line with a market that remains difficult (-6.8% in volume compared with the same period of the previous year – Source: SECODIP).

## *Advertising services*

| | **€m<br>30 June 2007** | **€m<br>30 June 2006** |
|---|---|---|
| Advertising revenues | 174.0 | 172.4 |
| Other revenues | 2.4 | 2.2 |
| | **176.4** | **174.6** |
| Operating costs | (174.7) | (173.1) |
| **Gross operating profit** | **1.7** | **1.5** |
| Amortizations and depreciations | (0.1) | (0.1) |
| **Operating profit** | **1.6** | **1.4** |

### *The market*

According to Nielsen Media Research data, in the first half of 2007 the overall value of advertising investments in Italy were essentially stable (+0.4%) compared with the same period of 2006.

Among the main media, television saw a fall of -2.6%, while print media grew by +2.6%, thanks mainly to newspapers (+3.2%), while magazines, as already noted, recorded a more modest increase of +1.8%.

In the first months of the year, magazines benefited from the good performance of monthlies, which compensated for a generalised slowdown in weeklies, positive to just a few tiles that were distinguished by increases in both pages and rates.

Among other media, the internet saw significant growth of +44.6%, confirming the growing interest of advertisers in developing the possibilities offered by online solutions, overtaking Cinema (-13.0%) and even Outdoor (-2.1%) also in terms of value, while Radio continued to grow at +6.1%.

| **Advertising market** | **€m 30 June 2007** | **€m 30 June 2006** | **Change %** |
|---|---|---|---|
| Television | 2,592.6 | 2,661.6 | (2.6%) |
| Total print media | 1,577.5 | 1,537.8 | 2.6% |
| - Magazines | 658.8 | 647.3 | 1.8% |
| - Newspapers | 918.7 | 890.6 | 3.2% |
| Radio | 253.7 | 239.1 | 6.1% |
| Outdoor | 103.8 | 106.0 | (2.1%) |
| Cinema | 30.1 | 34.6 | (13.0%) |
| Internet | 134.4 | 92.9 | 44.6% |
| **Total advertising market** | **4,692.1** | **4,672.0** | **0.4%** |

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

## *Mondadori Pubblicità*

**Mondadori Pubblicità** managed to recover the poor start to the year and ended the period with overall revenues for the first half of 2007 that were slightly up (+1.0%) on the previous year, thanks to a commercial policy aimed at favouring prices, even at the cost of pages.

The performance in Magazines, with a portfolio that was changed mainly by the exit of Walt Disney and the inclusion of *Famiglia Cristiana*, saw, in addition to the redesign of *Panorama* in March, the expansion of the offer with the launch of *First*, the new monthly supplement of *Panorama*, and *Grazia Casa*, a new up-market interiors monthly supplement.

Of particular note, among women's titles, was the excellent performance of *Chi* and the confirmation of the *Grazia* "system" (*Grazia* + *Grazia Casa*), while *Panorama*, with its "extensions" *Panorama First* and *Panorama Travel* managed to neutralise the not especially brilliant trend in the typically male segments.

Advertising investments on the internet grew by more than 70% (outperforming the market) sustaining the development strategy selected by Mondadori in the Digital area (new technologies and content), while Radio (+24%), which joined the list of Top stations, began to see the fruits of the investments made, valorising increasingly effectively the company's multimedia offer.

## *Printing division*

| | €m<br>30 June 2007 | €m<br>30 June 2006 |
|---|---|---|
| Printing revenues | 222.4 | 235.0 |
| Other revenues | - | - |
| | **222.4** | **235.0** |
| Operating costs | (204.1) | (216.3) |
| **Gross operating profit** | **18.3** | **18.7** |
| Amortizations and depreciations | (12.0) | (11.3) |
| **Operating profit** | **6.3** | **7.4** |

In the first half of 2007 the Printing Division generated total revenues of €222.4 million, a 5.4% reduction compared to the €235.0 million of the same period of the previous year.

This reduction was mainly due to a shortfall in production for third-party customers, which was a knock-on effect of the decline in add-on sales of editorial products with newspapers and magazines. Foreign sales, meanwhile, were stable, both for catalogues and commercial products, as well as illustrated books, mainly thanks to the recognition of the quality of the production of the company's printing plants.

Market conditions concerning the cost of paper were favourable for magazines, while there was increased pressure on paper for books, although there were no significant price increases.

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

| **Printing revenues net of paper costs** | **€m<br>30 June 2007** | **€m<br>30 June 2006** | **Change<br>%** |
|---|---|---|---|
| Magazines | 63.0 | 67.5 | (6.7%) |
| Books | 45.0 | 45.6 | (1.3%) |
| Catalogues & promotional materials | 15.4 | 14.8 | 4.0% |
| Directories | 1.2 | 1.2 | - |
| **Total printing revenues net of paper costs** | **124.6** | **129.1** | **(3.5%)** |

Efficiency and cost reduction activities continue to be pursued through programmes of continuous improvement and the involvement of all of the company's resources.

## *Direct marketing*

| | €m<br>30 June 2007 | €m<br>30 June 2006 |
|---|---|---|
| Revenues from sales | 13.2 | 12.6 |
| Other revenues | - | - |
| | **13.2** | **12.6** |
| Operating costs | (11.2) | (10.9) |
| **Gross operating profit** | **2.0** | **1.7** |
| Amortizations and depreciations | (0.1) | (0.2) |
| **Operating profit** | **1.9** | **1.5** |

In the first half of 2007 **Cemit** recorded an increase in revenues of 4.8%, mainly generated by activities related to database use and management.

After a revision of its structural reorganisation and its frame of reference, following changes in the competitive scenario, the company continued in its efforts to improve operating efficiency with positive effects in terms of revenues.

## *Retail*

| | €m<br>30 June 2007 | €m<br>30 June 2006 |
|---|---|---|
| Revenues from sales | 77.8 | 64.4 |
| Other revenues | - | - |
| | **77.8** | **64.4** |
| Operating costs | (77.5) | (64.3) |
| **Gross operating profit** | **0.3** | **0.1** |
| Amortizations and depreciations | (3.3) | (1.1) |
| **Operating profit** | **(3.0)** | **(1.0)** |

The overall revenues of the Retail Division grew by 20.8% compared with the first six months of the previous year, reaching €77.8 million

In the first half of 2007 **Mondadori Franchising** consolidated growth in the volume of business (by more than 20%), thanks to a marked expansion of the network of sales outlets, now the biggest in Italy with almost 300 stores; in detail, the network includes 191 bookstores (177 in the first half of last year) and 104 Edicolè outlets (53 in the same period of 2006).

**Mondadori Retail** continued its development and the restructuring of the network. The number of sales outlets has risen to 26, 15 of which are "Librerie Mondadori" and 11 "Mondadori Multicenter", which combine the traditional sale of books with other media (music and films) and related digital products. A significant event in this area was the opening of the new Multicenter in Piazza Duomo in Milan, which has met with an immediate and enthusiastic response.
There was a significant increase in revenues, despite the closure, at the beginning of the year, of the shop in Corso Vittorio Emanuele in Milan and the suspension of sales to big clients.

At the end of June the stores in Rome and Milan, (**Mondadori Shop**, ex Messaggerie Musicali, acquired at the end of 2006) modified the logo and underwent a restyling aimed at bringing them into line with the "Mondadori Multicenter" format. The marked increase in revenues (+12%) was largely determined by substantial expansion in the book area (+42%), which compensated the reduction in the music segment.
Also Internet activities linked to music downloads continued during the period.

## *Radio division*

| | **€m<br>30 June 2007** | **€m<br>30 June 2006** |
|---|---|---|
| Revenues from sales | 5.3 | 4.1 |
| Other revenues | - | - |
| | **5.3** | **4.1** |
| Operating costs | (11.2) | (9.8) |
| **Gross operating profit** | **(5.9)** | **(5.7)** |
| Amortizations and depreciations | (0.6) | (0.4) |
| **Operating profit** | **(6.5)** | **(6.1)** |

During the period, the activities of Radio R101 were mainly focused on improving the product, through changes to the schedule, and promotion, thanks to a large-scale advertising campaign and the creation of events. In particular, marketing activities were spread across different media (with a campaign involving television, print media and outdoor in Italy's main cities and towns) and gave special prominence to the morning show "La carica di 101", which now also features among the presenters the comedian Massimo Lopez, as well as the newly-appointed chairman of R101, Gerry Scotti.

At the same time, new frequencies, along with the relevant infrastructure, were acquired which has made it possible to achieve a more than 89% coverage of the national territory and make the station's presence even more accessible across the country.

Communication efforts and the acquisitions policy have resulted in a marked increase in the listening figures. According to the most recent Audiradio data, R101 now reaches a daily average of 2 million listeners and 8 million across the 7 days, with a loyalty index (the ration of average daily/seven day listeners) of 25%, compared with 13% just two years ago (with a market average of around 35%).

These results come together with brilliant figures for the station's web site, launched in July 2006: in the first half of 2007 www.r101.it had more than 17,000 registered users, around 200,000 unique visitors and 3 million page views.

The company's net revenues for the period amounted to €5.3 million (compared with around €4.1 million in the first half of 2006) and corresponding to gross sales of €8.3 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 2007 showed a deficit of €673.9 million, as illustrated in the following table:

| **Net financial position** | **€m**<br>**30 June 2007** | **€m**<br>**31 December 2006** | **€m**<br>**30 June 2006** |
|---|---|---|---|
| Cash and other equivalent liquid assets | 83.9 | 105.5 | 49.4 |
| Financial investments at fair value | 181.5 | 152.5 | 461.5 |
| Gains (losses) from derivatives | (46.5) | (35.5) | (38.9) |
| Other financial gains (losses) | (39.1) | (11.0) | (46.3) |
| Financing (short and medium/long term) | (500.9) | (401.3) | (184.6) |
| Bonds | (244.6) | (259.0) | (257.0) |
| Convertible bonds | (108.2) | (105.9) | (105.8) |
| **Net financial position** | **(673.9)** | **(554.7)** | **(121.7)** |

The figure for the first half of 2007 also takes account of dividend payments for €84.7 million (€147.3 million in 2006).

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

Solid and well distributed, this is the general estimation of world economic growth in 2007 which, on the basis of the first half of the year and expectations for the second, should be in the region of +3.5%.

Now almost taken for granted is the contribution of Asian economies where China (+11.0%) and India (+8.0%) are the drivers of development also in other emerging countries in the zone. This year Europe (+2.9%) should record growth slightly higher than the United States (+2.0%).

Growth in the European economy remains solid and manufacturing and services alternate at the head of this trend which is also well distributed across the different countries. There is a continuous improvement in indicators for employment and the use of resources point to further growth in internal consumer demand.

In the United States, meanwhile, concerns created by the crisis in the real estate sector and its possible spread to the banking sector have led to lower expectations and are keeping markets and operators in a state of uncertainty.

As a result of these differences expectations concerning the monetary policies of the central banks are markedly different. Unless there are further shocks from the American real estate sector, the Federal Reserve should keep interest rates at current levels, helping to sustain moderate growth and stable levels of inflation in the American economy. The European Central Bank, meanwhile, concerned about the levels of utilisation of productive resources, is keeping a close watch on conjunctural development and its consequences: since the beginning of the year interest rates have risen twice, reaching 4.00% from an initial 3.50%. Further increase are expected in September up to a probable level of 4.50% by the end of 2007.

As far as the forward exchange rates are concerned, the Euro strengthened with respect both to the U.S. Dollar (from 1.29 up to 1.35 during the half-year; last July 19 the highest fixing has been quoted at 1.3819 level) and the British Pound (from 0.65 up to 0.67, with tops over 0.68 during the six-months period).

In terms of market interest rates, Euribor 3 months (Act/360) went up from 3.725% at the end of December 2006 to 4.175% at the end of June 2007. In the same period the average cost of money for the Mondadori Group was 3.834%.

The overall credit lines available to the Group at 30 June 2007 came to more than €1.5 billion.

The Group's short-term borrowing facilities, for a total of more than €500 million, were used for about €213 million as of 30 June 2007. 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 around €1 billion are made up of:

- €296.4 million from a private placement in dollars in the U.S.A., over three tranches expiring in 2013/2015/2018 reserved exclusively for institutional investors. There is a Cross Currency Swap on this loan to face interest and exchange rate risks;
- €109.9 million in convertible bonds, guaranteed by Mondadori shares (expiring in 2008) also reserved for institutional investors;
- €47.8 million in facilitated credit for publishers, mainly obtained as per Law n° 62/01;
- €500 million for a five-year bank loan (expiring in July 2011) organised by a pool of leading international banks for the acquisition of the French publishing group Emap France in the summer of 2006. This multi-borrower (Mondadori International and Arnoldo Mondadori Editore) loan is made up of a term loan of €300 million and a revolving credit facility of €200 million; as of 30 June 2007 the latter had not been used. A swap from a variable to a fixed interest rate has been applied to 50% of the term loan.

Report on the first half of 2007 Amounts expressed in €m

### *Mondadori International*

The financial surplus of Mondadori International, the holding company that manages the Group's foreign interests, as well as the manager of the Group's financial assets, as of 30 June 2007, amounted to €193.2 million (€168.9 million at the end of 2006).

The composition of the portfolio at that date was as follows:

- cash products, bonds and other low-risk funds for €159.7 million;
- hedge fund investments for around €33.5 million (broadly diversified by management and strategy).

The entire portfolio can be converted to cash in a very short time, and in any case not more than three months for the part invested in hedge funds.

## *Personnel*

As of 30 June 2007 Group companies employed 5,610 people (5,668 at 31 December 2006), while the average number of personnel during the period amounted to 5,591 (4,407 in the same period of 2006).

The reduction in the number of staff compared with December 2006 s mainly the result of restructuring in the printing area and the French subsidiaries.

The figure to 30 June 2007, due to the effects of the acquisition of Messaggerie Musicali SpA and Mondadori France, cannot be compared with the first half of 2006; on a like-for-like basis, there would be a reduction in the total number of personnel of around 49.

The following table shows details of Group personnel as of 30 June2007:

| Personnel | 30 June 2007 | 31 December 2006 | 30 June 2006 |
|---|---|---|---|
| Arnoldo Mondadori Editore SpA: | | | |
| - Managers, journalists and office staff | 1,377 | 1,477 | 1,480 |
| - Manual workers | 108 | 101 | 101 |
| | **1,485** | **1,578** | **1,581** |
| Italian subsidiaries: | | | |
| - Managers, journalists and office staff | 1,832 | 1,706 | 1,557 |
| - Manual workers | 1,041 | 1,098 | 1,122 |
| | **2,873** | **2,804** | **2,679** |
| Foreign subsidiaries: | | | |
| - Managers, journalists and office staff | 1,149 | 1,181 | 41 |
| - Manual workers | 103 | 105 | 103 |
| | **1,252** | **1,286** | **144** |
| **Total** | **5,610** | **5,668** | **4,404** |

Personnel costs increased by 35%, as a result of the acquisitions of Mondadori France and Messaggerie Musicali SpA, in the second half of 2006.

On a like-for-like basis there was a reduction of 1%, in part due to the positive impact of the change in the procedure for accounting severance payment provisions, as per recent legislative changes.

## *Capital investments*

During the first half of 2007 the Group made capital investments of €16.0 million, of which €8.9 million is already operational.

The area most heavily affected, as usual, was the printing plants of Mondadori Printing SpA and Artes Graficas Toledo SA for €7 million, for printing machinery and industrial buildings.

Disinvestments during the period amounted to a residual total of €2.3 million, mainly concerning the sale of an office building.

## *Results of the parent company Arnoldo Mondadori Editore S.p.A.*

On 30 June 2007, the balance sheet of the parent company Arnoldo Mondadori Editore SpA, showed a net profit of €53.4 million, in line with the figure for the same period of the previous year (€54).

A positive contribution was made to this result by higher dividend receipts, while gross operating profit, which was down by 11.8%, was the result mainly of the sale of the magazine distribution business to the subsidiary Press-Di S.r.l., and the fall in the sales of magazines and books, which in 2006 benefited from the Dan Brown “phenomenon”.

Report on the first half of 2007 Amounts expressed in €m

## *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 2007 with the consolidated results of the Group.

| | **Net assets**<br><br>**€,000** | **Net profit for the period**<br>**€,000** |
|---|---|---|
| **Parent company** | **413,586** | **53,359** |
| Dividends from subsidiaries and associated companies | | (34,260) |
| Elimination of intragroup profits | (7,634) | (834) |
| Assets and profits contribution, net of the above items, of associated companies | (33,194) | 4,366 |
| Assets and profits contribution, net of the above items, of subsidiary companies | 85,451 | 23,579 |
| **Consolidated balance** | **458,209** | **46,210** |

## *Significant events after the close of the six-month period*

It should be noted that there were no significant events after the close of the period herein reported.

## *Other information*

Note should be made of the following:

### *Related part 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 intercompany 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.

***Share buy-backs***

The Annual General Meeting of 23 April 2007, following the expiry of the previous authorisation of 26 April 2006, passed a resolution, 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 2007.

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 17,382,691 own shares, the new authorisation gave the Board of Directors the authority to purchase on the market a maximum of a further 8,560,292 ordinary shares.

Acquisitions are made on regulated markets, as per art. 132 of legislative decree n° 58 of 24 February 1998 and art. 144 bis para. 1 section B of Consob regulation n° 11971/1999, according to the procedures established by the organisation of the markets which prohibit the direct combination of offers for sale and proposals to buy.
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:

- 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,
- 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;
- take advantage, where and when considered strategic for the company, of investment opportunities, also in relation to available liquidity

During the first half of 2007 Arnoldo Mondadori Editore made no acquisitions on the market of company shares.
In the same period Arnoldo Mondadori Editore sold, within the context and under the conditions established by stock option plan 2003/2005 approved by the Shareholders, 450,000 shares at a unit price of €6.471 and 675,000 shares at a unit price of €7.749.

As of 30 June 2007, the number of company shares in the portfolio (with a book value of €120.4 million) amounted to 17,367,691 (or 6.6946% of the share capital) of which 12,850,205 are directly held in the portfolio of Arnoldo Mondadori Editore S.p.A. and 4,517,486 are held by the subsidiary Mondadori International S.A.

## *Allocation of options for the stock option plan 2007*

On 25 June 2007, the Board of Directors of Arnoldo Mondadori Editore S.p.A. approved the allocation of option rights for the 2007 Stock Option Plan, for options pertaining to the three-year period 2006-2008, as resolved by the AGM of 26 April 2006. The plan, which has already been communicated to the market, involves the allocation to participants of, personal and non-transferable, option rights, for the acquisition, on a one-share-per-option basis, of Mondadori ordinary shares from treasury stock.

The Board of Directors has approved the allocation of a total of 2,940,000 options rights to a total of 74 participants, from the categories identified by the AGM resolution of 26 April 2006 (executives of the company and its subsidiaries whose responsibilities have a significant impact on the attainment of the company's strategic objectives, directors of the company or one of its subsidiaries; journalists employed by the company or one of its subsidiaries with the position of editor-in-chief or co-editor; executives of the parent company with the position of director who carry out their functions in the interest of the company).

The allocated shares amount to a total of 1.13% of the company's share capital.

The Board of Directors has established attainment of the performance indicators relating to ROE and free-cash flow, as the condition for the exercise of such options allocated for 2007

Subordinate to these requirements, the exercise of options on allocated shares for 2007 may be made only after a period of 36 months from the date of the allocation. The exercise price is equal to the arithmetic average reference price for Mondadori shares, between the period from the date of allocation (i.e. today) to the same date of the previous month.

## *Statutory modifications in response to law n° 262/205 (savings protection legislation)*

The Board of Directors also approved a statutory modification to comply with legislative decree 58/1998 (TUF), of law n° 262 of 28 December 2005 and legislative decree n° 303/2006.

Such statutory modifications concern:

- the nomination process and professional requisites of executives responsible for the preparation of the company's accounts, as per art. 154 -bis of the TUF;
- in line with the above mentioned norms and the regulations for issuers outlined by CONSOB (the Italian stock exchange commission), rules regarding the nomination of the Board of Directors and the Board of Statutory Auditors by means of a voting list system.

As regards the minimum stake required for the presentation of lists, the statute refers to the percentage which, as per regulations for issuers, will be determined annually by the CONSOB on the basis of the average market capitalisation of the companies in the last quarter of each year.

In practice, as per current conditions, the minimum stake required for the presentation of lists for the nomination of Mondadori's Board of Directors is 2% of the share capital.

## *Expectations for the full year*

In a market context that is expected to be unfavourable, the Mondadori Group foresees growth in its full year results, both in terms of revenues and operating profit, thanks to the careful management of its consolidated activities, those under development and its recent acquisitions.

For the Board of Directors
The Chairman
Marina Berlusconi

## *Consolidated balance sheet and income statement to 30 June 2007*

Report on the first half of 2007 Amounts expressed in €,000

*Consolidated balance sheet*

| Assets | Note | Period to 30 June 2007 | Year ended 31 December 2006 |
|---|---|---|---|
| **Intangible assets** | 2 | **934,923** | **918,075** |
| **Real estate investments** | 3 | **4,632** | **4,744** |
| Land and buildings | | 83,696 | 86,878 |
| Plant and machinery | | 88,323 | 98,010 |
| Other fixed assets | | 45,595 | 36,979 |
| **Property, plant and machinery** | 4 | **217,614** | **221,867** |
| Investments valued at net equity | | 123,559 | 120,230 |
| Other investments | | 2,174 | 2,174 |
| **Total investments** | 5 | **125,733** | **122,404** |
| **Non-current financial assets** | 12 | **4,943** | **1,533** |
| **Advance tax assets** | 6 | **48,192** | **46,100** |
| **Other non-current assets** | 7 | **3,207** | **3,525** |
| **Total non-current assets** | | **1,339,244** | **1,318,248** |
| **Tax credits** | 8 | **29,184** | **29,854** |
| **Other current assets** | 9 | **78,121** | **72,204** |
| **Inventories** | 10 | **149,748** | **141,126** |
| **Trade receivables** | 11 | **489,820** | **479,018** |
| **Other current financial assets** | 12 | **208,938** | **206,713** |
| **Cash and other equivalent liquid assets** | 13 | **83,889** | **105,507** |
| **Total current assets** | | **1,039,700** | **1,034,422** |
| **Assets destined for sale or disposal** | | **-** | **-** |
| **Total assets** | | **2,378,944** | **2,352,670** |

Report on the first half of 2007 Amounts expressed in €,000

## *Consolidated balance sheet*

| **Liabilities** | Note | **Period to 30 June 2007** | **Year to 31 December 2006** |
|---|---|---|---|
| **Share capital** | | **67,452** | **67,452** |
| **Share premium reserve** | | **286,760** | **285,467** |
| **Treasury shares** | | **(120,403)** | **(127,998)** |
| **Other reserves and results carried forward** | | **178,190** | **148,532** |
| **Profit (loss) for the period** | | **46,210** | **108,960** |
| **Total Group shareholders' equity** | 14 | **458,209** | **482,413** |
| | | | |
| **Minority capital and reserves** | 15 | **1,562** | **4,020** |
| **Total shareholders' equity** | | **459,771** | **486,433** |
| | | | |
| **Reserves** | 16 | **28,599** | **35,187** |
| **Severance payments** | 17 | **98,610** | **104,182** |
| **Non-current financial liabilities** | 18 | **747,223** | **744,706** |
| **Deferred tax liabilities** | 6 | **105,635** | **102,240** |
| **Other non-current liabilities** | | **-** | **-** |
| **Total non-current liabilities** | | **980,067** | **986,315** |
| | | | |
| **Income taxes payable** | 19 | **23,143** | **49,682** |
| **Other current liabilities** | 20 | **257,080** | **272,168** |
| **Trade liabilities** | 21 | **434,384** | **434,316** |
| **Bank debts and other financial liabilities** | 18 | **224,499** | **123,756** |
| **Total current liabilities** | | **939,106** | **879,922** |
| | | | |
| **Liabilities deriving from sales or closures** | | **-** | **-** |
| | | | |
| **Total liabilities** | | **2,378,944** | **2,352,670** |

For the Board of Directors
The Chairman
Marina Berlusconi

Report on the first half of 2007 Amounts expressed in €,000

*Consolidated income statement*

| | Note | Period to 30 June 2007 | Period to 30 June 2006 |
|---|---|---|---|
| **Income from sales of goods and services** | 22 | **960,599** | **810,103** |
| Decrease (increase) in inventories | 10 | (8,624) | 7,247 |
| Cost of raw materials and consumables and goods for resale | 23 | 238,733 | 241,282 |
| Cost of services | 24 | 429,968 | 333,893 |
| Personnel costs | 25 | 179,027 | 132,559 |
| Other income (expense) | 26 | 2,775 | (546) |
| Income (charges) from investments (calculated on a net equity basis) | 27 | 865 | 2,743 |
| **Gross operating profit** | | **119,585** | **98,411** |
| Depreciation of property, plant and equipment | 3-4 | 18,090 | 15,581 |
| Amortisation and impairment of intangible assets | 2 | 3,537 | 728 |
| **Operating profit** | | **97,958** | **82,102** |
| Financial income (expense) | 28 | (12,032) | (1,704) |
| Income (expense) from investments | | - | 32 |
| **Profit before income taxes** | | **85,926** | **80,430** |
| Income taxes | 29 | 39,291 | 34,896 |
| **Profit from continuing activities** | | **46,635** | **45,534** |
| Income (expense) from assets/liabilities held for sale | | - | - |
| Result attributable to minorities | 15 | (425) | (413) |
| **Net profit** | | **46,210** | **45,121** |
| Net profit per share (in €) | 30 | 0.19 | 0.19 |
| Diluted net profit per share (in €) | 30 | 0.19 | 0.19 |

For the Board of Directors
The Chairman
Marina Berlusconi

Amounts expressed in €,000

## *Changes in consolidated shareholders' equity to 31 December 2006*

| €,000 | Note | Share capital | Share premium | Treasury share reserve | Stock option reserve | Fair value reserve | Translation reserve | Other reserves | Profit (loss) for the year | Total Group | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 31 December 2005** | | **67,452** | **283,747** | **(137,662)** | **4,715** | **-** | **1,373** | **172,075** | **114,724** | **506,424** | **4,026** | **510,450** |
| - Transfer of profits | | | | | | | | 13,467 | (13,467) | | | - |
| - Dividends paid | | | | | | | | (43,380) | (101,257) | (144,637) | | (144,637) |
| - Changes in scope of consolidation | | | | | | | | | | | | - |
| - Translation of financial statements in foreign currencies | 14 | | | | | | (1,002) | | | (1,002) | | (1,002) |
| - Treasury share operations | 14 | | | 9,664 | | | | (25) | | 9,639 | | 9,639 |
| - Stock options | 25 | | 1,720 | | 658 | | | | | 2,378 | | 2,378 |
| - Other changes | 14 | | | | | 950 | | (299) | | 651 | (1,159) | (508) |
| - Profit (loss) for the year | | | | | | | | | 108,960 | 108,960 | 1,153 | 110,113 |
| **At 31 December 2006** | | **67,452** | **285,467** | **(127,998)** | **5,373** | **950** | **371** | **141,838** | **108,960** | **482,413** | **4,020** | **486,433** |

## *Changes in consolidated shareholders' equity to 30 June 2007*

| €,000 | Note | Share capital | Share premium | Treasury share reserve | Stock option reserve | Fair value reserve | Translation reserve | Other reserves | Profit (loss) for the year | Total Group | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2007** | | **67,452** | **285,467** | **(127,998)** | **5,373** | **950** | **371** | **141,838** | **108,960** | **482,413** | **4,020** | **486,433** |
| - Transfer of profits | | | | | | | | 24,238 | (24,238) | - | | - |
| - Dividends paid | | | | | | | | | (84,722) | (84,722) | | (84,722) |
| - Changes in scope of consolidation | | | | | | | | | | | | - |
| - Translation of financial statements in foreign currencies | 14 | | | | | | (109) | | | (109) | | (109) |
| - Treasury share operations | 14 | | | 7,595 | | | | 549 | | 8,144 | | 8,144 |
| - Stock options | 25 | | 1,293 | | (64) | | | | | 1,229 | | 1,229 |
| - Other changes | 14 | | | | | 3,445 | | 1,599 | | 5,044 | (2,883) | 2,161 |
| - Profit (loss) for the year | | | | | | | | | 46,210 | 46,210 | 425 | 46,635 |
| **At 30 June 2007** | | **67,452** | **286,760** | **(120,403)** | **5,309** | **4,395** | **262** | **168,224** | **46,210** | **458,209** | **1,562** | **459,771** |

For the Board of Directors
The Chairman
Marina Berlusconi

Report on the first half of 2007 Amounts expressed in €,000

# *Cash flow statement*

| Cash flow statement | | €,000<br>30 June 2007 | €,000<br>30 June 2006 |
|---|---|---|---|
| Net profit for the period | | 46,210 | 45,121 |
| | | | |
| *Adjustments* | | | |
| Depreciation, amortisation and writedowns | 2-3 | 21,627 | 16,309 |
| Stock options | 25 | 1,230 | 772 |
| Charges to provisions and leaving entitlements | | (7,341) | 6,669 |
| Capital losses (gains) on disposal of intangible assets, property, plant and equipment | | (1,449) | (532) |
| Capital losses (gains) on disposal of financial assets | | - | (1,087) |
| Capital losses (gains) on evaluations of financial assets | 28 | (5,377) | (5,433) |
| (Income) charges from investments booked at net equity | 27 | (865) | (2,128) |
| **Adjusted net profit from operating activities** | | **54,035** | **59,691** |
| (Increase) decrease in trade receivables | | (8,365) | (1,822) |
| (Increase) decrease in inventories | | (6,364) | 6,968 |
| Increase (decrease) in trade payables | | (7,230) | (49,144) |
| Net changes in income tax receivables/payables | | (22,457) | 7,596 |
| Payment of advances and leaving entitlements | | (4,488) | (6,321) |
| Changes in forward/deferred taxes | | 1,303 | 1,160 |
| Net changes in other current assets/liabilities | | (20,212) | (20,602) |
| **Cash flows from (used in) operating activities** | | **(13,778)** | **(2,474)** |
| | | | |
| (Investments in) disposals of intangible assets | 1 | (128) | - |
| (Investments in) disposals of property, plant and equipment | | (18,475) | (3,868) |
| (Investments in) disposals of equity investments | | (13,679) | (24,033) |
| Purchase (sale) of treasury stock | | (3,177) | 5,284 |
| (Investments in) disposals of securities and other non-current financial assets | | 3,187 | 10,759 |
| **Cash flows from (used in) investing activities** | | **(32,272)** | **(11,858)** |
| | | | |
| Net changes in other non-current financial assets/liabilities | | 101,559 | 126,033 |
| (Acquisition) sale of treasury stock | 14 | 7,595 | 12,020 |
| Dividends paid | 14 | (84,722) | (147,347) |
| **Cash flows from (used in) financing activities** | | **24,432** | **(9,294)** |
| | | | |
| **Increase (decrease) in cash and cash equivalents** | | **(21,618)** | **(23,626)** |
| | | | |
| **Cash and cash equivalents at beginning of period** | 13 | **105,507** | **73,056** |
| | | | |
| **Cash and cash equivalents at end of period** | 13 | **83,889** | **49,430** |

| Composition of cash and cash equivalents | | |
|---|---|---|
| Cash, cheques and valuables in hand | 2,276 | 614 |
| Bank and post office deposits | 81,613 | 48,816 |
| | **83,889** | **49,430** |

For the Board of Directors
The Chairman
Marina Berlusconi

Report on the first half of 2007 Amounts expressed in €,000

## *Consolidated balance sheet as per Consob regulation n° 15519 of 27 July 2006*

| **Assets** | Note | **Period to 30 June 2007** | Of which correlated parties (Note 32) | **Year to 31 December 2006** | Of which correlated parties (Note 32) |
|---|---|---|---|---|---|
| **Intangible assets** | 2 | **934,923** | **-** | **918,075** | **-** |
| **Fixed assets** | 3 | **4,632** | **-** | **4,744** | **-** |
| Land and buildings | | 83,696 | - | 86,878 | - |
| Plant and machinery | | 88,323 | - | 98,010 | - |
| Other assets | | 45,595 | - | 36,979 | - |
| **Property, plant and machinery** | 4 | **217,614** | **0** | **221,867** | **0** |
| Investments booked using net equity method | | 123,559 | - | 120,230 | - |
| Other investments | | 2,174 | - | 2,174 | - |
| **Total investments** | 5 | **125,733** | **0** | **122,404** | **0** |
| **Non-current financial assets** | 12 | **4,943** | **-** | **1,533** | **-** |
| **Advanced taxes** | 6 | **48,192** | **-** | **46,100** | **-** |
| **Other non-current assets** | 7 | **3,207** | **-** | **3,525** | **-** |
| **Total non-current assets** | | **1,339,244** | **0** | **1,318,248** | **0** |
| **Tax credits** | 8 | **29,184** | **-** | **29,854** | **-** |
| **Other current assets** | 9 | **78,121** | **-** | **72,204** | **-** |
| **Inventories** | 10 | **149,748** | **-** | **141,126** | **-** |
| **Trade receivables** | 11 | **489,820** | **46,976** | **479,018** | **47,013** |
| **Stocks and other current financial assets** | 12 | **208,938** | **11,697** | **206,713** | **18,443** |
| **Cash and equivalents** | 13 | **83,889** | **-** | **105,507** | **-** |
| **Total current assets** | | **1,039,700** | **58,673** | **1,034,422** | **65,456** |
| **Assets destined to be sold or closed** | | **-** | **-** | **-** | **-** |
| **Total assets** | | **2,378,944** | **58,673** | **2,352,670** | **65,456** |

Amounts expressed in €,000

## *Consolidated balance sheet as per Consob regulation n° 15519 of 27 July 2006*

| **Liabilities** | Note | **Period to 30 June 2007** | Of which correlated parties (Note 32) | **Year to 31 December 2006** | Of which correlated parties (Note 32) |
|---|---|---|---|---|---|
| **Share capital** | | **67,452** | **-** | **67,452** | **-** |
| **Share premium reserve** | | **286,760** | **-** | **285,467** | **-** |
| **Treasury stock** | | **(120,403)** | **-** | **(127,998)** | **-** |
| **Other reserves and results carried forward** | | **178,190** | **-** | **148,532** | **-** |
| **Profit (loss) for the period** | | **46,210** | **-** | **108,960** | **-** |
| **Total Group shareholders' equity** | 14 | **458,209** | **0** | **482,413** | **0** |
| **Minority capital and reserves** | 15 | **1,562** | **-** | **4,020** | **-** |
| **Total shareholders' equity** | | **459,771** | **0** | **486,433** | **0** |
| **Reserves** | 16 | **28,599** | **-** | **35,187** | **-** |
| **Severance payments** | 17 | **98,610** | **-** | **104,182** | **-** |
| **Non-current financial liabilities** | 18 | **747,223** | **-** | **744,706** | **-** |
| **Deferred tax liabilities** | 6 | **105,635** | **-** | **102,240** | **-** |
| **Other non-current liabilities** | | **-** | **-** | **-** | **-** |
| **Total non-current liabilities** | | **980,067** | **0** | **986,315** | **0** |
| **Income taxes payable** | 19 | **23,143** | **19,909** | **49,682** | **47,869** |
| **Other current liabilities** | 20 | **257,080** | **-** | **272,168** | **-** |
| **Trade liabilities** | 21 | **434,384** | **43,161** | **434,316** | **38,026** |
| **Bank debts and other financial liabilities** | 18 | **224,499** | **21,781** | **123,756** | **27,096** |
| **Total current liabilities** | | **939,106** | **84,851** | **879,922** | **112,991** |
| **Liabilities deriving from sales or closures** | | **-** | **-** | **-** | **-** |
| **Total liabilities** | | **2,378,944** | **84,851** | **2,352,670** | **112,991** |

Report on the first half of 2007 Amounts expressed in €,000

## *Consolidated income statement as per Consob regulation n° 15519 of 27 July 2006*

| | Note | **Period to 30 June 2007** | Of which correlated parties (Note 32) | Of which non-recurring charges (income) (Note 31) | **Period to 30 June 2006** | Of which correlated parties (Note 32) | Of which non-recurring charges (income) (Note 31) |
|---|---|---|---|---|---|---|---|
| **Income from sales of goods and services** | 22 | **960,599** | **47,523** | **-** | **810,103** | **64,255** | **-** |
| Decrease (increase) in inventories | 10 | (8,624) | - | - | 7,247 | - | - |
| Cost of raw, ancillary and consumable materials and goods | 23 | 238,733 | 7,105 | - | 241,282 | 27,909 | - |
| Cost of services | 24 | 429,968 | 40,288 | (4,393) | 333,893 | 40,446 | - |
| Personnel costs | 25 | 179,027 | - | - | 132,559 | - | - |
| Various charges (income) | 26 | 2,775 | (2,832) | (233) | (546) | (5,678) | - |
| Income (charges) from investments calculated on a net equity basis | 27 | 865 | - | - | 2,743 | - | - |
| **Gross operating profit** | | **119,585** | **2,962** | **4,626** | **98,411** | **1,578** | **0** |
| Depreciation of property, plant and machinery | 3-4 | 18,090 | - | - | 15,581 | - | - |
| Depreciation of intangible assets | 2 | 3,537 | - | - | 728 | - | - |
| **Operating profit** | | **97,958** | **2,962** | **4,626** | **82,102** | **1,578** | **0** |
| Financial income (charges) | 28 | (12,032) | (193) | - | (1,704) | 6 | - |
| Investment income (charges) | | - | - | - | 32 | - | - |
| **Profit before taxation** | | **85,926** | **2,769** | **4,626** | **80,430** | **1,584** | **0** |
| Income taxes | 29 | 39,291 | - | 1,723 | 34,896 | - | - |
| **Profit on current activities** | | **46,635** | **2,769** | **2,903** | **45,534** | **1,584** | **0** |
| Income (charges) from assets/liabilities destined for sale or closure | | - | - | - | - | - | - |
| Minority interest | 15 | (425) | - | (5) | (413) | - | - |
| **Net profit** | | **46,210** | **2,769** | **2,898** | **45,121** | **1,584** | **0** |

# Accounting principles and notes to the financial statements

## *1. General information*

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

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

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

The publication of the consolidated financial statements of the Mondadori Group for the period to 30 June 2007 was authorised by a resolution of the Board of Directors on 12 September 2007.

## *2. Form and content*

The interim report for the period to 30 June 2007 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 2006.

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 2006, with the exception of those that came into force after 1 January 2007:

*IFRIC 9 – Subsequent evaluations of implict derivatives*
The interpretation, issued by IFRIC in March 2006, requires that the evaluation of the existence of implicit derivatives in the primary contract be indicated separately.
Subsequently, unless the contract is subject to modifications with a significant impact on cash flows, the company may not repeat the evaluation.

*IFRIC 11 – Transactions involving treasury stock*
The interpretation requires that payment plans based on shares, for which the company receives services in exchange for company shares, must be booked as capital instruments.

The adoption of such interpretations have had no significant impact on the results or the financial position of the Group.

The financial statements have been prepared as follows:

- 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.

It should be noted that in line with the provisions of Consob resolution n°. 15519 of 27 July 2006 concerning tables pertaining to the financial statements, supplementary tables have been included that highlight significant relations with “Correlated Parties” and “Non recurring Operations”.

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

# *3. Seasonal businesses*

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 texts 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;
- the amounts of capital, reserves and the consolidated financial result attributable to minority interests are recognised as separate items in equity and the income statement;
- in preparing the consolidated financial statements, receivables and payables and income and expense resulting from transactions between companies included in the scope of consolidation are eliminated, as are any unrealised gains or losses on intragroup operations.

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

Report on the first half of 2007 Amounts expressed in €,000

The scope of consolidation of the Mondadori Group has undergone the following changes:

- the acquisition of 10% of Edizioni Piemme SpA, which has increased the controlling stake to 90%;
- the acquisition of 20% of Electa Napoli SpA, which also involved an increase in the stakes of this company's subsidiaries;
- the acquisition of 50% of Press TV SpA, subsequently renamed Officina Mondadori SpA, which has enabled Arnoldo Mondadori Editore SpA to achieve control;
- the acquisition of 10.91% of Mach 2 Libri SpA, increasing the stake held;
- the liquidation of Misa Finance Fund Plc.

| **Name** | **Registered office** | **Business** | **Currency** | **Share capital expressed in local currency** | **% held as of 30/06/07** | **% held as of 31/12/06** |
|---|---|---|---|---|---|---|
| ***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 | 90.00 | 80.00 |
| 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 | 80.00 | 60.00 |
| Mondadori Retail SpA | Milan | Trade | € | 2,700,000.00 | 100.00 | 100.00 |
| Fied SpA | Milan | Financial publishing | € | 416,000.00 | 100.00 | 100.00 |
| Giulio Einaudi Editore SpA | Turin | Publishing | € | 23,920,000.00 | 100.00 | 100.00 |
| Messaggerie Musicali SpA | Milan | Printing | € | 1,000,000.00 | 100.00 | 100.00 |
| Mondadori Printing SpA | Milan | Advertising agent | € | 45,396,000.00 | 100.00 | 100.00 |
| Mondadori Pubblicità SpA | Rimini | Trade | € | 3,120,000.00 | 100.00 | 100.00 |
| Mondadori Franchising SpA | Milan | Services | € | 1,954,000.00 | 100.00 | 100.00 |
| Officina Mondadori SpA | Milan | Radio | € | 500,000.00 | 100.00 | |
| Press-Di Distr. Stampa e Multimedia Srl | Milan | Publishing | € | 95,000.00 | 100.00 | 100.00 |
| Monradio Srl | S.Mauro | Trade | € | 3,030,000.00 | 100.00 | 100.00 |
| Sperling & Kupfer Editori SpA | Milan | Publishing | € | 1,555,800.00 | 100.00 | 100.00 |
| *Foreign subsidiaries* | | | | | | |
| ABS Finance Fund Sicav | Luxembourg | Financial | € | 223,868,675.04 | 85.04 | 83.61 |
| AME Service Sas | Paris | Services | € | 37,000.00 | 99.99 | 99.99 |
| Arnoldo Mondadori Deutschland Gmbh | Munich | Services | € | 25,564.59 | 99.99 | 99.99 |
| Mondadori France SAS | Paris | Financial | Euro | 50,000,000.00 | 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 |
| Editions Mondadori France Sas | Paris | Publishing | € | 753,876,750.00 | 99.99 | 99.99 |
| Misa Finance Fund Plc | | | | | | 99.99 |
| Mondadori International SA | Luxembourg | Financial | € | 393,625,900.00 | 99.99 | 99.99 |
| Prisco Spain SA | Barcelona | Financial | € | 60,101.30 | 100.00 | 100.00 |

Report on the first half of 2007 Amounts expressed in €,000

| Name | Registered office | Business | Currency | Share capital expressed in local currency | % held as of 30/06/07 | % held as of 31/12/06 |
|---|---|---|---|---|---|---|
| ***Companies valued using the proportionate method*** | | | | | | |
| Aci Mondadori Srl | Milan | Publishing | € | 590,290.00 | 50.00 | 50.00 |
| Ag. Lombarda Distrib. Giornali e Riviste Srl | Milan | Trade | € | 413,166.00 | 50.00 | 50.00 |
| Attica Publications Group | Athens | Publishing | € | 4,590,000.00 | 41.66 | 41.66 |
| Campania Arte S.c.a.r.l. | Rome | Services | € | 100,000.00 | 22.00 | 22.00 |
| Consorzio Covar | Rome | Services | € | 15,493.70 | 25.00 | 25.00 |
| Consorzio Forma | Pisa | Services | € | 3,615.00 | 25.00 | 25.00 |
| Edizioni Electa Bruno Mondadori Srl | Milan | Publishing | € | 10,400.00 | 50.00 | 50.00 |
| Edizioni EL Srl | Trieste | Publishing | € | 620,000.00 | 50.00 | 50.00 |
| Grupo Editorial Random House Mondadori | Barcelona | Publishing | € | 6,824,600.62 | 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 | 34.91 | 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 | € | | | 50.00 |
| Roccella Scarl | Naples | Services | € | 100,000.00 | 39.60 | 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 Soc. per i servizi museali Scarl | Venice | Services | € | 10,000.00 | 34.00 | 34.00 |
| ***Companies valued at cost*** | | | | | | |
| Audiradio | Milan | Services | € | 258,000.00 | 2.32 | 2.32 |
| Consuledit Srl | Milan | Services | € | 20,000.00 | 9.54 | 9.54 |
| Cons Sistemi Informativi Editoriali Distributivi | Milan | Services | € | 12,396.51 | 11.43 | 8.57 |
| Editrice Portoria SpA | Milan | Publishing | € | 103,291.38 | 10.00 | 10.00 |
| Editrice Storia Illustrata Srl (in liq.) | Milan | Publishing | Lire | 364,000.00 | 16.78 | 16.78 |
| Euromedia Luxembourg Two SA | Luxembourg | Financial | US $ | 20,000,000 | 8.39 | 8.39 |
| Giulio Einaudi Editore SpA (in administration) | Turin | | Lire | 36,337,500,00 | 11.76 | 11.76 |
| Cons Sistemi Informativi Editoriali Distributivi | Milan | Services | € | 3,000,000,000 | 7.35 | 7.35 |
| Immobiliare Editori Giornali Srl | Rome | Real estate | € | 830,462.00 | 7.88 | 7.88 |
| Novamusa Gelmar Biblioteca Nazionale Scarl | Rome | Services | € | 10,200.00 | 16.00 | 12.00 |
| Novamusa Val di Noto Scarl | Messina | Services | € | 90,000.00 | 16.00 | 12.00 |
| Novamusa Valdemone Scarl | Messina | Services | € | 90,000.00 | 16.00 | 12.00 |
| Novamusa Val di Mazara Scarl | Messina | Services | € | 90,000.00 | 16.00 | 12.00 |
| SCABEC SpA | Naples | Services | € | 1,000,000.00 | 10.78 | 10.78 |
| Selcon Srl | Milan | Services | € | 20,800.00 | 25.60 | 17.60 |
| Società Editrice Il Mulino SpA | Bologna | Publishing | € | 1,175,000.00 | 7.05 | 7.05 |

# *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 2006 and 2007 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 2007.

## *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** |
|---|---|
| Titles | Term of licence |
| Costs of taking over lease contracts | Term of rental contract |
| Goods under concession or licence | Term of franchise or licence |
| Software | Straight line over 3 years |
| Patents and rights | Straight line over 3 to 5 years |
| Other intangible assets | Straight line over 3 to 5 years |

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

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

*Intangible assets with an indefinite useful life*

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

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

Report on the first half of 2007 Amounts expressed in €,000

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

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

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

| **Property, plant and equipment** | **Depreciation rate** |
|---|---|
| Buildings used in business activities | 3% |
| Plant | 10% - 25% |
| Rotary presses | 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 S.p.A. are recognised by separating the liability component from the option component. The liability component is recognised in the financial statements under financial liabilities applying the amortised cost method while the option value, calculated as the difference between the value of the liability component and the nominal value of the financial instrument issued, is recognised in a reserve in net equity.
Financial liabilities hedged by derivative instruments against the risk of changes in value (fair value hedges), are valued at fair value, in accordance with the methodology outlined in IAS 39 for hedge accounting. Profits and losses resulting from subsequent variations in fair value are recognised in the income statement. The portions of these changes linked to the efficient portion of the hedge are compensated for by changes in value of derivative instruments.
Financial liabilities hedged by derivative instruments against the risk of changes in the cash flow (cash flow hedges), are valued at amortised cost, in accordance with the methodology outlined in IAS 39 for hedge accounting

## *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, represented by the amounts matured from 1 January 2007 for the companies of the Group with more than 50 employees;
- defined benefit plans, represented by the TFR (severance payment fund) of the companies with fewer than 50 employees and the TFR fund matured up to 31 December 2006 for other Group companies.

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.

Severance indemnities for companies with more than 50 employees are determined, applied to the fund matured at 31 December 2006, 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 and the inflation rate and future salary and wage levels.

Severance indemnities for companies with more than 50 employees are determined using the same actuarial method, but also taking account of 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.

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 dilution 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 dilution 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.

## *7.26 New standards and interpretations adopted by the European Union but not yet effective and applicable to the Mondadori Group*

As required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* the possible impact of new standards or interpretations on the financial statements in their first year of application are listed below.

Those standards and interpretations which came into effect after 30 June 2007 are indicated and briefly illustrated.

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

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

The Group is evaluating the impact of the standards and interpretations referred to above, all of which will come into effect in 2008.

# *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 and the value of some non-current assets included in the goodwill.

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

# *9. Business combinations and other acquisitions*

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

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

# *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 medium-long term loans, in particular the bond denominated in US dollars (US Private Placement) underwritten by American institutional investors and the loan granted by a pool of international banks for the purchase of the French publishing group Emap France.

In order to hedge the risk of fair value to the situation in the case of the US Private Placement, in October 2003 the Group entered a cross currency swap agreement for the same amount and with the same due date, that converts the fixed interest rate into a floating interest rate and the dollar exposure into a euro exposure.
On 50% of the Term Loan part of the bank loan, in order to balance out the cash flow risk, the Group established an Interest Rate Swap to convert the variable rate into a fixed interest rate.

*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.

At 30 June 2007, the group was exposed to the risk of fluctuations in the cost of paper. In order to reduce the variability of the market price of paper, long-term commercial contracts are signed directly with suppliers, making it possible to absorb any eventual increases in purchase costs.

*Credit/counterparty risk and the risk of the unavailability of funds*

The trading activities of the Mondadori Group do not entail any significant credit risk. When carrying out financial operations, including the use of derivative instruments, the Mondadori Group only works with primary financial institutions.

The risk of not being able to convert the financial assets held by the Mondadori Group into liquid assets is managed by diversifying investment instruments and by controlling the concentration of these instruments and the financial institutions involved.

*Issuer risk*

This risk exists if a company holds corporate bonds or financial instruments with credit portfolios as the underlying.

This risk includes debtor insolvency and the deterioration of the receivable. In order to deal with this risk, the Group has specific guidelines on financial investments that establish the minimum rating of the counterparty.

*Liquidity risk*

The Group attempts to maintain a constant balance and flexibility between financial sources and investments. The Group currently uses medium- and long-term loans (bonds, convertible bonds, subsidised loans) with non-banking financial institutions and medium-long term loans (bank loans – facility agreements) with banks, making it possible if necessary to make use of bank guarantees already held by the Group.

Report on the first half of 2007 Amounts expressed in €,000

# 1- Business combinations

The business combination operations carried out in the first half of 2007 are described below.

## 1.1 Acquisition of 50% of Press TV SpA (now Officina Mondadori SpA)

*The operation*

With a contract dated 20 December 2006, and effective from 1 January 2007, Arnoldo Mondadori Editore SpA formalised the acquisition of 50% of the share capital of Press Tv SpA.
The operation, conducted with RTI SpA, gives to the Group 100% control over the company and permits it to develop new editorial initiatives.

*Cost of purchase and the determination of fair value for the assets and liabilities acquired*

The cost of the operation came to €250,000; the fair value of the assets and liabilities of Press Tv SpA on the date of the acquisition, outlined below, were equal to the accounting values.
Consequently, there emerged a *badwill* of €274,000, booked as an expense on the income statement for the period.

| **In €,000** | Note | **Carrying value** | ***Fair value*** |
|---|---|---|---|
| **Intangible assets** | | **1** | **1** |
| **Land and buildings** | | **-** | **-** |
| **Plant and machinery** | | **-** | **-** |
| **Investments** | | **-** | **-** |
| Non-current financial assets | | - | - |
| Advance tax assets | | - | - |
| Other non-current assets | | - | - |
| **Total non-current assets** | | **1** | **1** |
| Tax credits | | 3,412 | 3,412 |
| Other current assets | | 1 | 1 |
| Inventories | | - | - |
| Trade receivables | | 108 | 108 |
| Other current financial assets | | - | - |
| Cash and cash equivalents | | 122 | 122 |
| **Total current assets** | | **3,643** | **3,643** |
| **Total assets** | | **3,644** | **3,644** |

Report on the first half of 2007 Amounts expressed in €,000

| | | |
|---|---|---|
| Reserves | 94 | 94 |
| Employees' leaving entitlements and termination indemnities | - | - |
| Non-current financial liabilities | - | - |
| Deferred tax liabilities | - | - |
| Other non-current liabilities | - | - |
| **Total non-current liabilities** | **94** | **94** |
| | | |
| Income tax liabilities | - | - |
| Other current liabilities | 39 | 39 |
| Trade liabilities | 282 | 282 |
| Bank loans and other financial liabilities | 2,181 | 2,181 |
| **Total current liabilities** | **2,502** | **2,502** |
| **Total liabilities** | **2,596** | **2,596** |

*Further informations*

The economic and financial impact of the acquisition of 50% of Press Tv SpA, in accordance with IFRS 3 accounting principles, has been recognised in the consolidated accounts of the Mondadori Group from 1 January 2007, the date on which the acquisition became effective.

## *1.2 Acquisition of 10% of Edizioni Piemme SpA*

In February 2007 Arnoldo Mondadori Editore SpA purchased from Pietro Marietti 10% of the share capital of Edizioni Piemme SpA.

Given that, before this transaction, Mondadori held 80% of the share capital of Edizioni Piemme SpA, and consequently the financial policy and management control of the company, in accordance with IFRS 3 accounting principles, the operation does not figure as a business combination.

The difference between the amount paid, a total of €5,450,000, and the net assets purchased, amounting to €1,703,000, has been booked as goodwill in intangible assets.

## *1.3 Acquisition of 20% of Electa Napoli SpA and the valorisation of the "put" put option on a further 20%*

In April 2007 Arnoldo Mondadori Editore SpA, per through the wholly-owned subsidiary Mondadori Electa SpA, purchased from Prismi Editrice Politecnica Napoli Srl., 20% of the share capital of Electa Napoli SpA.

The sales contract for the shares foresees, among other things, a "put" option in favour of the seller, to be exercised within 3 years of the stipulation of the contract, allowing the seller to sell a further 20% stake.
For its part, Mondadori Electa SpA, should the "put" option not be exercised within the term indicated, may, on the expiry of the said term, exercise its right to purchase the same stake within 60 days.

Given that, before this transaction, Mondadori held 60% of the share capital of Electa Napoli SpA, and consequently the financial policy and management control of the company, in accordance with IFRS 3 accounting principles, the operation does not figure as a business combination.

With regard to this operation, included under intangible assets, listed as goodwill, the following have been booked:

- the difference between the amount paid, €600,000, and the net assets purchased, equal to €351,000;
- the difference between the amount that it was estimated would be paid, as per contractual forecasts, in the case of the minority partner exercising the "put" option, equal to €830,000, and the net assets to be purchased, equal to, as of 30 June 2007, €351,000.

## *1.4 Acquisition of 10.91% of Mach 2 Libri SpA*

In June 2007 Arnoldo Mondadori Editore SpA purchased from Messaggerie Italiane 10.91% of the share capital of Mach 2 Libri SpA.

Before the transaction Mondadori held 20%, and through Sperling & Kupfer SpA, a wholly-owned subsidiary, a further 4% of the share capital of the company. The operation consequently increases the total stake to 34.91%.

The difference between the amount paid, equal to €3,818,000, and the net assets acquired, equal to €1,134,000, has been booked as goodwill and increased the value of the investment, which is consolidated on a net equity basis.

Report on the first half of 2007 Amounts expressed in €,000

## *2- Intangible assets*

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

| **Intangible assets** | **€ ,000 30 June 2007** | **€ ,000 31 December 2006** |
|---|---|---|
| Intangible assets with finite useful lives | 53,993 | 56,331 |
| Intangible assets with indefinite useful lives | 880,930 | 861,744 |
| **Total intangible assets** | **934,923** | **918,075** |

The following two tables show the changes in intangible assets in 2006 and the first half of 2007.

| **Intangible assets with finite useful lives** | Titles | Expenses for taking over shop leasing contracts | Software | Licences, patents and rights | Other intangible assets | Intangible assets under construction and advances | Total |
|---|---|---|---|---|---|---|---|
| Cost at 31 December 2005 | - | 4,381 | 9,156 | 731 | 102 | 0 | 14,370 |
| Investments | - | 628 | 1,630 | 75 | 10 | 75 | 2,418 |
| Disposals | - | - | (8) | - | (1) | - | (9) |
| Changes to the consolidation area | 15,000 | 33,194 | 10,113 | 3,351 | - | 255 | 61,913 |
| Other changes | - | - | 9 | - | (2) | (217) | (210) |
| Cost at 31 December 2006 | 15,000 | 38,203 | 20,900 | 4,157 | 109 | 113 | 78,482 |
| Accumulated amortisation and impairment losses at 31 December 2005 | - | 2,795 | 8,027 | 684 | 52 | - | 11,558 |
| Amortisation | 167 | 465 | 1,248 | 318 | 21 | - | 2,219 |
| Writedowns/reinstatement of value | - | - | - | - | - | - | 0 |
| Disposals | - | - | (8) | - | (1) | - | (9) |
| Changes to the consolidation area | - | - | 8,176 | 330 | - | - | 8,506 |
| Other changes | - | - | (121) | - | (2) | - | (123) |
| Accumulated amortisation and impairment losses at 31 December 2006 | 167 | 3,260 | 17,322 | 1,332 | 70 | 0 | 22,151 |
| Net book value at 31 December 2005 | 0 | 1,586 | 1,129 | 47 | 50 | 0 | 2,812 |
| **Net book value at 31 December 2006** | **14,833** | **34,943** | **3,578** | **2,825** | **39** | **113** | **56,331** |

Compared with 2006 which was characterised, among other things, by the acquisition of Emap France and Messaggerie Musicali SpA, during the first six months of 2007 investments were concentrated in the retail area, with the opening of a new store in Piazza Duomo in Milan, to which the costs outline below are mainly attributable.

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The magazine titles were classified as intangible assets with an indefinite life since they are regulated by a licence contract and are amortised on the basis of their relative duration.

On the basis of the results of impairment tests, no writedowns were necessary during the current year or the previous year.

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

| **Intangible assets with finite useful lives** | Titles | Expenses for taking over shop leasing contracts | Software | Licences, patents and rights | Other intangible assets | Intangible assets under construction and advances | Total |
|---|---|---|---|---|---|---|---|
| Cost at 31 December 2006 | 15,000 | 38,203 | 20,900 | 4,157 | 109 | 113 | 78,482 |
| Investments | - | 294 | 440 | 16 | 18 | 468 | 1,236 |
| Disposals | - | - | - | - | - | - | 0 |
| Other changes | - | 66 | (384) | (3,000) | 3,001 | (75) | (392) |
| Cost at 30 June 2007 | 15,000 | 38,563 | 20,956 | 1,173 | 3,128 | 506 | 79,326 |
| Accumulated amortisation and impairment losses at 31 December 2006 | 167 | 3,260 | 17,322 | 1,332 | 70 | - | 22,151 |
| Amortisation | 250 | 1,801 | 862 | 19 | 605 | - | 3,537 |
| Writedowns/reinstatement of value | - | - | - | - | - | - | 0 |
| Disposals | - | - | - | - | - | - | 0 |
| Other changes | - | (1) | (348) | (289) | 283 | - | (355) |
| Accumulated amortisation and impairment losses at 30 June 2007 | 417 | 5,060 | 17,836 | 1,062 | 958 | 0 | 25,333 |
| Net book value at 31 December 2006 | 14,833 | 34,943 | 3,578 | 2,825 | 39 | 113 | 56,331 |
| **Net book value at 30 June 2007** | **14,583** | **33,503** | **3,120** | **111** | **2,170** | **506** | **53,993** |

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

Also here, in 2006 investments were mainly related to the acquisition of Emap France and had a significant impact on the balance of the titles and goodwill, and on the operation to strengthen the signal distribution of Radio R101, through the acquisition of new radio frequencies.

In the first half of the current year, increases in value concern a further operation for the purchase of radio frequencies and the purchase of shares in companies already controlled by the Group (Edizioni Piemme SpA and Electa Napoli SpA).
These transactions, outlined in notes 1.2 and 1.3, generated the booking of goodwill.

Report on the first half of 2007 Amounts expressed in €,000

| **Intangible assets with indefinite useful lives** | Titles | Series | Imprints | Radio frequencies | Goodwill | Total |
|---|---|---|---|---|---|---|
| Cost at 31 December 2005 | 98,158 | 31,509 | 5,949 | 77,102 | 13,727 | 226,445 |
| Investments | - | - | - | 12,924 | - | 12,924 |
| Disposals | - | - | - | (3,490) | - | (3,490) |
| Changes in consolidation area | 223,200 | - | - | - | 414,285 | 637,485 |
| Other changes | - | - | - | - | - | 0 |
| Cost at 31 December 2006 | 321,358 | 31,509 | 5,949 | 86,536 | 428,012 | 873,364 |
| Impairment at 31 December 2005 | 9,454 | - | 214 | 180 | - | 9,848 |
| Writedown/reinstatement of value | 772 | - | 900 | 68 | 36 | 1,776 |
| Other changes | - | - | - | (4) | - | (4) |
| Impairment at 31 December 2006 | 10,226 | 0 | 1,114 | 244 | 36 | 11,620 |
| Net book value at 31 December 2005 | 88,704 | 31,509 | 5,735 | 76,922 | 13,727 | 216,597 |
| **Net book value at 31 December 2006** | **311,132** | **31,509** | **4,835** | **86,292** | **427,976** | **861,744** |

| **Intangible assets with indefinite useful lives** | Titles | Series | Imprints | Radio frequencies | Goodwill | Total |
|---|---|---|---|---|---|---|
| Cost at 31 December 2006 | 321,358 | 31,509 | 5,949 | 86,536 | 428,012 | 873,364 |
| Investments | - | - | - | 18,901 | 4,476 | 23,377 |
| Disposals | - | - | - | (4,191) | - | (4,191) |
| Other changes | - | - | - | - | - | 0 |
| Cost at 30 June 2007 | 321,358 | 31,509 | 5,949 | 101,246 | 432,488 | 892,550 |
| Impairment at 31 December 2006 | 10,226 | - | 1,114 | 244 | 36 | 11,620 |
| Writedown/reinstatement of value | - | - | - | - | - | 0 |
| Impairment at 30 June 2007 | 10,226 | 0 | 1,114 | 244 | 36 | 11,620 |
| Net book value at 31 December 2006 | 311,132 | 31,509 | 4,835 | 86,292 | 427,976 | 861,744 |
| **Net book value at 30 June 2007** | **311,132** | **31,509** | **4,835** | **101,002** | **432,452** | **880,930** |

*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.

Report on the first half of 2007 Amounts expressed in €,000

| Amortisation and impairment of intangible assets | €,000<br>1st Half 2007 | €,000<br>1st Half 2006 |
|---|---|---|
| Titles | 250 | - |
| Expenses for taking over shop leasing contracts | 1,801 | 246 |
| Software | 862 | 458 |
| Licences, patents and rights | 19 | 15 |
| Other intangible assets | 605 | 9 |
| **Total amortisation and impairment of intangible assets** | **3,537** | **728** |
| 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** | **3,537** | **728** |

The annual impairment test was duly carried out for the annual report for the year to 31 December 2006; for the half year there are no circumstances that suggest a need for further checks.

The value of titles and imprints, each one of which represents a cash generating unit, mainly refer to the purchases of Silvio Berlusconi Editore, which took place in 1994, and the Emap France group, which took place in 2006.

Series mainly refer to the purchase on the market of the school textbook division of Edumond Le Monnier S.p.A., which has been identified as a cash generating unit in the education sector.
Goodwill was attributed to certain publishing imprints included in this cash generating unit.

The fair value of radio frequencies is supported by independent appraisals carried out by third party experts as of the acquisition date and by an update of the value as of the balance sheet date which confirm their carrying value as of 31 December 2007.
It should also be noted that there are no circumstances that suggest a need for further checks to 30 June 2007.

It should be noted that, to 30 June 2007, the fair value of some assets and liabilities deriving from the acquisition of Emap France, in the second half of 2006, are still provisional.
The evaluation process for these is currently underway.

Report on the first half of 2007 Amounts expressed in €,000

## *3- Investment property*

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

| **Investment property € ,000** | Land | Non-business buildings | Total |
|---|---|---|---|
| Cost at 31 December 2005 | 954 | 8,485 | 9,439 |
| Investments | - | - | 0 |
| Disposals | - | - | 0 |
| Other changes | - | (581) | (581) |
| Cost at 31 December 2006 | 954 | 7,904 | 8,858 |
| Accumulated depreciation and impairment losses at 31 December 2005 | - | 3,916 | 3,916 |
| Depreciation | - | 228 | 228 |
| Writedowns/reinstatement of value | - | - | 0 |
| Disposals | - | - | 0 |
| Other changes | - | (30) | (30) |
| Accumulated depreciation and impairment losses at 31 December 2006 | 0 | 4,114 | 4,114 |
| Net book value at 31 December 2005 | 954 | 4,569 | 5,523 |
| **Net book value at 31 December 2006** | **954** | **3,790** | **4,744** |

During the first half of 2007 there were no changes in investment property, apart from normal depreciations for the period.

| **Investment property € ,000** | Land | Non-business buildings | Total |
|---|---|---|---|
| Cost at 31 December 2006 | 954 | 7,904 | 8,858 |
| Investments | - | - | 0 |
| Disposals | - | - | 0 |
| Other changes | - | - | 0 |
| Cost at 30 June 2007 | 954 | 7,904 | 8,858 |
| Accumulated depreciation and impairment losses at 31 December 2006 | - | 4,114 | 4,114 |
| Depreciation | - | 112 | 112 |
| Writedowns/reinstatement of value | - | - | 0 |
| Disposals | - | - | 0 |
| Other changes | - | - | 0 |
| Accumulated depreciation and impairment losses at 30 June 2007 | 0 | 4,226 | 4,226 |
| Net book value at 31 December 2006 | 954 | 3,790 | 4,744 |
| **Net book value at 30 June 2007** | **954** | **3,678** | **4,632** |

The fair value of investment property at 30 June 2007 was €14.0 million Euro.

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*Depreciation of investment property*

The depreciation charge for the period amounted to €112,000, included in the income statement under "Depreciation and impairment of property, plant and equipment", compared to €114,000 for the first half of 2007.

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

## 4- Property, plant and equipment

The following table shows changes in 2006 and the first half of 2007.

| **Property, plant and equipment € ,000** | Land | Business buildings | Plant and equipment | Other assets | Total |
|---|---|---|---|---|---|
| Cost at 31 December 2005 | 20,546 | 94,841 | 384,534 | 118,623 | 618,544 |
| Investments | - | 2,697 | 18,095 | 18,534 | 39,326 |
| Disposals | - | (1,137) | (3,881) | (5,143) | (10,161) |
| Changes to the consolidation area | - | - | 11,077 | 25,180 | 36,257 |
| Other changes | - | 1,126 | 12,172 | (24,210) | (10,912) |
| Cost at 31 December 2006 | 20,546 | 97,527 | 421,997 | 132,984 | 673,054 |
| Accumulated depreciation and impairment losses at 31 December 2005 | - | 27,988 | 308,231 | 73,412 | 409,631 |
| Depreciation | - | 3,022 | 22,534 | 7,872 | 33,428 |
| Writedowns/reinstatement of value | - | 500 | 740 | - | 1,240 |
| Disposals | - | (375) | (3,762) | (3,971) | (8,108) |
| Changes to the consolidation area | - | - | 6,330 | 18,852 | 25,182 |
| Other changes | - | 60 | (10,086) | (160) | (10,186) |
| Accumulated depreciation and impairment losses at 31 December 2006 | 0 | 31,195 | 323,987 | 96,005 | 451,187 |
| Net book value at 31 December 2005 | 20,546 | 66,853 | 76,303 | 45,211 | 208,913 |
| **Net book value at 31 December 2006** | **20,546** | **66,332** | **98,010** | **36,979** | **221,867** |

Investments in the period relate mainly to the Group's printing area, for printing machinery, and in the retail area, following the opening of two new stores, including the prestigious new large-scale store in Piazza Duomo in Milan.

An impairment test was conducted for the annual report to 31 December 2006; in the period covered by this report there were no elements that necessitated further verification.

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Tangible fixed assets include property having a carrying value of €105,270,000 (€114,181,000 at 31 December 2006), which acts as a security for loans and is booked under financial liabilities.

| **Property, plant and equipment € ,000** | Land | Business buildings | Plant and equipment | Other assets | Total |
|---|---|---|---|---|---|
| Cost at 31 December 2006 | 20,546 | 97,527 | 421,997 | 132,984 | 673,054 |
| Investments | - | 63 | 906 | 15,007 | 15,976 |
| Disposals | (648) | (1,853) | (16,126) | (2,262) | (20,889) |
| Other changes | - | 124 | 1,327 | (1,122) | 329 |
| Cost at 30 June 2007 | 19,898 | 95,861 | 408,104 | 144,607 | 668,470 |
| Accumulated depreciation and impairment losses at 31 December 2006 | - | 31,195 | 323,987 | 96,005 | 451,187 |
| Depreciation | - | 1,548 | 11,770 | 4,660 | 17,978 |
| Writedowns/reinstatement of value | - | - | - | - | 0 |
| Disposals | - | (680) | (15,977) | (1,902) | (18,559) |
| Other changes | - | - | 1 | 249 | 250 |
| Accumulated depreciation and impairment losses at 30 June 2007 | 0 | 32,063 | 319,781 | 99,012 | 450,856 |
| Net book value at 31 December 2006 | 20,546 | 66,332 | 98,010 | 36,979 | 221,867 |
| **Net book value at 30 June 2007** | **19,898** | **63,798** | **88,323** | **45,595** | **217,614** |

Other tangible fixed assets include:

| **Other tangible fixed assets** | **€,000 30 June 2007** | **€,000 31 December 2006** |
|---|---|---|
| Industrial and commercial equipment | 10,463 | 7,965 |
| Electronic office machines | 6,175 | 6,398 |
| Furniture and fixtures | 7,363 | 7,116 |
| Motor vehicles and transport vehicles | 2,177 | 2,235 |
| Leasehold improvements | 5,476 | 3,325 |
| Other assets | 271 | 300 |
| Assets under construction and advances | 13,670 | 9,640 |
| **Total other tangible fixed assets** | **45,595** | **36,979** |

*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 €17,978,000, and was made up as follows:

Report on the first half of 2007 Amounts expressed in €,000

| Depreciation of property, plant and equipment | €,000<br>1st half 2007 | €,000<br>1st half 2006 |
|---|---|---|
| Buildings used in business activities | 1,548 | 1,473 |
| Plant and machinery | 11,770 | 10,514 |
| Equipment | 1,026 | 656 |
| Electronic office machines | 1,860 | 1,468 |
| Furniture and fixtures | 685 | 450 |
| Motor vehicles and transport vehicles | 509 | 479 |
| Leasehold improvements | 543 | 360 |
| Other assets | 37 | 67 |
| **Total depreciation of property, plant and equipment** | **17,978** | **15,467** |
| Writedowns of tangible assets | - | - |
| Reinstatement of value of tangible assets | - | - |
| **Total writedowns (reinstatement) of tangible assets** | **0** | **0** |
| **Total depreciation and impairment losses of tangible assets** | **17,978** | **15,467** |

*Leased assets*

The following table shows the value of leased assets at 30 June 2007 classified under fixed assets.

| in €,000 | 30 June 2007 | | | 31 December 2006 | | |
|---|---|---|---|---|---|---|
| | 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 | (1,024) | 1,899 | 2,923 | (980) | 1,943 |
| Plant and machinery | 68,186 | (68,094) | 92 | 68,186 | (68,001) | 185 |
| Other assets | 1,392 | (1,348) | 44 | 1,392 | (1,339) | 53 |
| **Total leased assets** | **72,501** | **(70,466)** | **2,035** | **72,501** | **(70,320)** | **2,181** |

It should be noted that the values refer to assets that have been mostly already redeemed.

Contracts open at 30 June 2007 refer mainly to a property for which the bargain purchase option of €77 thousand will be exercised in the second half of 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.

Report on the first half of 2007 Amounts expressed in €,000

## *5- Investments*

Investments in companies accounted for using the equity method and in other companies amounted to €125,733,000.

| **Investments** | **€,000**<br>**30 June 2007** | **€,000**<br>**31 December 2006** |
|---|---|---|
| Investments accounted for using the equity method | 123,559 | 120,230 |
| Investments in other companies | 2,174 | 2,174 |
| **Total investments** | **125,733** | **122,404** |

Changes in investments accounted for using the equity method used in the last two years are set out below.
While 2006 was characterised by the acquisition of Emap France, the first half of 2007 saw the conclusion of the purchase of an additional stake in the subsidiary Mach 2 Libri SpA, as well as provision for future capital increases.

| **Investments - Investments accounted for using the equity method - €,000** | Net value |
|---|---|
| Balance at 31 December 2005 | 106,649 |
| Movements during 2006: | |
| - purchases and changes to the consolidation area | 17,727 |
| - disposals and other movements | (1,098) |
| - revaluations | 14,281 |
| - writedowns | (5,926) |
| - dividends | (11,403) |
| **Balance at 31 December 2006** | **120,230** |
| Movements during 2007: | |
| - purchases and changes to the consolidation area | 7,166 |
| - disposals and other movements | 325 |
| - shift from consolidation at net equity to line by line | (524) |
| - revaluations | 6,518 |
| - writedowns | (5,653) |
| - dividends | (4,503) |
| **Balance at 30 June 2007** | **123,559** |

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

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| Investments accounted for using the equity method – Detail- | €,000 30 June 2007 | €,000 31 December 2006 |
|---|---|---|
| Investments in joint ventures: | | |
| - Gruner und Jahr/Mondadori SpA | 3,591 | 4,649 |
| - Agenzia Lombarda Distribuzione Giornali e Riviste Srl | 125 | 175 |
| - Harlequin Mondadori SpA | 225 | 354 |
| - Hearst Mondadori Editoriale Srl | 353 | 453 |
| - Mondadori Rodale Srl | 510 | 828 |
| - Edizioni Electa Bruno Mondadori Srl | 122 | 177 |
| - Edizioni EL Srl | 2,176 | 2,174 |
| - Random House Mondadori SL Group | 37,566 | 35,503 |
| - Campania Arte | 22 | 22 |
| - Attica Publications SA | 36,857 | 36,196 |
| - ACI Mondadori SpA | 1,205 | 1,179 |
| - Press TV SpA | - | 524 |
| - Mondolibri SpA | 13,104 | 13,497 |
| - Editions Mondadori Axel Springer Snc | 12,532 | 11,337 |
| - Top Santè Vof | 985 | 991 |
| **Total investments in joint ventures** | **109,373** | **108,059** |
| Investments in associated companies: | | |
| - Mach 2 Libri SpA | 6,543 | 2,868 |
| - Società Europea Edizioni SpA | 7,509 | 9,212 |
| - Venezia Musei società per i servizi museali Scarl | 6 | 6 |
| - Venezia Accademia Scarl | 20 | 20 |
| - Consorzio Covar | 3 | 3 |
| - Consorzio Forma | 1 | 1 |
| - Roccella Scarl | 40 | 30 |
| - Rock FM Srl | 64 | 31 |
| **Total investments in associated companies** | **14,186** | **12,171** |
| **Total investments accounted for using the equity method** | **123,559** | **120,230** |

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.

An impairment test on investments was conducted for the annual report to 31 December 2006; in the period covered by this report there were no elements that necessitated further verification.

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

Report on the first half of 2007 Amounts expressed in €,000

| **Investments – Investments in other companies - €,000** | Net book value |
|---|---|
| Balance at 31 December 2005 | 2,156 |
| | |
| Movements during 2006: | |
| - purchases and changes to the consolidation area | 25 |
| - disposals and other movements | (7) |
| - revaluations | - |
| - writedowns | - |
| - dividends | - |
| **Balance at 31 December 2006** | **2,174** |
| Movements during 2007: | |
| - purchases and changes to the consolidation area | - |
| - disposals and other movements | - |
| - revaluations | - |
| - writedowns | - |
| - dividends | - |
| **Balance at 30 June 2007** | **2,174** |

The following table illustrates details of investments in other companies.

| **Investments in other companies – Detail -** | **€,000 30 June 2007** | **€,000 31 December 2006** |
|---|---|---|
| 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 | - | - |
| - Novamusa Val di Noto Scarl | 18 | 18 |
| - Novamusa Valdemone Scarl | 18 | 18 |
| - Novamusa Gelmar Scarl | 2 | 2 |
| - Novamusa Val di Mazara Scarl | 18 | 18 |
| - Consorzio Editoriale Fridericiana | 2 | 2 |
| - Audiradio | 21 | 21 |
| - CTAV | 1 | 1 |
| - Sem Issy Media | 3 | 3 |
| **Total investments in other companies** | **2,174** | **2,174** |

## *6- Deferred tax assets and liabilities*

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

Report on the first half of 2007 Amounts expressed in €,000

| | €,000<br>30 June 2007 | €,000<br>31 December 2006 |
|---|---|---|
| Deferred tax assets - IRES | 44,854 | 43,176 |
| Deferred tax assets - IRAP | 3,338 | 2,924 |
| **Total deferred tax assets** | **48,192** | **46,100** |
| Deferred tax liabilities - IRES | 101,440 | 98,624 |
| Deferred tax liabilities - IRAP | 4,195 | 3,616 |
| **Total deferred tax liabilities** | **105,635** | **102,240** |

Changes in deferred tax assets and liabilities have resulted in the booking of a charge of €1,501,000, as outlined in note 29.

| **Deferred tax assets and liabilities (in €,000)** | **30 June 2007** | **31 December 2006** |
|---|---|---|
| Temporary differences that led to the recognition of deferred tax assets | - | - |
| Tax losses carried forward | 3,664 | - |

## *7- Other non-current assets*

The balance of other non-current assets decreased as a result of the utilisation of prepaid withholding tax on the employees' leaving entitlement.

| **Other non-current assets** | **€,000<br>30 June 2007** | **€,000<br>31 December 2006** |
|---|---|---|
| Guarantee deposits | 2,174 | 2,187 |
| Earnest money | - | - |
| Advance IRE withholding tax on the employees' leaving entitlement | 539 | 792 |
| Other | 494 | 546 |
| **Total other non-current assets** | **3,207** | **3,525** |

## *8- Tax receivables*

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

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| Tax receivables | €,000<br>30 June 2007 | €,000<br>31 December 2006 |
|---|---|---|
| Receivables from tax authorities for IRAP | 512 | 661 |
| Receivables from tax authorities for IRES | 3,798 | 4,987 |
| Receivables from Fininvest for IRES | - | - |
| Receivables from tax authorities for VAT to be recovered | 12,104 | 3,578 |
| Receivables from tax authorities for tax reimbursements | 12,770 | 20,628 |
| **Total tax receivables** | **29,184** | **29,854** |

The balance in tax receivables was in line with the previous year and showed no significant changes.

## *9- Other current assets*

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

| Other current assets | € ,000<br>30 June 2007 | € ,000<br>31 December 2006 |
|---|---|---|
| Advances to agents | 4,685 | 788 |
| Advances to authors and collaborators | 48,751 | 46,145 |
| Advance to suppliers | 7,576 | 4,300 |
| Advances to personnel | 1,301 | 768 |
| Receivables for insurance compensation | - | 5 |
| Advances to social security institutions | 1,229 | 149 |
| Receivable for guarantee deposits | 279 | 307 |
| Earnest money | 418 | 413 |
| Prepayments | 1,780 | 7,312 |
| Other | 12,102 | 12,017 |
| **Total other current assets** | **78,121** | **72,204** |

The balance is the result of the seasonal nature of some businesses as well as an increase in advances to authors and a reduction in the profits from the sale of third-party magazines.

## *10- Inventories*

The balance in inventory is the result of the seasonal nature of some businesses; in particular, the production of school textbooks, which is concentrated in the first half, causing a rise in the value of finished goods.

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A breakdown of the composition and changes in inventories cane be seen in the following table:

| **Inventories** | **€ ,000 30 June 2007** | **€ ,000 31 December 2006** |
|---|---|---|
| Raw materials and consumables | 21,293 | 18,536 |
| Provision for raw materials and consumables | (679) | (676) |
| **Total raw materials and consumables** | **20,614** | **17,860** |
| Work in progress and semi-finished goods | 33,003 | 38,663 |
| Provision for work in progress and semi-finished goods | (1,183) | (1,183) |
| **Total work in progress and semi-finished goods** | **31,820** | **37,480** |
| Contract work in progress | 8,348 | 11,340 |
| Provision for contract work in progress | - | - |
| **Total work in progress** | **8,348** | **11,340** |
| Finished products and goods for resale | 103,096 | 90,838 |
| Provision for finished products and goods for resale | (14,130) | (16,392) |
| **Total finished products and goods for resale** | **88,966** | **74,446** |
| **Advances** | **-** | **-** |
| **Total inventories** | **149,748** | **141,126** |

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

| **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 2005 | 463 | 1,054 | 30 | 10,253 |
| Movements during period: | | | | |
| - provisions | 33 | 129 | - | 7,898 |
| - utilisations | (126) | - | (30) | (5,033) |
| - other movements | 306 | - | - | 3,274 |
| **Balance at 31 December 2006** | **676** | **1,183** | **0** | **16,392** |
| Movements during period: | | | | |
| - provisions | 12 | - | - | 1,041 |
| - utilisations | (9) | - | - | (3,305) |
| - other movements | - | - | - | 2 |
| **Balance at 30 June 2007** | **679** | **1,183** | **0** | **14,130** |

There are no inventories used to secure liabilities.

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Decrease (increase) in inventories

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

| **Decrease (increase) in inventories** | **€,000 1st half 2007** | **€,000 1st half 2006** |
|---|---|---|
| Changes in finished products | (12,240) | (9,159) |
| Charge to finished products provision | 1,041 | 1,273 |
| Utilisation of finished products provision | (3,305) | (906) |
| | **(14,504)** | **(8,792)** |
| Changes in semi-finished products | 5,641 | 12,133 |
| Charge to finished products provision | - | - |
| Utilisation of finished products provision | - | - |
| | **5,641** | **12,133** |
| Changes in work in progress | 2,991 | 4,057 |
| Charge to finished products provision | 164 | - |
| Utilisation of finished products provision | (161) | (30) |
| | **2,994** | **4,027** |
| Changes in raw material and goods | (2,758) | (133) |
| Charge to finished products provision | 12 | 12 |
| Utilisation of finished products provision | (9) | - |
| | **(2,755)** | **(121)** |
| **Total decrease (increase) in inventories** | **(8,624)** | **7,247** |

## *11- Trade receivables*

The increase in "Trade receivables" was partly the result of the seasonal nature of the education market and partly due to a grater exposure in the magazine market and towards advertising clients..

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 2007** | **€,000 31 December 2006** |
|---|---|---|
| Receivables from customers | 442,844 | 432,005 |
| Receivables from associated companies | 44,932 | 43,559 |
| Receivables from parent companies | - | 13 |
| Receivables from affiliated companies | 2,044 | 3,441 |
| **Total trade receivables** | **489,820** | **479,018** |

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There are no trade receivables with a due date over five years; the average collection period in the 6 months to 30 June 2007 was 86.7 days (86.9 days in the same period of 2006).

| **Trade receivables<br>- Receivables from customers -** | **€,000<br>30 June 2007** | **€,000<br>31 December 2006** |
|---|---|---|
| Trade receivables | 610,181 | 594,990 |
| Customers - returns to be received | (136,838) | (131,681) |
| Provision for bad debts | (30,499) | (31,304) |
| **Total receivables from customers** | **442,844** | **432,005** |

Utilisation of the provisions was due to the booking of credit losses.

| **Trade receivables<br>Receivables from customers – provision** | **€,000<br>30 June 2007** | **€,000<br>31 December 2006** |
|---|---|---|
| Balance at beginning of year | 31,304 | 25,221 |
| Movements during period: | | |
| - provisions | 2,879 | 6,985 |
| - utilisations | (3,298) | (5,749) |
| - changes in scope of consolidation | - | 4,847 |
| - other movements | (386) | - |
| **Total provision of receivables from customers** | **30,499** | **31,304** |

## *12- Financial assets*

The following tables outline current and non-current financial assets

| **Non-current financial assets** | **€,000<br>30 June 2007** | **€,000<br>31 December 2006** |
|---|---|---|
| - Other receivables | 548 | 583 |
| Financial assets at fair value with changes through the income statement | - | - |
| Available-for-sale financial assets | - | - |
| Assets resulting from derivative instruments | 4,395 | 950 |
| **Total other non-current financial assets** | **4,943** | **1,533** |

The item "Non-current financial assets" includes, in addition to other receivables for €548,000, the fair value for the covering operation for the five-year pooled bank loan which expires in July 2011 used for the acquisition of the French publishing group Emap France.
The derivative pertains to the Interest Rate Swap (IRS) stipulated in August of 2006 for a total of €150 million, corresponding to 50% of the Term Loan part of the €500 million loan obtained by Mondadori International. The covering operation has made it possible to transform the variable rate (3-month Euribor) into a fixed rate.
The multiborrower load is broken down into a Term Loan tranche of €300 million and a revolving component of €200 million, which at present is not utilised.

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| **Other current financial assets** | **€,000 30 June 2007** | **€,000 31 December 2006** |
|---|---|---|
| Financial receivables from customers | - | 7.000 |
| Financial receivables from associated companies | 11,697 | 18,443 |
| Financial receivables from parent companies | - | - |
| Financial receivables from affiliated companies | - | - |
| Financial receivables from others | 15,690 | 28,759 |
| **Total financial receivables** | **27,387** | **54,202** |
| Financial assets at fair value with changes through the income statement | 181,535 | 152,487 |
| Available-for-sale financial assets | - | - |
| Assets resulting from derivative instruments | 16 | 24 |
| **Total other current financial assets** | **208,938** | **206,713** |

"Financial assets at fair value through the income statement" and "Financial receivables from others" consist of investments of liquidity made by Mondadori International and Editions Mondadori France.

The composition of the Mondadori International portfolio is as follows:

- monetary/bond products with money market benchmarks for €159.7 million (around €4 million classified as cash equivalent);
- hedge funds for €33.5 million.

The investment of Editions Mondadori France in a French monetary fund is worth around €6 million, with a return equal to EONIA.

All of the assets referred to above are measured at fair value. For quoted assets the reference is market prices, while for non-quoted assets the price is either supplied by the banks that are custodians of the shares themselves or by the respective market makers.

*Assets and liabilities resulting from derivative instruments*

The following table illustrates the assets and liabilities resulting from derivative instruments held at 30 June 2007:

Report on the first half of 2007 Amounts expressed in €,000

| **Assets and liabilities in derivative instruments – Details - €,000** | Type of derivative | *Fair value* at 30 June 2007 | Fair value at 31 December 2006 |
|---|---|---|---|
| Non-current financial assets | | | |
| -Interest rate derivatives | *Cash flow hedge* | 4,395 | 950 |
| Current financial assets | | | |
| -Currency derivatives | *Trading* | 16 | 24 |
| Non-current financial liabilities | | | |
| -*Cross currency swap* | *Fair value hedge* | (50,857) | (36,435) |

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.

Interest rate derivatives
This consists of an Interest Rate Swap (IRS) stipulated in August 2006 for a total of €150 million, corresponding to 50% of the Term Loan part of the €500 million loan obtained by Mondadori International. The operation made it possible to fix the rate at 3.845%.

Currency derivatives
The Group enters currency derivative agreements to hedge against the risk of fluctuations in exchange rates.
The currency derivatives utilised are exclusively forward contracts for the purchase and sale of foreign currencies.
The main type of exchange risks affecting the Group are linked to the purchase of the author's rights to books in markets outside the EU and the sale of printed publishing products in markets outside the EU.
In the second case, the Group initially partially covers the annual budget for forecasted sales and all the orders for sales.

As of 30 June 2007, there were following outstanding operations to hedge currency exchange risks:

- forward contracts for the sale of US $2,600 thousand (€1,937 thousand);
- forward contracts for the sale of GB£2,550 thousand (€3,772 thousand).

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Cross currency swap
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 US$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.

## *13- Cash and cash equivalents*

The item “Bank deposits” includes short term liquidity investments made by companies of the Mondadori Group; of these the most relevant was for €50 million by Arnoldo Mondadori Editore SpA. Short term deposits have a fixed term, mostly between one week and three months, and are used according to the Group’s financial requirements and mature interest at short term rates.

The fair value of liquidity with the value as at 30 June 2007:

| **Cash and cash equivalents** | **€,000 30 June 2007** | **€,000 31 December 2006** |
|---|---:|---:|
| Cash and valuables | 1,262 | 1,539 |
| Cheques | 1,014 | 665 |
| Bank deposits | 80,883 | 102,598 |
| Post office deposits | 730 | 705 |
| **Total cash and cash equivalents** | **83,889** | **105,507** |

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

The following table shows the Group’s net financial position, outlined as per Consob recommendations.

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| Net financial position | | €,000<br>30 June 2007 | €,000<br>31 December 2006 |
|---|---|---|---|
| A. | Cash | 2,276 | 2,204 |
| | -Bank deposits | 80,883 | 102,598 |
| | -Post office deposits | 730 | 705 |
| B. | Other liquidity | 81,613 | 103,303 |
| **C** | **Liquidity and other financial assets (A+B)** | **83,889** | **105,507** |
| D | Shares held for sale | - | - |
| | -Amounts due from associated companies | 11,697 | 18,443 |
| | -Financial assets at fair value | 181,535 | 152,487 |
| | -Derivatives and other financial instruments | 15,706 | 35,783 |
| E | Current receivables and other financial assets | 208,938 | 206,713 |
| **F** | **Current financial assets (D+E)** | **208,938** | **206,713** |
| G. | Current bank debts | 31,625 | 15,667 |
| | -Bonds | - | - |
| | -Mortgages | 150,000 | 50,071 |
| | -Loans | 7,395 | 7,873 |
| H. | Current portion of non-current debt | 157,395 | 57,944 |
| | -Amounts due to associated companies | 21,781 | 27,096 |
| | - Derivatives and other financial debts | 13,698 | 23,049 |
| I. | Other current financial debts | 35,479 | 50,145 |
| **L** | **Due to banks and other current financial liabilities (G+H+I)** | **224,499** | **123,756** |
| **M** | **Current net financial position (C+F-L)** | **68,328** | **188,464** |
| | -Bonds | 352,828 | 364,892 |
| | -Mortgages | - | - |
| | -Loans | 343,511 | 343,346 |
| N. | Portion of non-current debt | 696,339 | 708,238 |
| O. | Other non-current financial liabilities | 50,884 | 36,468 |
| **P** | **Non-current financial debt (N+O)** | **747,223** | **744,706** |
| **Q** | **Net financial position (M-P)** | **(678,895)** | **(556,242)** |

If the balance from "Non current assets" were included, not as per Consob recommendations, the net financial position would show a deficit of €673,952,000.

## *14- Shareholders' equity*

More detailed information concerning the composition of and changes in shareholders' equity is contained in the section "Changes in consolidated shareholders' equity".

The Mondadori Group is controlled by Fininvest S.p.A.

*Share capital*

The share capital of the parent company, Arnoldo Mondadori Editore S.p.A., amounting to €67,452 thousand, is fully subscribed and paid up and is represented by 259,429,832 ordinary shares with a par value of €0.26. No new share issues took place during the year.

*Share premium reserve*

The share premium reserve of Arnoldo Mondadori Editore S.p.A. shares, amounting to €286,760 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.
- €3,01, thousand drawn from the "Reserve for stock options" following the options exercised during the period.

*Treasury shares*

This item, which amounts to €120,403 thousand (€127,998 thousand at 31 December 2006), represents the value at the balance sheet date of treasury shares in portfolio, with 12,850,205 ordinary shares held by Arnoldo Mondadori Editore S.p.A. and 4,517,486 ordinary shares held by Mondadori International S.A.

*Reserve for stock options*

This reserve, which amounts to €5,309 thousand, is used for the stock option plans granted to directors and managers of the Group. Further details of this item are provided in note 25.

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*Translation reserve*

The translation reserve, which amounts to €262 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 2007** | | **Exchange rate at 31 December 2006** | |
|---|---|---|---|---|
| | **average** | **spot** | **average** | **spot** |
| US dollars | 1.33 | 1.35 | 1.26 | 1.32 |
| Argentinian pesos | 4.11 | 4.17 | 3.86 | 4.03 |
| Chilean pesos | 710.77 | 712.42 | 664.28 | 702.45 |
| Colombian pesos | 2,832.19 | 2,663.87 | 2,959.67 | 2,950.08 |
| Mexican pesos | 14.56 | 14.59 | 13.67 | 14.24 |
| Uruguayan pesos | 32.14 | 32.30 | 30.20 | 32.16 |
| Venezuelan bolivares | 2,859.47 | 2,899.93 | 2,698.26 | 2,828.00 |
| Cypriot pounds | 0.58 | 0.58 | 0.58 | 0.58 |
| Roumanian new leu | 3.22 | 3.13 | 3.53 | 3.38 |
| Bulgarian leva | 1.96 | 1.96 | 1.96 | 1.96 |
| Serbian dinars | 81.04 | 78.8 | 83.09 | 79.00 |
| Hungarian florins | 250.29 | 246.15 | 264.26 | 251.77 |

*Other reserves and retained earnings*

At 30 June 2007, “Other reserves and retained earnings” amounted to €172,619 thousand, including:

- €13,490 thousand for the legal reserve;
- €5,335 thousand for grants from the Agenzia per la Promozione dello Sviluppo del Mezzogiorno (Ministerial Decrees of 28 June 1979 and 3 May 1989) for the purposes of industrial investments carried out at the plant in Pomezia (RM) and from the State in accordance with Publishing Law no. 416 of 5 August 1981;
- a reserve at fair value of €4,395 thousand for the evaluation of a covering derivative.

The residual balance represents retained earnings.

## *15- Capital and reserves attributable to minorities*

This item refers to the non-controlling interests in Edizioni Piemme S.p.A. and Electa Napoli S.p.A., as set out below:

| **Capital and reserves attributable to minorities €,000** | Edizioni Piemme SpA | Electa Napoli SpA |
|---|---|---|
| Equity at 31 December 2006 | 3,299 | 721 |
| Result for 2006 | 973 | 180 |
| Equity at 30 June 2007 | 1,562 | - |
| Result for period to 30 June 2007 | 425 | - |

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## *16- Provisions*

The composition of and changes in provisions for risks and charges is described and commented on below:

| **Provisions €,000** | 31 December 2006 | Charge | Utilisations | Other movements | 30 June 2007 |
|---|---|---|---|---|---|
| Agents' contractual risks | 1,282 | - | - | - | 1,282 |
| Litigation | 9,947 | 606 | (1,240) | 26 | 9,339 |
| Equity investment provision | 1,052 | - | - | - | 1,052 |
| Tax disputes | 1,834 | - | - | - | 1,834 |
| Other risks | 21,072 | 4,023 | (8,981) | (1,022) | 15,092 |
| **Total provisions** | **35,187** | **4,629** | **(10,221)** | **(996)** | **28,599** |

## *17- Employees' leaving entitlement and termination indemnities*

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

| **Leaving entitlements and termination indemnities** | **€,000**<br>**30 June 2007** | **€,000**<br>**31 December 2006** |
|---|---|---|
| Employees' leaving entitlement (TFR) | 91,400 | 97,649 |
| Agents' termination indemnity (FISC) | 6,517 | 5,856 |
| Termination indemnity for journalists (IFGP) | 693 | 677 |
| **Total leaving entitlements and termination indemnities** | **98,610** | **104,182** |

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The 2006 Budget Law introduced substantial changes to the way in which leaving entitlements are managed, including the possibility for employees to decide whether such funds that have matured up to 1 January 2007 be invested in private pension funds.
The application of the new norms has resulted in a recalculation of the funds matures at 31 December 2006; with an impact on the income statement of €4.4 million.

| **Employees' leaving entitlement – Details - €,000** | TFR | FISC | IFGP |
|---|---|---|---|
| Balance at 31 December 2006 | 97,649 | 5,856 | 677 |
| Changes during 2007: | | | |
| - provisions | (2,850) | 1,282 | 16 |
| - utilisations | (4,350) | (138) | - |
| - reversals | | - | - |
| - discounting | 1,431 | - | - |
| - change in scope of consolidation | | - | - |
| - others | (480) | (483) | - |
| **Balance at 30 June 2007** | **91,400** | **6,517** | **693** |

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

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

| **Actuarial assumptions used for the employees' leaving entitlement (TFR)** | **30 June 2007** | **31 December 2006** |
|---|---|---|
| Economic assumptions: | | |
| - increase in cost of living | 1.5% | 1.5% |
| - discount rate | 4.0% | 4.0% |
| - salary increases (where applicable) | 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% ÷ 8.16% | 0.50% ÷ 8.16% |
| - pensionable age | Current norms | Current norms |

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

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| Cost of employees' leaving entitlement (TFR) | €,000<br>1st Half 2007 | €,000<br>1st Half 2006 |
|---|---|---|
| Current cost of the employees' leaving entitlement | 3,025 | 7,968 |
| Financial charges | 1,431 | 1,744 |
| Actuarial (gains) losses | (5,827) | (1,853) |
| **Total cost of employees' leaving entitlement** | **(1,371)** | **7,859** |

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 2007 | 31 December 2006 |
|---|---|---|
| Economic assumptions: | | |
| - discount rate | 4.0% | 4.0% |
| Demographic assumptions: | | |
| - probability of death/disability | 1.0% | 1.0% |
| - probability of leaving service | 1.0% | 1.0% |
| - probability of voluntary resignation | 1.5%-2.0% | 1.5%-2.0% |
| - average retirement age | 65 | 65 |

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

## *18- Financial liabilities*

The following table sets out current and non-current financial liabilities:

| Non-current financial liabilities €,000 | Effective interest rate | Due between 1 and 5 years | Due after 5 years | 30 June 2007 | 31 December 2006 |
|---|---|---|---|---|---|
| Bonds | Eur3M+0.667% | | 244,635 | 244,635 | 258,975 |
| Convertible bonds | 4.37% | 108,193 | | 108,193 | 105,917 |
| Loans | 3.964% | 328,548 | 14,963 | 343,511 | 343,346 |
| Amounts due to suppliers | | - | - | - | - |
| Amounts due to associated companies | | - | - | - | - |
| Amounts due to parent companies | | - | - | - | - |
| Amounts due to affiliated companies | | - | - | - | - |
| Amounts due for lease agreements | | 27 | - | 27 | 33 |
| Amounts due to shareholders for loans | | - | - | - | - |
| Liabilities resulting from derivative instruments | | 50,857 | - | 50,857 | 36,435 |
| Other financial liabilities | | - | - | - | - |
| **Total non-current financial liabilities** | | **487,625** | **259,598** | **747,223** | **744,706** |

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Financial liabilities include:

- €244,635 thousand, representing the amortised cost of the US Private Placement bond issued by Mondadori International in December 2003. The average spread paid on three-month Euribor was 0.636% which corresponds to an effective three-month Euribor spread of 0.667%;
- €50,857 thousand, representing the fair value of the loan derivative on the US Private Placement;
- €108,193 thousand, representing 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% and may be converted in 13,372,587 Mondadori shares at a conversion price of €8.2183.

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.

- €44,574 thousand, for a subsidised long term loan for publishers.;
- €298,937 thousand, corresponding to the utilised part of the pooled bank loan obtained Mondadori International for the acquisition of Emap France.

The effective interest rate attributed to Loans is the weighted average of the effective rates determined on current facilitated loans and the effective rate on the Term loan.

| **Amounts payable to banks and other financial payables € ,000** | Effective interest rate | **30 June 2007** | **31 December 2006** |
|---|---|---|---|
| Bank overdrafts | | 31,625 | 15,667 |
| Bonds | | - | - |
| Convertible bonds | | - | - |
| Loans | 4.139% | 157,395 | 57,944 |
| Amounts due to suppliers | | 763 | 575 |
| Amounts due to associated companies | | 21,781 | 27,096 |
| Amounts due to parent companies | | - | - |
| Amounts due to affiliated companies | | - | - |
| Amounts due for lease agreements | | 107 | 155 |
| Amounts due to shareholders for loans | | - | - |
| Liabilities resulting from derivative instruments | | - | - |
| Other financial payables | | 12,828 | 22,319 |
| **Total amounts payable to banks and other financial payables** | | **224,499** | **123,756** |

These include:

- €31,625 thousand for current account overdrafts;
- €157,395 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 on 30/06/2007 for a total of €150,000 thousand and utilised at 100%;
- €21,781 thousand for loans to associated companies that utilise the intragroup current account, details of which can be found in the attachment "Balances and transactions with related parties" and loans (of around €12 million) to associated companies of Editions Mondadori France;
- €12,828 thousand in other financial payables, including the residual financial debt for the acquisition of the radio broadcaster R101 (€5,800 thousand), and the loan for the option on the sale of a real estate property in Corso Europa in Milan (€4,200 thousand).

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 the US Private Placement debenture loan (of US$350 million) and the €300 million Euro Term Loan Facility and €200 million Revolving Credit Facility, 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 3.25 for evaluations from 30/09/06 to 30/09/07; 3.00 for evaluations from 31/12/07 to 31/03/08; 3.25 for evaluations of 30/06/08; 3.00 for evaluations of 30/09/08; all succeeding evaluations must not exceed 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.

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The financial covenant for the pooled bank loan is as follows:

- the ratio between net financial debt and gross operating profit (EBITDA) (determined for a period of 21 consecutive months) must be less than or equal to 3.5.

All the checks made confirmed that the financial parameters established in the contract were being totally respected.

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:

- ratio between net financial debt and gross operating profit (EBITDA);
- the ratio between net financial debt and net equity.

The calculation of these parameters began in December 2005 as a result of the new loan terms introduced in October 2005.

The average term of financial leasing contracts is less than 12 months.

Information concerning derivative financial instruments is contained in section 12 – Non-current financial assets.

## *19- Income tax payables*

Income tax payables are made up as follows:

| **Income tax payables** | **€,000<br>30 June 2007** | **€,000<br>31 December 2006** |
|---|---:|---:|
| Payables due to tax authorities for IRAP | 2,934 | 834 |
| Payables due to tax authorities for IRES | 300 | 979 |
| Tax payables due to Fininvest for IRES | 19,909 | 47,869 |
| **Total income tax payables** | **23,143** | **49,682** |

The item “tax payables due to Fininvest for IRES” refers to tax payables owed to Fininvest S.p.A. by the companies participating in the tax consolidation.

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## *20- Other current liabilities*

Other current liabilities consist of the following:

| Other current liabilities | €,000<br>30 June 2007 | €,000<br>31 December 2006 |
|---|---|---|
| Customer advances | 38,672 | 42,796 |
| Income tax payables | 20,231 | 15,359 |
| Amounts due to pension funds and social security institutions | 31,994 | 31,950 |
| Other payables | 166,183 | 182,063 |
| **Total other current liabilities** | **257,080** | **272,168** |

The reduction in the final figure to 30 June 2007 is mainly due to "Other payables", details of which are below, a reduction is advances to clients and an increase in VAT payables.

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<br>- Other payables - | €,000<br>30 June 2007 | €,000<br>31 December 2006 |
|---|---|---|
| Payroll and other amounts due to personnel | 41,769 | 40,931 |
| Due to authors and collaborators | 48,587 | 50,749 |
| Due to agents | 5,842 | 13,688 |
| Due to subscription and instalment customers | 56,920 | 61,616 |
| Due to directors and statutory auditors | 415 | 1,689 |
| Prepaid rental income | 583 | 698 |
| Other payables, accrued expenses and deferred income | 12,067 | 12,692 |
| **Total other payables** | **166,183** | **182,063** |

## *21- Trade payables*

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

| Trade payables | €,000<br>30 June 2007 | €,000<br>31 December 2006 |
|---|---|---|
| Suppliers | 391,223 | 396,290 |
| Associated companies | 40,237 | 32,800 |
| Parent companies | 32 | 17 |
| Affiliated companies | 2,892 | 5,209 |
| **Total trade payables** | **434,384** | **434,316** |

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".

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There are no trade payables with a due date of more than 5 years and the average payment period first half of 2007 was 112.0 days (106.9 days in the same period of 2006).

## *22- Revenues from sales and services*

It should be noted that the figures in the income statement of 2006 are not comparable with those for the first six months of 30 June 2007 because of the following:

- 2006 figures do not include the contribution of Mondadori France, purchased in the second half of the year;
- from 1 January 2007, following the spin off of distribution activities in Italy into a new Group company, the method of accounting has changed and such activities are booked at a premium rather than in terms of costs and revenues.

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

| **Revenues from sales and services** | **€,000 1st half 2007** | **€,000 1st half 2006** | **Change %** |
|---|---|---|---|
| Revenues from the sale of goods: | | | |
| - books | 150,099 | 162,397 | (7.6%) |
| - magazines | 375,487 | 276,974 | 3.6% |
| - direct | 2,054 | 482 | n.s. |
| - retail | 76,717 | 63,782 | 20.3% |
| - other goods | 1,320 | 1,522 | (13.3%) |
| Revenues from services: | | | |
| - sales of publishing rights | 9,408 | 10,242 | (8.1%) |
| - advertising services | 230,640 | 172,186 | 33.9% |
| - printing and graphic work | 77,518 | 98,017 | (20.9%) |
| - direct | 12,835 | 11,862 | 8.2% |
| - tickets and exhibition organisation | 5,976 | 3,206 | 86.4% |
| - other services | 18,545 | 9,433 | 96.6% |
| **Total revenues from sales and services** | **960,599** | **810,103** | **18.6%** |

The impact on the first half of 2007 of the consolidation of the French activities amounted €193,692,000.
The reclassification of distribution activities for the first half of 2006 would have resulted in a reduction in revenues of €34,920,000.

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## *23- Cost of raw materials and consumables and goods for resale*

The "cost of raw materials and consumables and goods for resale" despite the increase resulting from the consolidation of Mondadori France which is reflected principally under "Paper", showed a reduction due mainly to the lower volumes in add-on sales for the Group's titles and a fall in sales through the Corporate channel – big clients in the retail sector.

| **Cost of raw materials and consumables and goods for resale** | **€,000<br>1st half 2007** | **€,000<br>1st half 2006** |
|---|---|---|
| Paper | 115,117 | 101,587 |
| Electricity, water, gas, fuel | 9,913 | 9,108 |
| Other production materials | 18,522 | 18,209 |
| **Total cost of raw materials** | **143,552** | **128,904** |
| Goods for resale | 81,199 | 101,270 |
| Consumption and maintenance materials | 3,070 | 3,220 |
| Others | 10,912 | 7,888 |
| **Total cost of consumable materials and goods for resale** | **95,181** | **112,378** |
| **Total cost of raw materials and consumables and goods for resale** | **238,733** | **241,282** |

## *24- Cost of services*

"Cost of services" shows a marked increase compared with 2006, mainly due to the inclusion of Mondadori France, and reflected in the cost of printing and processing, subscription management costs and advertising and promotional costs.

| **Cost of services** | **€,000<br>1st half 2007** | **€,000<br>1st half 2006** |
|---|---|---|
| Rights and royalties | 70,341 | 70,655 |
| Third-party consultancy and collaboration | 41,815 | 33,123 |
| Commissions | 21,123 | 21,443 |
| Third-party processing | 93,268 | 70,676 |
| Transport and shipping | 31,180 | 30,205 |
| Purchase of advertising space and publicity expenses | 43,637 | 29,128 |
| Travel and other expense reimbursements | 7,757 | 5,476 |
| Maintenance | 7,350 | 4,641 |
| Warehousing and porter costs | 5,171 | 2,387 |
| Postal and telephone | 5,241 | 3,011 |
| Catering and cleaning services | 6,064 | 4,573 |
| Market research | 3,766 | 2,227 |
| Insurance | 3,099 | 2,391 |
| Publisher's share | 33,065 | 28,875 |
| Job order services | 3,889 | 3,423 |
| Bank services and commission | 880 | 575 |
| Directors' and statutory auditors' fees | 1,877 | 2,062 |
| Other services | 50,445 | 19,022 |
| **Total cost of services** | **429,968** | **333,893** |

"Directors' and statutory auditors' fees" represent the fees paid to Directors and Statutory Auditors for €1,673 thousand and €204 thousand respectively.

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## *25- Personnel costs*

These are made up of:

| **Personnel costs** | **€,000 1st half 2007** | **€,000 1st half 2006** |
|---|---:|---:|
| Salaries and wages | 127,273 | 95,803 |
| Stock options | 1,230 | 773 |
| Social charges | 41,170 | 28,226 |
| Leaving entitlement | 2,302 | 6,115 |
| Termination indemnities and similar | 16 | 7 |
| Other | 7,036 | 1,635 |
| **Total personnel costs** | **179,027** | **132,559** |

"Personnel costs" were up by 35%, due to the inclusion of Mondadori France and Messaggerie Musicali SpA, purchased in the second half of 2006.

On a like-for-like basis there was a reduction in personnel costs of around 1%, partly due to the positive impact of accounting changes following the introduction of new legislation concerning leaving entitlements.

| **Payroll** | **Spot 1st half 2007** | **Spot 1st half 2006** | **Average 1st half 2007** | **Average 1st half 2006** |
|---|---:|---:|---:|---:|
| Managers | 190 | 180 | 189 | 178 |
| Journalists | 994 | 465 | 987 | 466 |
| White-collars and intermediates | 3,174 | 2,433 | 3,154 | 2,436 |
| Blue-collars | 1,252 | 1,326 | 1,261 | 1,327 |
| **Total** | **5,610** | **4,404** | **5,591** | **4,407** |

*Information about stock option plans*

Following the expiry on 26 April 2006 of the previous stock option plan for the period 2003-2004-2005, shareholders resolved in general meeting to renew the Stock Option Plan regarding the company's shares for the three-year period from 2006. The Plan is directed at managers of the company and its subsidiaries whose activities have a determining impact on the attainment of the Group's strategic objectives, together with directors of the company and of associated companies, journalists, who are employees of the company or its subsidiaries, with the position of editor or co-editor, executives of the parent company who manage their function in the interest of the company.

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.

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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 Arnolodo Mondadori Editore S.p.A. shares in the ratio of one share, with regular dividend, for every option exercised, at a price not less than the average official price for Mondadori shares in the period from the grant date of the options to the same day in the previous calendar month.
The option can only be exercised, in a single act, during the period indicated in the table below.

The Regulations further specify that the Board identifies the conditions for exercising the options granted to the participants with reference to the performance parameters of an economic and/or financial nature on an annual basis; the fulfilment of the conditions for exercising the options is verified by the Board, for each year in which the Plan is in force, by the end of the first half of the year after that in which the options are granted.
The Committee has identified the performance parameters of an economic and/or financial nature for the Stock Option Plan 2006/2007/2008 as being ROE and Free-cash flow, since in the light of past experience, these indicators also respond to market expectations and those of institutional investors, who have shown their appreciation of them.

It should be noted that, in line with Art. 2358 of the Civil Code, loans or other facilitations for the purchase of shares are not foreseen.

The following table illustrates the situation at 30 June 2007 regarding the total number of options that have been granted and can still be exercised, the price and the exercise term:

| **Stock options** | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| In circulation at 1/1/2007 | 545,000 | 2,110,000 | 2,565,000 | 2,630,000 | - |
| - assigned during year | - | - | - | - | 2,940,000 |
| - cancelled during year | - | - | - | - | - |
| - exercised during year | (450,000) | (675,000) | - | - | - |
| - expired during year | - | - | - | - | - |
| In circulation at 30 /06/2007 | 95,000 | 1,435,000 | 2,565,000 | 2,630,000 | 2,940,000 |
| Exercise term | 1/1/2006-31/12/2007 | 1/1/2007-31/12/2008 | 24/6/2008-23/6/2011 | 18/7/2009-17/7/2012 | 26/6/2010-25/6/2013 |
| Exercise price in € | 6.471 | 7.749 | 7.87 | 7.507 | 7.458 |
| Exercisable at 30/06/2007 | 95,000 | 1,435,000 | - | - | - |

It should be noted that the weighted average price of the shares on the date of exercise, for the options exercised during the year, was €7.967.

Options granted after 7 November 2002 have been measured at their fair value on the basis of a numerical calculation based on binomial trees and utilising the following parameters:

| **Parameters for the option measuring model** | **2003** | **2004** | **2005** | **2006** | **2007** |
|---|---|---|---|---|---|
| Exercise price of the option | 6.471 | 7.749 | 7.87 | 7.507 | 7.458 |
| Option term (residual period) | 0.5 | 1.5 | 4 | 5 | 6 |
| Market price of the underlying shares at the grant date in € | 6.234 | 7.793 | 7.865 | 7.415 | 7.15 |
| Expected volatility of share price | 30.00% | 20.00% | 18.45% | 19.45% | 17.00% |
| Dividend yield | 4.00% | 4.00% | 4.45% | 4.72% | 4.90% |
| Risk free interest rate for the option term | 2.80% | 3.50% | 2.65% | 4.00% | 4.80% |

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It should be further noted that the cost booked to the income statement under "Personnel cost" deriving from payments made in the form of shares corresponded to a total of €1,230 thousand.

## *26- Other (income) expense*

This item is made up as follows:

| **Other (income) expense** | **€,000 1st half 2007** | **€,000 1st half 2006** |
|---|---|---|
| Other revenues and income | (28,276) | (22,558) |
| Cost of use of third-party assets | 20,959 | 13,655 |
| Various operating costs | 10,092 | 8,357 |
| **Total other (income) expense** | **2,775** | **(546)** |

There was an increase in "Other (income) expense" in the period due to changes in the area of consolidation; net of the contribution of Mondadori France and Messaggerie Musicali SpA the figures would be in line with those of the previous year.

| **Other (income) expense - Other revenues and income -** | **€,000 1st half 2007** | **€,000 1st half 2006** |
|---|---|---|
| Revenue grants | - | 3,050 |
| Capital gains on disposal of fixed assets | 1,524 | 563 |
| Supplier rebates and other third-party contributions | 2,216 | 2,606 |
| Insurance reimbursements | 27 | 55 |
| Rental income | 913 | 817 |
| Prior year income | 662 | 433 |
| Expenses recovered from third parties | 15,634 | 11,247 |
| Others | 7,300 | 3,787 |
| **Total other revenues and income** | **28,276** | **22,558** |

| **Other (income) expense - Cost of third party assets -** | **€,000 1st half 2007** | **€,000 1st half 2006** |
|---|---|---|
| Rental expense | 17,457 | 10,236 |
| Data processing, leasing and hire purchase payments | 3,419 | 3,398 |
| Others | 83 | 21 |
| **Total cost of third party assets** | **20,959** | **13,655** |

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| **Other (income) expense<br>- Other operating costs -** | **€,000<br>1st half 2007** | **€,000<br>1st half 2006** |
|---|---|---|
| Compensation and settlements | 1,137 | 1,527 |
| Bad debts | 2,677 | 1,738 |
| Charges to provisions | 8,300 | 3,177 |
| Utilisation of provisions | (11,754) | (4,723) |
| Contributions and grants | 1,146 | 1,293 |
| Prior year expenses | 1,367 | 484 |
| Capital losses on the sale of fixed assets | 75 | 31 |
| Information material, entertainment expenses and gifts | 2,531 | 1,555 |
| Taxes and dues | 3,506 | 2,108 |
| Other expense | 1,107 | 1,167 |
| **Total other operating costs** | **10,092** | **8,357** |

## *27- Income (expense) from investments accounted for using the net equity method*

| **Income (expense) from investments<br>accounted for using the equity method** | **€,000<br>1st half 2007** | **€,000<br>1st half 2006** |
|---|---|---|
| - Hearst Mondadori Editoriale Srl | 215 | 96 |
| - Gruner und Jahr/Mondadori SpA | 1,182 | 402 |
| - Harlequin Mondadori SpA | 21 | 65 |
| - Agenzia Lombarda Distribuzione Giornali e Riviste Srl | (50) | (5) |
| - ACI Mondadori SpA | 327 | 196 |
| - Mondadori Rodale Srl | 147 | 80 |
| - Attica Publications SA | 661 | (156) |
| - Società Europea di Edizioni SpA | (5,041) | (1,393) |
| - Grupo Editorial Random House Mondadori SL | 2,169 | 3,350 |
| - Edizioni Electa Bruno Mondadori Srl | (55) | (46) |
| - Mach 2 Libri SpA | 241 | 264 |
| - Edizioni EL Srl | 250 | 178 |
| - Press TV SpA | - | (318) |
| - Bol Italia SpA | - | (11) |
| - Mondolibri SpA | 7 | (566) |
| - Rock FM Srl | 33 | (7) |
| - Consorzio Forma | - | (1) |
| - Editions Mondadori Axel Springer Snc | 1,195 | - |
| - Top Santè Vof | (69) | - |
| Gains (losses) from the sale/liquidation of assets | (368) | 615 |
| **Total income (expense) from investments<br>accounted for using the equity method** | **865** | **2,743** |

The preceding table shows the results for the first half of 2006 and the first half of 2007 of companies accounted for using the equity method.

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## *28- Financial income (expense)*

The balance deficit of €12,032 thousand is related to lower income from shares, a consequence of the reduction in liquidity invested from August 2006, and higher charges on loans and mortgages following the pooled bank loan taken out by the subsidiary Mondadori International to finance the acquisition of Emap France (more than €6.0 million).

This item is made up as follows

| **Financial income (expense)** | **€,000 1st half 2007** | **€,000 1st half 2006** |
|---|---|---|
| Interest from banks and post offices | 1,532 | 508 |
| Interest from associated companies | 241 | 181 |
| Interest from other companies | 469 | 3 |
| Interest from bonds and loans | - | - |
| Financial income from derivative instrument operations | 1,698 | 3,658 |
| Other interest and financial income | 840 | 1,732 |
| **Total interest income and other financial income** | **4,780** | **6,082** |
| Interest to banks | 392 | 154 |
| Interest to associated companies | 434 | 175 |
| Interest to other companies | 169 | 7 |
| Interest paid for bonds, mortgages and loans | 18,611 | 11,268 |
| Financial expense from derivative instrument operations | 84 | 22 |
| Financial charges from discounting assets/liabilities | 1,431 | 1,744 |
| Other interest paid and financial expense | 851 | 741 |
| **Total interest expense and other financial expense** | **21,972** | **14,111** |
| Realised foreign exchange gains | 109 | 277 |
| Unrealised foreign exchange gains | 2 | 32 |
| Realised foreign exchange losses | (255) | (439) |
| Unrealised foreign exchange losses | (73) | (65) |
| **Total profit (loss) on foreign exchange operations** | **(217)** | **(195)** |
| Income (expense) from share valuations | 5,377 | 5,433 |
| Capital gains on share disposals | - | 1,218 |
| Losses on share disposals | - | (131) |
| **Total financial income (expense) deriving from shares** | **5,377** | **6,520** |
| **Total financial income (expense)** | **(12,032)** | **(1,704)** |

## *29- Income tax*

At the end of the first half of 2007 estimates of both the tax rate, due above all to changes in the area of consolidation, and the results of companies accounted for on a net equity basis, increased.

In fact, as figures are given net of taxation, lower balances are not balanced by an improvement in “income taxes”

| **Income taxes** | **€,000 1st half 2007** | **€,000 1st half 2006** |
|---|---|---|
| IRES tax on income for the year | 27,326 | 23,740 |
| IRAP for the year | 10,464 | 10,544 |
| **Total current taxes** | **37,790** | **34,284** |
| Deferred tax (income) expense - IRES | 1,332 | 293 |
| Deferred tax (income) expense - IRAP | 169 | 319 |
| **Total deferred tax (income) expense** | **1,501** | **612** |
| **Total income taxes** | **39,291** | **34,896** |

## *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 2007** | **1st half 2006** |
|---|---|---|
| Net profit for the period (€ ,000) | 46,210 | 45,121 |
| Average number of ordinary shares outstanding (thousands) | 241,913 | 240,250 |
| **Basic profit per share (€)** | **0.19** | **0.19** |

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 2007** | **1st half 2006** |
|---|---|---|
| Net profit for the period (€ ,000) | 46,210 | 45,121 |
| Average number of ordinary shares outstanding (thousands) | 241,913 | 240,250 |
| Number of options with dilution effect (thousands) | 57 | 112 |
| **Diluted earnings per share (€)** | **0.19** | **0.19** |

## *31- Non-recurring expense (income)*

As per the Consob Resolution n°. 15519 of 27 July 2006, during the first half of 2007 the Mondadori Group recorded non-recurring income, net of taxation and minority interest, of €2,898 thousand, as a result of the sale of property and the review of leaving entitlement provisions (TFR) conducted in observance of new norms introduced and effective from 1 January 2007.
No non-recurring expense or income was recorded in the same period of the previous year.

## *32- 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*, subsidiar*ies *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 for the first half of 2006 and the first half of 2007.

## *33- Segment information*

The following tables appear as per IAS 14; primary segment information pertains to business, while secondary segment information relates to geographical area.

"Other assets" include inventories, trade receivables, other current and non-current assets and intangible assets, excluding investments and financial or tax assets.

Liabilities of a financial or tax nature have been excluded from "Other liabilities".

Amounts expressed in €,000

## *Balances and transactions with related parties to 30 June 2007*

| | 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 | - | - | 32 | - | 19,909 | - | - | 5 | 34 | - |
| **Associated companies** | | | | | | | | | | |
| - Gruner und Jahr/Mondadori SpA | 2,647 | 2,902 | 15,620 | - | - | 2,555 | 46 | 6,482 | (376) | (16) |
| - Mach 2 Libri SpA | 19,317 | 127 | 151 | - | - | 17,341 | 14 | 593 | - | (2) |
| - Agenzia Lombarda Distribuzione Giornali e Riviste Srl | 1,478 | - | - | - | - | - | - | 552 | - | - |
| - Venezia Accademia Scarl | - | 2 | 106 | - | - | - | - | 89 | - | - |
| - Venezia Musei Scarl (winded-up) | - | - | - | - | - | - | - | - | - | - |
| - Venezia Musei Società per i servizi museali Scarl | 152 | - | 151 | - | - | 177 | 75 | 414 | (1) | - |
| - Hearst Mondadori Editoriale Srl | 1,378 | 144 | 4,396 | - | - | 2,178 | 3 | 3,928 | (237) | (18) |
| - Harlequin Mondadori Srl | 2,894 | - | 7 | 4,150 | - | 282 | 3,279 | 55 | (3) | (77) |
| - Mondadori Rodale Srl | 2,295 | 197 | 6,145 | - | - | 4,543 | 9 | 5,145 | (265) | (34) |
| - Attica Group | 136 | - | 13 | - | - | 50 | - | 5 | (1) | - |
| - Rock FM Srl | 27 | 3,075 | 84 | - | - | 52 | - | 90 | - | 62 |
| - Euromedia Luxembourg SA | - | - | - | 1,916 | - | - | - | - | - | - |
| - Books on line Italia Srl | - | - | - | - | - | - | - | - | - | - |
| - Edizioni Electa Bruno Mondadori Srl | 276 | 154 | - | - | - | 266 | - | - | - | 10 |
| - Edizioni EL Srl | 709 | - | 3,712 | - | - | 363 | 3,057 | 14 | (297) | - |
| - Grupo Editorial Random House Mondadori SL | 108 | 2,530 | 117 | - | - | 138 | - | 2 | - | 85 |
| - Società Europea Edizioni SpA | 4,125 | - | 4,412 | 2,400 | - | 4,133 | 124 | 9,536 | (81) | - |
| - Aci Mondadori SpA | 1,927 | - | 3,507 | 1,443 | - | 3,685 | 39 | 2,375 | (247) | (43) |
| - Press Tv SpA | - | - | - | - | - | - | - | - | - | - |
| - COVAR | 4 | - | - | - | - | - | - | - | - | - |
| - Mondolibri SpA | 5,917 | - | 678 | - | - | 6,445 | 99 | 945 | (704) | - |
| - Roccella Scarl | 112 | 228 | 126 | - | - | 7 | 3 | - | - | - |
| - Campania Arte Scarl | - | 134 | - | - | - | - | - | - | - | - |
| - EMAS Snc | 1,430 | 2,204 | 1,012 | 11,872 | - | 2,049 | 65 | 134 | (578) | (147) |
| - Top Santé VOF | - | - | - | - | - | - | - | - | - | (13) |
| **Total associated companies** | **44,932** | **11,697** | **40,237** | **21,781** | **0** | **44,264** | **6,813** | **30,359** | **(2,790)** | **(193)** |

Amounts expressed in €,000

## *Balances and transactions with related parties to 30 June 2007*

| | 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 Utili Srl | 187 | - | 15 | - | - | 1,144 | - | - | - | - |
| - RTI SpA | 1,270 | - | 376 | - | - | 1,737 | 11 | - | (136) | - |
| - Publitalia 80 SpA | - | - | 2,046 | - | - | - | - | 9,767 | - | - |
| - Medusa Video SpA | 21 | - | 356 | - | - | 14 | - | 21 | (3) | - |
| - Promoservice Italia Srl | 319 | - | 61 | - | - | 16 | - | 104 | - | - |
| - Fininvest Gestione Servizi SpA (ex Finedim Italia SpA) | - | - | - | - | - | - | - | - | 21 | - |
| - Il Teatro Manzoni SpA | - | - | 16 | - | - | - | - | - | - | - |
| - Mediolanum Vita SpA | - | - | - | - | - | - | - | - | - | - |
| - Mediolanum SpA | - | - | - | - | - | - | - | - | - | - |
| - Banca Mediolanum SpA | 34 | - | - | - | - | 145 | - | - | - | - |
| - Medusa Film SpA | 36 | - | - | - | - | 38 | 281 | - | - | - |
| - Alba Servizi Aerotrasporti SpA | - | - | - | - | - | - | - | - | 57 | - |
| - Radio e Reti Srl | 15 | - | 5 | - | - | 31 | - | 4 | - | - |
| - Isim SpA | - | - | 2 | - | - | - | - | - | - | - |
| - Consorzio Aeromobili Fininvest | - | - | - | - | - | - | - | - | - | - |
| - Videotime SpA | 1 | - | - | - | - | - | - | - | (4) | - |
| - Mediaset SpA | - | - | - | - | - | - | - | - | - | - |
| - A.C. Milan SpA | - | - | 2 | - | - | - | - | - | 4 | - |
| - Eis Roma Srl | - | - | - | - | - | - | - | - | - | - |
| - Eis Srl | - | - | - | - | - | - | - | - | - | - |
| - Elettronica Industriale SpA | - | - | 4 | - | - | - | - | - | - | - |
| - Medusa Multicinema Srl | - | - | - | - | - | - | - | - | - | - |
| - Publieurope Ltd | - | - | - | - | - | - | - | - | - | - |
| - Consorzio Campus Multimedia In-Formazione | - | - | - | - | - | - | - | 15 | (15) | - |
| - Media Shopping SpA | 161 | - | 9 | - | - | 134 | - | 13 | - | - |
| **Total affiliated companies** | **2,044** | **0** | **2,892** | **0** | **0** | **3,259** | **292** | **9,924** | **(76)** | **0** |
| **Total related parties** | **46,976** | **11,697** | **43,161** | **21,781** | **19,909** | **47,523** | **7,105** | **40,288** | **(2,832)** | **(193)** |
| **Percentage of financial statements** | **9.6%** | **5.6%** | **9.9%** | **9.7%** | **86.0%** | **4.9%** | **3.0%** | **9.4%** | **n.s.** | **1.6%** |

Amounts expressed in €,000

## *Balances and transactions with related parties as of and for the year ended 31 December 2006 and to 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 | 13 | - | 17 | - | 47,869 | - | - | - | 5 | - |
| **Associated companies** | | | | | | | | | | |
| - Gruner und Jahr/Mondadori SpA | 2,604 | 1,476 | 13,186 | 2,903 | - | 2,077 | 11,047 | 5,904 | (1,345) | (68) |
| - Mach 2 Libri SpA | 18,763 | 2,597 | 455 | - | - | 20,383 | - | 678 | - | - |
| - Agenzia Lombarda Distribuzione Giornali e Riviste Srl | 534 | - | - | - | - | 9,769 | - | 894 | 5 | - |
| - Venezia Accademia Scarl | - | 2 | 122 | - | - | - | - | 109 | - | - |
| - Venezia Musei Scarl (winded-up) | - | - | - | - | - | - | - | - | - | - |
| - Venezia Musei Società per i servizi museali Scarl | 167 | - | 136 | - | - | 122 | 32 | 385 | - | - |
| - Hearst Mondadori Editoriale Srl | 1,595 | - | 3,435 | 589 | - | 2,356 | 1,520 | 3,993 | (493) | (12) |
| - Harlequin Mondadori Srl | 1,834 | 110 | - | 5,133 | - | 59 | 3,710 | - | (65) | (44) |
| - Mondadori Rodale Srl | 3,133 | - | 5,440 | 1,551 | - | 4,289 | 4,927 | 5,513 | (1,243) | (30) |
| - Attica Group | 152 | - | 1 | - | - | 82 | - | - | (30) | - |
| - Rock FM Srl | 60 | 2,897 | 54 | - | - | 48 | - | 114 | - | 25 |
| - Euromedia Luxembourg SA | - | - | - | 1,916 | - | 338 | - | - | - | - |
| - Books on line Italia Srl | - | - | - | 9 | - | - | - | - | - | - |
| - Edizioni Electa Bruno Mondadori Srl | 214 | 681 | - | - | - | 559 | - | - | - | 4 |
| - Edizioni EL Srl | 591 | - | 3,239 | - | - | 231 | 2,352 | 18 | (237) | - |
| - Grupo Editorial Random House Mondadori SL | 167 | 3,937 | 117 | - | - | 632 | - | - | - | 97 |
| - Società Europea Edizioni SpA | 4,622 | - | 2,088 | - | - | 7,933 | - | 9,298 | 2 | - |
| - Aci Mondadori SpA | 2,541 | - | 2,715 | 3,077 | - | 3,484 | 2,534 | 2,359 | (739) | (18) |
| - Press Tv SpA | 55 | 2,181 | 85 | 291 | - | 1,749 | 1,678 | 186 | (225) | 52 |
| - COVAR | 4 | - | - | - | - | - | - | - | - | - |
| - Mondolibri SpA | 5,273 | - | 640 | - | - | 6,940 | 109 | 1,038 | (831) | - |
| - Roccella Scarl | - | 225 | 96 | - | - | - | - | - | - | - |
| - Campania Arte Scarl | - | 134 | - | - | - | - | - | - | - | - |
| - EMAS Snc | 1,250 | 4,203 | 991 | 11,627 | - | - | - | - | - | - |
| **Total associated companies** | **43,559** | **18,443** | **32,800** | **27,096** | **0** | **61,051** | **27,909** | **30,489** | **(5,201)** | **6** |

Report on the first half of 2007 Amounts expressed in €,000

## *Balances and transactions with related parties as of and for the year ended 31 December 2006 and to 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 Utili Srl | 949 | - | 15 | - | - | 2,496 | - | - | - | - |
| - RTI SpA | 1,541 | - | 2,009 | - | - | 436 | - | 183 | (536) | - |
| - Publitalia 80 SpA | 90 | - | 1,838 | - | - | 7 | - | 8,884 | - | - |
| - Medusa Video SpA | 17 | - | 1,104 | - | - | 10 | - | 716 | (3) | - |
| - Promoservice Italia Srl | 380 | - | 10 | - | - | - | - | 1 | - | - |
| - Fininvest Gestione Servizi SpA (ex Finedim Italia SpA) | 5 | - | - | - | - | - | - | - | 18 | - |
| - Il Teatro Manzoni SpA | 2 | - | 13 | - | - | - | - | 13 | - | - |
| - Mediolanum Vita SpA | - | - | - | - | - | - | - | - | - | - |
| - Mediolanum SpA | 46 | - | - | - | - | 17 | - | - | - | - |
| - Banca Mediolanum SpA | - | - | - | - | - | 115 | - | - | - | - |
| - Medusa Film SpA | 25 | - | - | - | - | 9 | - | - | - | - |
| - Alba Servizi Aerotrasporti SpA | - | - | 43 | - | - | - | - | - | 36 | - |
| - Radio e Reti Srl | 142 | - | 153 | - | - | 108 | - | 160 | - | - |
| - Isim SpA | - | - | 2 | - | - | - | - | - | - | - |
| - Consorzio Aeromobili Fininvest | - | - | - | - | - | - | - | - | - | - |
| - Videotime SpA | 5 | - | - | - | - | 6 | - | - | (2) | - |
| - Mediaset SpA | 47 | - | - | - | - | - | - | - | - | - |
| - A.C. Milan SpA | - | - | - | - | - | - | - | - | 5 | - |
| - Eis Roma Srl | - | - | - | - | - | - | - | - | - | - |
| - Eis Srl | - | - | - | - | - | - | - | - | - | - |
| - Elettronica Industriale SpA | - | - | 4 | - | - | - | - | - | - | - |
| - Medusa Multicinema Srl | - | - | - | - | - | - | - | - | - | - |
| - Publieurope Ltd | - | - | 3 | - | - | - | - | - | - | - |
| - Consorzio Campus Multimedia In-Formazione | 15 | - | 15 | - | - | - | - | - | - | - |
| - Media Shopping SpA | 177 | - | - | - | - | - | - | - | - | - |
| **Total affiliated companies** | **3,441** | **0** | **5,209** | **0** | **0** | **3,204** | **0** | **9,957** | **(482)** | **0** |
| **Total related parties** | **47,013** | **18,443** | **38,026** | **27,096** | **47,869** | **64,255** | **27,909** | **40,446** | **(5,678)** | **6** |
| **Percentage of financial statements** | **9.8%** | **8.9%** | **8.8%** | **21.9%** | **96.4%** | **7.9%** | **11.6%** | **12.1%** | **n.s.** | **n.s.** |

Amounts expressed in €,000

## *Primary segment information for the period to 30 June 2007*

| | 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** | **166,341** | **450,279** | **173,430** | **77,147** | **12,916** | **77,409** | **244** | **2,833** | **-** | **960,599** |
| **Revenues from sales and services to other sectors** | **26,473** | **98,694** | **2,966** | **145,266** | **254** | **357** | **5,069** | **5,517** | **(284,596)** | **0** |
| Income (expense) from investments using equity method | 2,626 | 3,608 | - | - | 7 | - | (335) | (5,041) | - | 865 |
| **Gross operating profit** | **27,439** | **88,219** | **1,697** | **18,335** | **2,020** | **278** | **(5,938)** | **(12,465)** | **-** | **119,585** |
| **Operating result** | **26,135** | **85,292** | **1,557** | **6,345** | **1,882** | **(3,032)** | **(6,499)** | **(13,722)** | **-** | **97,958** |
| Financial income (expense) | - | - | - | - | - | - | - | (12,032) | - | (12,032) |
| **Profit before taxes and minority interests** | **26,135** | **85,292** | **1,557** | **6,345** | **1,882** | **(3,032)** | **(6,499)** | **(25,754)** | **-** | **85,926** |
| Income taxes | - | - | - | - | - | - | - | 39,291 | - | 39,291 |
| Result attributable to minority interests | 425 | - | - | - | - | - | - | - | - | 425 |
| **Net result** | **25,710** | **85,292** | **1,557** | **6,345** | **1,882** | **(3,032)** | **(6,499)** | **(65,045)** | **-** | **46,210** |
| Depreciation, amortisation and impairment | 1,304 | 2,927 | 140 | 11,990 | 138 | 3,310 | 561 | 1,257 | - | 21,627 |
| Non-monetary costs | 1,814 | 6,380 | 1,181 | 36 | 11 | 553 | 33 | 65 | - | 10,073 |

| | Books | Magazines | Advertising services | Printing | Direct | Retail | Radio | Corporate and other business | Consolidation adjustments | Consolidated financial statements |
|---|---|---|---|---|---|---|---|---|---|---|
| **Investments** | **5,874** | **1,646** | **111** | **7,016** | **118** | **4,988** | **20,099** | **738** | **-** | **40,590** |
| Investments accounted for using the equity method | 46,724 | 56,158 | - | - | 13,104 | - | 64 | 7,509 | - | 123,559 |
| Other assets | 347,001 | 1,011,021 | 161,006 | 305,927 | 13,125 | 97,329 | 114,522 | 43,282 | (212,974) | 1,880,239 |
| Financial assets | - | - | - | - | - | - | - | 297,770 | - | 297,770 |
| Tax assets | - | - | - | - | - | - | - | 77,376 | - | 77,376 |
| **Total assets** | **393,725** | **1,067,179** | **161,006** | **305,927** | **26,229** | **97,329** | **114,586** | **425,937** | **(212,974)** | **2,378,944** |
| Other liabilities | 149,245 | 425,289 | 161,840 | 179,012 | 11,066 | 57,954 | 9,720 | 37,521 | (212,974) | 818,673 |
| Financial liabilities | - | - | - | - | - | - | - | 971,722 | - | 971,722 |
| Tax liabilities | - | - | - | - | - | - | - | 128,778 | - | 128,778 |
| **Total liabilities** | **149,245** | **425,289** | **161,840** | **179,012** | **11,066** | **57,954** | **9,720** | **1,138,021** | **(212,974)** | **1,919,173** |

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 |

## *Primary segment information for the period to 31 December 2006*

| | Books | Magazines | Advertising services | Printing | Direct | Retail | Radio | Corporate and other business | Consolidation adjustments | Consolidated financial statements |
|---|---|---|---|---|---|---|---|---|---|---|
| **Investments** | **6,550** | **666,282** | **552** | **23,762** | **110** | **41,202** | **15,030** | **3,147** | **-** | **756,635** |
| Investments accounted for using the equity method | 41,158 | 56,332 | - | - | 13,497 | - | 31 | 9,212 | - | 120,230 |
| Other assets | 328,245 | 1,009,493 | 153,838 | 300,711 | 13,760 | 92,724 | 97,598 | 39,039 | (192,675) | 1,842,733 |
| Financial assets | - | - | - | - | - | - | - | 313,753 | - | 313,753 |
| Tax assets | - | - | - | - | - | - | - | 75,954 | - | 75,954 |
| **Total assets** | **369,403** | **1,065,825** | **153,838** | **300,711** | **27,257** | **92,724** | **97,629** | **437,958** | **(192,675)** | **2,352,670** |
| Other liabilities | 162,809 | 407,141 | 153,893 | 186,654 | 11,175 | 68,280 | 8,936 | 39,640 | (192,675) | 845,853 |
| Financial liabilities | - | - | - | - | - | - | - | 868,462 | - | 868,462 |
| Tax liabilities | - | - | - | - | - | - | - | 151,922 | - | 151,922 |
| **Total liabilities** | **162,809** | **407,141** | **153,893** | **186,654** | **11,175** | **68,280** | **8,936** | **1,060,024** | **(192,675)** | **1,866,237** |

Report on the first half of 2007 Amounts expressed in €,000

## *Secondary segment information for the period to 30 June 2007*

| | Books | Magazines | Advertising services | Printing | Direct | Retail | Radio | Corporate and other business | Consolidation adjustments | Consolidated financial statements |
|---|---|---|---|---|---|---|---|---|---|---|
| Italian market | 188,748 | 351,816 | 168,782 | 189,153 | 9,867 | 77,766 | 5,313 | 8,350 | (283,464) | 716,331 |
| France | 223 | 194,033 | 984 | 5,459 | 931 | - | - | - | (1,132) | 200,498 |
| Other EU markets | 1,231 | 2,104 | 5,141 | 23,507 | 2,108 | - | - | - | - | 34,091 |
| USA market | 436 | 61 | 113 | 2,750 | - | - | - | - | - | 3,360 |
| Other countries | 2,176 | 959 | 1,376 | 1,544 | 264 | - | - | - | - | 6,319 |
| **Revenues from sales and services** | **192,814** | **548,973** | **176,396** | **222,413** | **13,170** | **77,766** | **5,313** | **8,350** | **(284,596)** | **960,599** |
| Italian market | 370,425 | 252,683 | 161,006 | 293,161 | 26,229 | 97,329 | 114,586 | 192,309 | (210,190) | 1,297,538 |
| France | - | 777,639 | - | - | - | - | - | 29,922 | - | 807,561 |
| Other EU markets | 23,300 | 36,857 | - | 12,766 | - | - | - | 203,002 | (2,317) | 273,608 |
| USA market | - | - | - | - | - | - | - | 704 | (467) | 237 |
| Other countries | - | - | - | - | - | - | - | - | - | 0 |
| **Total assets** | **393,725** | **1,067,179** | **161,006** | **305,927** | **26,229** | **97,329** | **114,586** | **425,937** | **(212,974)** | **2,378,944** |
| Italian market | 5,874 | 390 | 111 | 6,971 | 118 | 4,988 | 20,099 | 738 | - | 39,289 |
| France | - | 1,256 | - | - | - | - | - | - | - | 1,256 |
| Other EU markets | - | - | - | 45 | - | - | - | - | - | 45 |
| USA market | - | - | - | - | - | - | - | - | - | 0 |
| Other countries | - | - | - | - | - | - | - | - | - | 0 |
| **Total investments** | **5,874** | **1,646** | **111** | **7,016** | **118** | **4,988** | **20,099** | **738** | **0** | **40,590** |

Amounts expressed in €,000

## *Secondary segment information for the period to 30 June 2006 and the year to 31 December 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 |
| France | 213 | 430 | 833 | 4,689 | 740 | - | - | - | - | 6,905 |
| Other EU markets | 1,532 | 2,989 | 5,216 | 24,593 | 993 | - | - | - | - | 35,323 |
| 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 | 347,918 | 251,383 | 153,838 | 286,963 | 27,257 | 92,724 | 97,629 | 217,300 | (189,205) | 1,285,807 |
| France | - | 778,246 | - | - | - | - | - | 42,708 | - | 820,954 |
| Other EU markets | 21,485 | 36,196 | - | 13,748 | - | - | - | 177,246 | (3,112) | 245,563 |
| USA market | - | - | - | - | - | - | - | 704 | (358) | 346 |
| Other countries | - | - | - | - | - | - | - | - | - | 0 |
| **Total assets** | **369,403** | **1,065,825** | **153,838** | **300,711** | **27,257** | **92,724** | **97,629** | **437,958** | **(192,675)** | **2,352,670** |
| Italian market | 6,550 | 791 | 552 | 20,954 | 110 | 41,202 | 15,030 | 3,140 | - | 88,329 |
| France | - | 665,491 | - | - | - | - | - | - | - | 665,491 |
| Other EU markets | - | - | - | 2,808 | - | - | - | - | - | 2,808 |
| USA market | - | - | - | - | - | - | - | 7 | - | 7 |
| Other countries | - | - | - | - | - | - | - | - | - | 0 |
| **Total investments** | **6,550** | **666,282** | **552** | **23,762** | **110** | **41,202** | **15,030** | **3,147** | **0** | **756,635** |

## *34- Commitments and contingent liabilities*

At 30 June 2007, the Mondadori Group had made commitments for a total of €146,479 thousand (€155,036 thousand at 31 December 2006).

These include €5,658 thousand for contracts to purchase plant and machinery (€8,661 thousand at 31 December 2006), while the residue is represented by €34 million for guarantees given in connection with the purchase of the One-O-One business, sureties, letters of patronage and other guarantees issued mainly in favour of the Ministry of Industry for prize-giving operations and competitions, to the VAT Office for payment of the Group's VAT bill and for lease contracts.

For the Board of Directors
Chairman
Marina Berlusconi

The executive responsible for the preparation of the company's accounts, Carlo Maria Vismara, declares that, as per art. 2, 154 bis of the Single Finance Text, the accounting information contained in this release corresponds to that contained in the company's formal accounts.

Executive responsible for the preparation of the company's accounts

(Carlo Maria Vismara)

***Financial statements of Arnoldo Mondadori Editore SpA at 30 June 2007***

Report on the first half of 2007 Amounts expressed in €,000

# *Balance sheet*

| **ASSETS** *(in €,000)* | **Period to 30 June 2007** | **FY 31 December 2006** |
|---|---|---|
| INTANGIBLE ASSETS | 91,699 | 91,718 |
| INVESTMENT PROPERTY | 1,552 | 1,579 |
| | | |
| Land and buildings | 18,585 | 18,894 |
| Plant and machinery | 5,065 | 5,374 |
| Other tangible fixed assets | 6,354 | 6,072 |
| PROPERTY, PLANT AND EQUIPMENT | **30,004** | **30,340** |
| | | |
| INVESTMENTS | 760,027 | 748,353 |
| NON-CURRENT FINANCIAL ASSETS | 0 | 0 |
| DEFERRED TAX ASSETS | 16,443 | 16,521 |
| OTHER NON-CURRENT ASSETS | 936 | 1,292 |
| **TOTAL NON-CURRENT ASSETS** | **900,661** | **889,803** |
| | | |
| TAX RECEIVABLES | 11,033 | 16,757 |
| OTHER CURRENT ASSETS | 42,989 | 43,584 |
| INVENTORIES | 38,465 | 43,908 |
| TRADE RECEIVABLES | 240,985 | 241,198 |
| OTHER CURRENT FINANCIAL ASSETS | 81,005 | 54,671 |
| CASH AND CASH EQUIVALENTS | 65,634 | 73,599 |
| **TOTAL CURRENT ASSETS** | **480,111** | **473,717** |
| | | |
| ASSETS HELD FOR SALE | 0 | 0 |
| | | |
| **TOTAL ASSETS** | **1,380,772** | **1,363,520** |

Report on the first half of 2007 Amounts expressed in €,000

# *Balance sheet*

| **LIABILITIES AND SHAREHOLDERS' EQUITY** *(in €,000)* | **Period to 30 June 2007** | **FY 31 December 2006** |
|---|---|---|
| Share capital | 67,452 | 67,452 |
| Share premium reserve | 286,760 | 285,466 |
| Treasury shares | (85,565) | (93,160) |
| Other reserves and retained earnings | 91,580 | 85,578 |
| Profit (loss) for the year | 53,359 | 90,240 |
| **TOTAL SHAREHOLDERS' EQUITY** | **413,586** | **435,576** |
| | | |
| PROVISIONS | 13,012 | 10,466 |
| EMPLOYEES' LEAVING ENTITLEMENT AND TERMINATION INDEMNITIES | 39,389 | 45,165 |
| NON-CURRENT FINANCIAL LIABILITIES | 296,296 | 296,256 |
| DEFERRED TAX LIABILITIES | 15,407 | 13,867 |
| OTHER NON-CURRENT LIABILITIES | 0 | 0 |
| **TOTAL NON-CURRENT LIABILITIES** | **364,104** | **365,754** |
| | | |
| INCOME TAXES PAYABLE | 18,738 | 36,272 |
| OTHER CURRENT LIABILITIES | 58,050 | 98,510 |
| TRADE PAYABLES | 203,474 | 208,130 |
| PAYABLES TO BANKS AND OTHER FINANCIAL LIABILITIES | 322,820 | 219,278 |
| **TOTAL CURRENT LIABILITIES** | **603,082** | **562,190** |
| | | |
| LIABILITIES HELD FOR SALE | 0 | 0 |
| | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **1,380,772** | **1,363,520** |

**For the Board of Directors**
**The Chairman**
**Marina Berlusconi**

Report on the first half of 2007 Amounts expressed in €,000

# *Income statement*

| *(in €,000)* | **Period to 30 June 2007** | **Period to 30 June 2006** |
|---|---|---|
| **REVENUES FROM SALES AND SERVICES** | **502,302** | **536,997** |
| DECREASE (INCREASE) IN INVENTORIES | 5,053 | 14,267 |
| COST OF RAW MATERIALS AND CONSUMABLES AND GOODS FOR RESALE | 98,581 | 104,137 |
| COST OF SERVICES | 271,729 | 287,506 |
| PERSONNEL COSTS | 63,486 | 64,643 |
| OTHER INCOME (EXPENSE) | (2,047) | (7,801) |
| **GROSS OPERATING PROFIT** | **65,500** | **74,245** |
| DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT | 2,209 | 2,287 |
| AMORTISATION AND WRITEDOWNS OF INTANGIBLE ASSETS | 123 | 219 |
| **OPERATING PROFIT** | **63,168** | **71,739** |
| FINANCIAL INCOME (EXPENSE) | (8,932) | (5,186) |
| INCOME (EXPENSE) FROM INVESTMENTS | 23,709 | 15,523 |
| **PROFIT BEFORE INCOME TAXES** | **77,945** | **82,076** |
| INCOME TAXES | 24,586 | 28,092 |
| **NET PROFIT** | **53,359** | **53,984** |

**For the Board of Directors**
**The Chairman**
**Marina Berlusconi**

Report on the first half of 2007 Amounts expressed in €,000

# *Changes in shareholders' equity to 30 June 2007*

| *(in €,000)* | Note | Share capital | Share premium reserve | Treasury share reserve | Treasury shares | Stock option reserve | Fair value reserve | Other reserves | Profit (loss) for the year | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1/1/2006** | | **67,452** | **283,747** | **0** | **(102,824)** | **4,715** | **0** | **123,577** | **101,290** | **477,957** |
| Changes: | | | | | | | | | | |
| - Adoption of IAS 32 & IAS 39 | | | | | | | | | | |
| - Allocation of net profit | | | | | | | | 33 | (33) | 0 |
| - Dividends paid | | | | | | | | (43,380) | (101,257) | (144,637) |
| - Treasury share operations | | | | | 9,664 | | | (26) | | 9,638 |
| - Stock options | | | 1,720 | | | 658 | | | | 2,378 |
| - Net profit for the year | | | | | | | | | 90,240 | 90,240 |
| **At 31/12/2006** | | **67.452** | **285.467** | **0** | **(93.160)** | **5.373** | **0** | **80.204** | **90.240** | **435.576** |

| *(in €,000)* | Note | Share capital | Share premium reserve | Treasury share reserve | Treasury shares | Stock option reserve | Fair value reserve | Other reserves | Profit (loss) for the year | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1/1/2007** | | **67,452** | **285,467** | **0** | **(93,160)** | **5,373** | **0** | **80,204** | **90,240** | **435,576** |
| Changes: | | | | | | | | | | |
| - Adoption of IAS 32 & IAS 39 | | | | | | | | | | |
| - Allocation of net profit | | | | | | | | 5,518 | (5,518) | 0 |
| - Dividends paid | | | | | | | | | (84,722) | (84,722) |
| - Treasury share operations | | | | | 7,595 | | | 549 | | 8,144 |
| - Stock options | | | 1,293 | | | (64) | | | | 1,229 |
| - Net profit for the year | | | | | | | | | 53,359 | 53,359 |
| **At 30/06/2007** | | **67,452** | **286,760** | **0** | **(85,565)** | **5,309** | **0** | **86,271** | **53,359** | **413,586** |

**For the Board of Directors**
**The Chairman**
**Marina Berlusconi**

Report on the first half of 2007 Amounts expressed in €,000

# Cash flow statement

| *(in €,000)* | 30 June 2007 | 30 June 2006 |
|---|---|---|
| Net profit for the year | 53,359 | 53,984 |
| | 0 | 0 |
| *Adjustments* | *0* | *0* |
| Depreciation, amortisation and writedowns | 2,332 | 2,506 |
| Stock options | 926 | 541 |
| Charges to provisions and leaving entitlements | (270) | 1,601 |
| Capital gains (losses) on disposal of intangible assets, property, plant and equipment | (67) | (15) |
| Income from investments – dividends | (23,709) | (15,523) |
| **Adjusted net profit from operating** | **32,571** | **43,094** |
| (Increase) decrease in trade receivables | 931 | (11,048) |
| (Increase) decrease in inventories | 6,443 | 14,268 |
| Increase (decrease) in trade payables | 3,266 | (4,447) |
| Net changes in income tax receivables/payables | (11,809) | 8,662 |
| Net changes in other current assets/liabilities | (39,860) | (8,336) |
| Net changes in deferred income tax receivables/payables | 1,617 | 1,526 |
| (Increase) decrease in leaving entitlement funds | (4,634) | (1,971) |
| **Cash flows from (used in) operating activities** | **(11,475)** | **41,748** |
| (Investments in) disposals of intangible assets | 0 | (116) |
| (Investments in) disposals of property, plant and equipment | (2,299) | (3,819) |
| (Investments in) disposals of equity investments | (28,610) | (33,263) |
| Income from investments – dividends | 34,260 | 23,659 |
| (Investments in) disposals of securities and other non-current financial assets | (26,332) | (11,790) |
| **Cash flows from (used in) investing activities** | **(22,981)** | **(25,329)** |
| Increase (decrease) in payables to banks | 100,000 | 130,000 |
| Purchase (sale) of treasury stock | 7,595 | 12,020 |
| Net changes in other non-current financial assets/liabilities | 3,619 | (40,388) |
| Dividends paid | (84,722) | (147,347) |
| **Cash flows from (used in) financing activities** | **26,492** | **(45,715)** |
| **Increase (decrease) in cash and cash equivalents** | **(7,964)** | **(29,296)** |
| **Cash and cash equivalents at beginning of period** | **73,599** | **43,444** |
| **Cash and cash equivalents at end of period** | **65,635** | **14,148** |

| **Composition of cash and cash equivalents** | | |
|---|---|---|
| Cash, cheques and valuables in hand | 63 | 44 |
| Bank and post office deposits | 65,572 | 14,104 |
| | **65,635** | **14,148** |

**For the Board of Directors**
**The Chairman**
**Marina Berlusconi**

Table of significant investments ex art. 120 of D. Lgs. n. 58/1998

ARNOLDO MONDADORI EDITORE SPA

As per art. 126 approved by Consob resolution n. 11971 of 14/05/1999 notice of significant investments is hereby given as per art. 120 of D. Lgs n. 58/1998

reference date 30 June 2007

| NAME | | SHARE CAPITAL | % SHARE HELD | HOLDING | SHAREHOLDER | SHARE % | CORPORATE OFFICES | TAX CODE | PURCHASED/ ESTABLISHED |
|---|---|---|---|---|---|---|---|---|---|
| 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% | indirect | Press-Di Distribuzione Stampa e | 50% | Milan - via Senato 18 | 10463540152 | 02/10/1991 |
| Campania Arte S.c. a r.l. (Italy) | € | 100.000 | 22% | indirect | Mondadori Electa SpA | 22% | Rome - Via Tunisi 4 | 09086401008 | 18/07/2006 |
| 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 bankrupcty (Italy) | € | 364.000 | 16,786% | 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 | 90% | direct | Arnoldo Mondadori Editore SpA | 90% | 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 | 80% | indirect | Mondadori Electa SpA | 80% | 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 | 34,91% | direct | Arnoldo Mondadori Editore SpA | 30.91% | Peschiera Borromeo (MI) - via Galileo Galilei 1 | 03782990158 | 06/05/1983 |
| | | | | indirect | Sperling & Kupfer Ed. SpA | 4% | | | |
| Messaggerie Musicali SpA (Italy) | € | 1.000.000 | 100% | indirect | Mondadori Retail SpA | 100% | Milan - Galleria del Corso 2 | 00815940150 | 27/01/1968 |
| 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-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) | € | 3.030.000 | 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-Di Distribuzione Stampa e Multimedia Srl (Italy) | € | 1.095.000 | 100% | direct | Arnoldo Mondadori Editore SpA | 100% | Milan - via Bianca di Savoia 12 | 03864370964 | 19/02/2003 |
| Officina Mondadori SpA (ex PressTv SpA) (Italy) | € | 500.000 | 100% | direct | Arnoldo Mondadori Editore SpA | 100% | Milan - via Bianca di Savoia 12 | 03619240967 | 08/07/2002 |
| Roccella Scarl (Italy) | € | 100.000 | 49,50% | indirect | Electa Napoli SpA | 49,50% | 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 per i servizi museali Scrl (Italy) | € | 10.000 | 34% | indirect | Mondadori Electa SpA | 34% | Venice Mestre - via Manin 51 | 03534350271 | 22/04/2004 |
| ABS Finance Fund Sicav (Luxemburg) | € | 223.868.675,04 | 84,639% | indirect | Mondadori International SA | 84,639% | Luxemburg - 19-21 Boulevard du Prince Henri | | 03/02/1999 |
| 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 |
| Ame Service SAS (France) | € | 37.000,00 | 100% | indirect | Mondadori France SAS | 100% | France - Paris - 9-11, avenue Franklin D. Roosevelt | | 29/06/2006 |
| Arnoldo Mondadori Deutschland GmbH (Germany) | € | 25.564,59 | 100% | indirect | Mondadori International SA | 100% | Germany - Munich - Tal 21 | | 14/05/1970 |
| Arnoweb SA (Luxemburg) | € | 36.256.900 | 99,9998% | direct | Arnoldo Mondadori Editore SpA | 99,9998% | Luxemburg - 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 |
| Diana SAS (France) | € | 16.336.680 | 100% | indirect | Edition Mondadori France SAS | 35.73% | France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer | | 18/01/1990 |
| | | | | | Diana Publications SAS | 64.27% | | | |
| Diana Publications SAS (France) | € | 17.257.900 | 100% | indirect | Editions Mondadori France SAS | 100% | France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer | | 29/03/2001 |
| Editions Mondadori Axel Springer SNC (France) | € | 152.500 | 50% | indirect | Editions Mondadori France SAS | 50% | France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer | | 09/12/1999 |
| Editions Mondadori France SAS (France) | € | 753.876.750 | 100% | indirect | Mondadori France SAS | 100% | France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer | | 23/02/1993 |
| Editions Taitbout SA (France) | € | 3.048.980 | 99,997% | indirect | Editions Mondadori France SAS | 99,997% | France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer | | 31/01/1989 |

| NAME | SHARE CAPITAL | | % SHARE HELD | HOLDING | SHAREHOLDER | SHARE % | CORPORATE OFFICES | TAX CODE | PURCHASED/ ESTABLISHED |
|---|---|---|---|---|---|---|---|---|---|
| Euromedia Luxembourg Two SA in winding-up (Luxemburg) | USD | 36.337.500 | 11,765% | indirect | Arnoweb SA | 11,765% | Luxemburg - 25C, Boulevard Royal | | 13/03/2000 |
| Excelsior Publications SAS (France) | € | 1.717.360 | 100% | indirect | Editions Mondadori France SAS | 100% | France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer | | 28/08/1957 |
| Misa Finance Fund PLC winded-up (Ireland) | € | 174.613 | 99,9998% | indirect | Mondadori International SA | 99,9998% | Ireland - Dublin - I.F.S.C. - 2, Harbourmaster Place | | 12/06/2003 |
| Mondadori Belgium SA in winding-up (Belgium) | € | 62.000 | 99,984% | direct | Arnoldo Mondadori Editore SpA | 99,984% | Belgium - Bruxelles - Avenue Louise 109 | | 22/03/2001 |
| Mondadori France Digital SNC (France) | € | 50.000 | 100% | indirect | Editions Mondadori France SAS | 98% | France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer | | 08/11/2000 |
| | | | | indirect | Mondadori Magazines France SAS | 2% | | | |
| Mondadori France SAS (France) (ex AME France Sarl) | € | 50.000.000,00 | 100% | indirect | Mondadori International SA | 100% | France - Paris - 9-11, avenue Franklin D. Roosevelt | | 23/06/2004 |
| Mondadori International SA (Luxemburg) | € | 393.625.900 | 99,99% | direct | Arnoldo Mondadori Editore SpA | 99,99% | Luxemburg - 25C, Boulevard Royal | | 18/09/1970 |
| Mondadori Magazines France SAS (France) | € | 476.035.510 | 100% | indirect | Editions Mondadori France SAS | 100% | France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer | | 30/03/2004 |
| 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 |
| Random House Mondadori SA (Spain) | € | 6.824.600,63 | 50% | indirect | Arnoweb SA | 33.99% | Spain - Barcelona, Calle Travessera de Gracia 47/49 | | 05/08/1959 |
| | | | | direct | Arnoldo Mondadori Editore SpA | 6.01% | | | |
| | | | | indirect | Prisco Spain SA | 10% | | | |
| Star Presse Hollande BV (Holland) | € | 18.151,21 | 100% | indirect | Editions Mondadori France SAS | 100% | Holland - Amsterdam - Rokin 55 | | 28/09/1994 |
| Tarif Media SA (France) | € | 38.000 | 99,20% | indirect | Editions Mondadori France SAS | 98.8% | France - Issy les Moulineaux Cedex 9 - 48 rue Guynemer | | 21/04/1961 |
| | | | | indirect | Diana Publications SAS | 0.20% | | | |
| | | | | indirect | Mondadori Magazines SAS | 0.20% | | | |
| Top Santé VOF (Holland) | € | 91.000 | 50% | indirect | Star Presse Hollande BV | 50% | Holland - Hoofdoorp - Cappellalaan 65 | | 10/05/1994 |

*Mondadori Group*

*Report of the External Auditors*

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

**Auditors' report on the review of the Interim Consolidated Financial Statements as of and for the six-month period ended June 30, 2007 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, 2007, 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, 2007, as we do in connection with reporting on our audits of the annual Consolidated Financial Statements of Arnoldo Mondadori Editore S.p.A..

Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18/A
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3. With respect to the consolidated comparative data as of and for the year ended December 31, 2006 and for the six-month period ended June 30, 2006, reference should be made to our audit report issued on April 5, 2007 and to our review report issued on September 26, 2006, 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 20, 2007

Reconta Ernst & Young S.p.A.
Signed by: Luca Pellizzoni, Partner