ARNOLDO MONDADORI EDITORE S.p.A.

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

Quarterly report to 31 March 2007

Corporate Boards

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Carlo Maria Vismara (*)

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Ferdinando Superti Furga

Acting Statutory Auditors
Achille Frattini
Franco Carlo Papa

Substitute Statutory Auditors
Francesco Antonio Giampaolo
Francesco Vittadini

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Shareholders,

in the first quarter of 2007 there was a continuation of the downward trend in magazine circulation, compounded in January and February by a marked slowdown in advertising investments, which, however, have recovered between March and today. As expected, there was a further decline in the add-on sales phenomenon, after years of continuous growth.

Despite this scenario, the Mondadori Group, saw significant growth in its revenues, thanks to the inclusion of its activities in France, and an improvement in its operating profitability, while also continuing to pursue development in the digital, retail, radio and international magazine publishing sectors.

Consolidated revenues in the first quarter of 2007 came to €468.1 million, an increase of 14.3% on the €409.6 million in the same period of 2006.
The 19.4% increase in consolidated revenues, takes account of accounting changes resulting from the absorption of magazine distribution activities in Italy by Press-Di and the inclusion of Mondadori France (€96.2 million). On a like-for-like basis, revenues were down by 5.1%.

Consolidated gross operating profit came to €54.5 million, an increase of 23.9% on the €44 million on the same period of the previous year, as a proportion of revenues, a rise to 11.6% from the 10.7% of Q1 2006.

Consolidated operating profit for the period came to €43.8 million, a 20.3% increase on the €36.4 million of Q1 2006, despite increased amortisation and depreciation of material and immaterial assets for around €3.1 million; 9.4% as a proportion of revenues, compared with 8.9% for the same period of 2006.

Profit before taxation in the period came to €37.6 million, a fall of 2.8% on the €38.7 million of Q1 2006, due to financial charges deriving from debt resulting from the acquisition in France and the 2006 dividend policy.

Consolidated net profit to 31 March 2007 came to €23.6 million, a fall of 6% compared with the €25.1 million of the same period of the previous year, also due to the effects of deferred tax credits recorded in 2006.

Gross cash flow amounted to €34.3 million, compared with €32.7 million in Q1 2006.

The Group's **net financial position** went from -€554.7 million at the end of 2006 to -€517.4 million on 31 March 2007 (the figure for Q1 2006 was +€63.6 million).

The performance of the various sectors in which Mondadori operates is examines in the sections dedicated to the different Divisions of the Group; the following are the highlights:

Results for the period

Income statement (in €m)	**31 March 2007**	**31 March 2006**	**Change %**
Income from sales of goods and services	468.1	409.6	14.3%
Personnel costs	92.2	66.4	38.9%
Cost of sales and management	321.5	299.5	7.3%
Income (charges) from investments booked using the net equity method	0.1	0.3	(66.7%)
Gross operating profit	**54.5**	**44.0**	**23.9%**
- *as a proportion of revenues*	*11.6%*	*10.7%*	
Depreciation of property, plant and machinery	8.9	7.3	21.9%
Depreciation of intangible assets	1.8	0.3	n.s.
Operating profit	**43.8**	**36.4**	**20.3%**
- *as a proportion of revenues*	*9.4%*	*8.9%*	
Net financial income (charges)	(6.2)	2.3	n.s.
Income (charges) from other investments	-	-	-
Profit for the period before taxation	**37.6**	**38.7**	**(2.8%)**
- *as a proportion of revenues*	*8.0%*	*9.4%*	
Tax charges	13.8	13.3	3.8%
Minority interest	0.2	0.3	(33.3%)
Net profit	**23.6**	**25.1**	**(6.0%)**
- *as a proportion of revenues*	*5.0%*	*6.1%*	
Gross cash flow	**34.3**	**32.7**	

Consolidated revenues amounted to €468.1 million, an increase of 14.3%; the following table illustrates the business volumes for each area.

Business volumes by business area	**€m 31 March 2007**	**€m 31 March 2006**	**Change %**
Books	96.5	96.8	(0.3%)
Magazines	266.4	199.8	33.3%
Advertising services	74.1	73.9	0.3%
Printing	113.2	122.9	(7.9%)
Direct marketing	6.0	5.6	7.1%
Retail	38.3	36.2	5.8%
Radio	2.0	1.6	25.0%
Corporate and other business	4.2	3.7	13.5%
Total sales	**600.7**	**540.5**	**11.1%**
Intergroup sales	(132.6)	(130.9)	1.3%
Total consolidated revenues	**468.1**	**409.6**	**14.3%**

Comments on the contribution of the different areas can be found in the sections dedicated tot he different Divisions.

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

Revenues by geographical area	**€m 31 March 2007**	**€m 31 March 2006**	**Change %**
Italy	347.6	387.4	(10.3%)
France	99.3	2.8	n.s.
EU countries	17.5	15.1	15.9%
USA	1.0	1.5	(33.3%)
Others	2.7	2.8	(3.6%)
Total consolidated revenues	**468.1**	**409.6**	**14.3%**

Book division

Starting in 2007, thanks to a joint initiative undertaken by Mondadori, RCS and G.e.m.s., market evaluations have been entrusted to Nielsen Bookscan, using a panel and different methods from those used previously by Demoskopea; also under this new system, Mondadori retains its position as the leading book publisher in the Italian market, with a market share of 26.6%.

The following table outlines the performance of the Book Division of the Mondadori Group.

	€m 31 March 2007	€m 31 March 2006
Book sales	93.7	94.2
Other revenues	2.8	2.6
	96.5	**96.8**
Operating costs	(80.5)	(80.2)
Gross operating profit	**16.0**	**16.6**
Amortisation & depreciations	(0.7)	(0.6)
Operating profit	**15.3**	**16.0**

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

Books	€m 31 March 2007	€m 31 March 2006	Change %
Edizioni Mondadori	38.6	45.1	(14.4%)
Einaudi	13.3	12.0	10.8%
Mondadori Electa	11.2	9.3	20.4%
Sperling & Kupfer Group	8.1	8.3	(2.4%)
Piemme	12.7	11.6	9.5%
Edumond Le Monnier	2.7	2.6	3.8%
Distribution & logistics	7.1	5.3	34.0%
Total consolidated revenues	**93.7**	**94.2**	**(0.5%)**

Edizioni Mondadori

In the first quarter of 2007 Edizioni Mondadori generated revenues of €38.6 million, with a slight reduction due essentially to the decline in the market for add-ons, that had an impact on the sale of rights, and the tail-end of the Dan Brown phenomenon, still evident in the first quarter of last year.
Among the titles that stood out in this period was the outstanding success of the new novel by Andrea Camilleri, *Il colore del sole*, which sold some 220,000 copies, and a number of titles linked to the world of entertainment, including *A un passo dal sogno* by the duo Sfondrini-Zanforlin, with sales of over 200,000 copies, *Dieci+* by Alessandro Del Piero, 130,000 copies sold, and *Centro d'igiene mentale*, by Sanremo-winner Simone Cristicchi.
There was continued success for the 2006 hit by Roberto Saviano, *Gomorra*, and *Inchiesta su Gesù*, by Augias-Pesce, both of which maintained their positions at the top of the best-sellers list, and with excellent sales.
In the Oscar area, the renewal of the big paperback campaign at the beginning of spring helped to improve results compared with last year, with an increase of more than 5%, while the paperback edition of *L'Ombra del vento* by Zafon achieved sales of 330,000 copies.
The Mondadori Ragazzi line of books for children recorded successes with two important titles: *Un ponte per Terabithia*, linked to the film of the same name, and *Le due guerriere*, the new book by Licia Troisi, widely recognised as one of the leading writers of fantasy in Italy and the world.

Giulio Einaudi Editore

In the first quarter of 2007, with revenues of €13.3 million, Einaudi recorded an increase of 10.8%, due to a marked increase in the sale of rights and a positive performance in the instalments channel.
Among the titles recording positive results in the period were: *Nei boschi eterni* by Fred Vargas, *Everyman* by Roth, *Piazza Fontana* + DVD by Lucarelli, *Manituana* by Wu Ming, *Il mio nome è rosso* and *Neve* by Pamuk, *Stagioni* by Rigoni Stern, *1977* by Lucia Annunziata, *Terramatta* by Vincenzo Rabito; all new titles in 2007, except *Il mio nome è rosso* by Pamuk and *Stagioni* by Rigoni Stern.

Mondadori Electa

In the first three months of 2007 Mondadori Electa, with revenues of €11.2 million, recorded an increase of 20.4%, thanks to a positive performance in art exhibition organisation and the management of services in concession.
A positive contribution was made to the result by current exhibitions, opened in the first quarter of 2007 or extended from 2006, as well as the different season compared with the same period of the previous year that was affected by the postponement of the *Roma Barocca* exhibition.
Within the book sector, sales were affected by a marked slowdown in add-ons for third-parties, which, in the first quarter of last year, included important initiatives such as *La Storia dell'Arte* produced for *La Repubblica* newspaper.

Sperling & Kupfer Group

The Sperling & Kupfer Group closed the first quarter of 2007 with revenues of €8.1 million, a 2.4% fall on the same period of the previous year.
Among the most significant facts during the period was the fall in revenues from new titles and the positive performance in revenues from add-ons, which were double those of the same period of the previous year.
The most important titles published in the first quarter of 2007 included: *Le Notti di Salem* by Stephen King, *Appuntamento al buio* by Danielle Steel, *Due bambine in blu* by Mary Higgins Clark, *La morte negli occhi* by Terri Persons and, from the subsidiary Frassinelli, *Invidiosa luna* by Greene Thomas.

Edumond Le Monnier

Edumond Le Monnier generated first quarter 2007 revenues of €2.7 million, in line with the €2.6 million of the same period of the previous year.
It should be borne in mind that this period of the year is typically low on sales due to the highly seasonal nature of educational publishing.

2007 has seen a continuation of the rationalisation of new titles, with a particular attention to improvements to the overall quality of products through targeted investments.
The adoption process has begun well, especially for titles in the first level secondary schools and products in the science area.

Piemme

Piemme generated first quarter 2007 revenues of €12.7 million, an increase of 9.5% on the €11.6 million of the same period of 2006; this increase was made possible by an excellent performance in the fiction and non-fiction area, as well as new titles, with the success of the new books by Michael Connelly, *La ragazza di polvere*, *Il Vangelo di Maria Maddalena* by Kathleen Gowen and *Il bambino con i petali in tasca* by Anosh Irani, a well as an outstanding performance by titles already in bookstores, such as *Il Cacciatore di Aquiloni*, *Il mio cielo* and *La danzatrice bambina*.
The Religion line was stable, while the Pocket area benefited from the sales of *Il diavolo veste Prada* and a promotional campaign in February.
There was also growth compared with the first quarter of last year in the Junior area, thanks to a positive performance of the Geronimo Stilton line, the launch of the first title in the graphic novel series, *Alla scoperta dell'America*, and the new character *Oscar Tortuga* (that benefited from the launch initiative in February).
Finally, the Battello a Vapore line saw the successful publication of a new series of *Criptoanimali*, while the excellent results of *Barbapapà* continued, which was so successful last year.

Distribution & Logistics

Distribution activities in the first quarter of 2007 accounted for revenues of €7.1 million, an increase of 34.0%, thanks to the addition of distribution services for Piemme, which began on 1st August 2006, and an increase in activities for third-party publishers.
The new portfolio and the reorganisation and efficiency improvements have made it possible to achieve excellent results in the distribution of editorial products.

Magazine Division

In the first quarter of 2007, the Magazine Division generated consolidated revenues of €266.4 million, an increase of 33.3% on the same period of the previous year.

For a correct comparison with last year it is necessary to bear in mind:

- a change in the consolidation area resulting from the acquisition of Emap France which, as already indicated, acconts for € 96.2 million;
- the absorption of magazine distribution activities by Press-Di (a wholly-owned subsidiary of Arnoldo Mondadori Editore S.p.A.), after which, from 1 January 2007, revenues from the distribution of the products of third-party publishers are booked at a premium and not a the wholesale price for local distributors. On a like-for-like basis, first quarter revenues for 2006 were €182.1 million.

	€m 31 March 2007 Italy	**€m 31 March 2007 France**	**€m 31 March 2007 Total**	**€m 31 March 2006 Total**
Magazine revenues	165.6	93.0	258.6	197.1
Other revenues	4.6	3.2	7.8	2.7
	170.2	**96.2**	**266.4**	**199.8**
Operating costs	(142.6)	(84.5)	(227.1)	(172.1)
Gross operating profit	**27.6**	**11.7**	**39.3**	**27.7**
Amortization and depreciations	(0.1)	(1.3)	(1.4)	(0.3)
Operating profit	**27.5**	**10.4**	**37.9**	**27.4**

Magazines (Italy)

The revenues of the Magazine Division in Italy during the period amounted to €170.2 million, a fall of 14.8% (-6.5% on a like-for-like basis) on the same period of 2006.

This reduction in revenues is the result of a combination of the following factors:

- circulation revenues remained essentially stable, with a fall in volume compensated by the increase in cover prices introduced in 2006;
- a further reduction in revenues from add-on sales (-15% for Mondadori) in a sharply falling market (-20%);
- a fall in advertising revenues (-6.6%), penalised by a marked fall in volumes compared with the previous year in the two-month period January/February (-11%), partially compensated by a recovery in prices (+5%).

Of particular note during the period was:

- the re-launch of *Panorama*, in the first half of March;
- the editorial and brand development of *Panorama* and the definition of the new monthly *First*, launched at the end of March to marked success in terms of advertising sales;
- the development of internet activities, especially the *Panorama* web site. In this context there was an overall increase in online advertising of around 57%;
- an acceleration in the definition of the new monthly, *Grazia Casa*, which hit the newsstands in mid-April.

Circulation

In a market that saw a fall, in terms of value, of between 7% and 8%, the Division increased its market share compared with the same period of the previous year.

Women's magazines saw a slight fall in newsstand sales and subscriptions (-2%) compared with 2006, with a good increase for *Donna Moderna* (+7%) which benefited from a cover price increase carried out in June of last year.

The fall in revenues in the male segment was around 10%, and was due to the reduction to €1 in the cover price of *Panorama* that coincided with the re-launch phase, the results of which will be easier to judge in the coming months.

Family and television titles saw a 4% increase in revenues, largely thanks to the performance of *Chi* (+20%) which benefited from a cover price increase carried out last summer, while the revenues from *TV Sorrisi e Canzoni* were in line with those of last year; the performance of TV guides, meanwhile, was somewhat weaker.

The Up-Market area saw an increase in revenues of 7%, thanks to stability in the fashion area, in particular *Grazia*, a slight increase in the Design and Architecture segment and a positive performance in the Cooking segment; a slowdown in the Interiors area, above all for *Casa Facile*.

On the international front, the period saw a continuation of the development of the *Grazia* brand with an agreement with Independent Media Sanoma Magazines, one of the leading players in Russia, that has led to the launch of a local edition of the weekly, with very positive results for the first issues in terms of circulation and, particularly, advertising. Other agreements are currently being defined for other important countries.

Add-on sales

In Italy the add-on sales phenomenon saw a marked downturn in the first quarter (-20%); there was a fall in revenues from the sale of miscellaneous goods, while sales of DVDs and CDs held up.
In this context, of particular note was the initiative "La Storia", along with *Panorama's* film series and the music and Dvd initiatives of *TV Sorrisi e Canzoni*. The fall in Mondadori's revenues was the result of a change in the programming. Compared with the past, the launch of a number of works, including "L'Enciclopedia della cucina italiana", the benefits of which will be felt in the period April-July, and the lack, compared with 2006, of a number of multi-title initiatives planned in 2007 for the months of May and July.

Magazines (France)

The activities of the Magazine Division in France during the period generated consolidated revenues of €96.2 million: with a positive trend in circulation sales marginally offset by a slight fall in advertising revenues..
No comparison can be made with the corresponding period of the previous year, given that the acquisition of the division by the Mondadori Group took place during the third quarter of 2006.

Circulation

In terms of circulation, overall the Group's titles performed well. In particular, the titles in the Loisirs area saw circulation increase: the newsstand sales of *Closer*, were especially positive, taking it to the top of its segment.
Overall, subscription sales remained at the same level as previous months for all of the business areas.

Advertising

The advertising market in France was affected during the period by two negative factors:
- the presidential elections (resulting in a marked slowdown in advertising investments)
- the possibility for companies operating in the large-scale retail sector to advertise their products and services, from January 2007, also on television, with a consequent impact on advertising budgets for print and outdoor media.

Among the business areas of Mondadori France, of note was the stability of *Télé Star* and *Closer*, while titles in the Homme, Loisirs and Femme segments saw a slowdown, even if in line with a market under ongoing pressure (-2.8% in terms of volume compared with the same period of the previous year – source: SECODIP).

Advertising Services

	€m 31 March 2007	**€m 31 March 2006**
Advertising revenues	73.9	73.7
Other revenues	0.2	0.2
	74.1	**73.9**
Operating costs	(74.6)	(75.1)
Gross operating profit	**(0.5)**	**(1.2)**
Amortization and depreciations	(0.1)	(0.1)
Operating profit	**(0.6)**	**(1.3)**

The market

During the first three months of 2007 the advertising market, compared with the same period of last year, got off to a very slow start. The only area showing marked growth was the internet, with revenues that now outstrip outdoor and cinema, proof of the growing interest of advertisers in multimedia communications.

In the print media sector, after a brilliant 2006, magazines started the year slowly, above all as a result of a marked fall in space that was not compensated by an increase in ad rates. The sectors most affected during the period were cosmetics, furniture and interiors, finance and telecoms. FMCGs were stable, while there were positive results from fashion and tourism.

The company

Mondadori Pubblicità, in terms of overall sales, closed the first quarter with revenues of €74.1 million, in line with Q1 2006 (+0.2%), with a portfolio that saw the entry of *Famiglia Cristiana* and the exit of Disney.

The company also benefited, starting in March, from a positive reaction to *Panorama*, after a wide-ranging re-design and re-launch at the beginning of the month and the launch of *First*. Of particular note was the increase in sales for Radio R101 (+25%) compared with 2006, sustained by a continuously growing audience, and the development of the internet channel that, with a growth rate that is above that of the market, offers an increasingly effective way of valorising the company's multimedia offer.

Printing division

	€m **31 March 2007**	**€m** **31 March 2006**
Printing revenues	113.2	122.9
Other revenues	-	-
	113.2	**122.9**
Operating costs	(103.9)	(112.9)
Gross operating profit	**9.3**	**10.0**
Amortization and depreciations	(6.0)	(5.2)
Operating profit	**3.3**	**4.8**

In the first quarter of the year the Printing Division generated total revenues of €113.2 million, a fall of 7.9% compared with the same period of the previous year.

This fall is due to a reduction in revenues from:
- add-on sales for newspapers and magazines, and
- a slight reduction in foliations and print runs.

A more significant summary of overall revenues generated by the Printing Division can be seen in the following chart which gives revenues net of paper and transport costs:

Printing revenues net of paper costs	**€m 31 March 2007**	**€m 31 March 2006**	**Change %**
Magazines	31.6	34.8	(9.2%)
Books	23.1	24.5	(5.7%)
Catalogues & promotional materials	7.6	7.1	7.0%
Directories	0.7	0.6	16.7%
Total printing revenues net of paper cost	**63.0**	**67.0**	**(6.0%)**

The overall reduction in printing revenues during the period was 6.0% compared with the same period of last year.

The level of utilisation and saturation of plant capacity was, nevertheless, satisfactory, given the already forecasted reduction in activities sub-contracted to third-party suppliers. Trends in raw material and energy prices were in line with expectations, while efforts to reduce both production and structure costs continued.

Direct marketing

	€m 31 March 2007	**€m 31 March 2006**
Revenues from sales	6.0	5.6
Other revenues	-	-
	6.0	**5.6**
Operating costs	(5.7)	(5.3)
Gross operating profit	**0.3**	**0.3**
Amortization and depreciations	(0.1)	(0.1)
Operating profit	**0.2**	**0.2**

In this area the Mondadori Group maintained a good level of growth, with revenues which increased in the period by 7.1%.

During the period, **Cemit** saw a recovery in revenues, after a fall last year due to the introduction of new privacy legislation. Consequently, the company, after having completed a review of the organisational structure in view of the new market scenario, is now facing the challenge of developing and integrating its various data archives (the company's principal asset) in line with continuing technological developments.

Retail

	€m 31 March 2007	**€m 31 March 2006**
Revenues from sales	38.3	36.2
Other revenues	-	-
	38.3	**36.2**
Operating costs	(38.5)	(35.9)
Gross operating profit	**(0.2)**	**0.3**
Amortization and depreciations	(1.6)	(0.5)
Operating profit	**(1.8)**	**(0.2)**

Compared with Q1 2006, **Mondadori Franchising** recorded significant growth in revenues (+17.8%), thanks to new affiliations during the 12-month period of reference with the number of bookstores up from 172 to 187, while the number of Edicolè outlets more than doubled (86 compared with 40 at 31 March 2006).

The revenues of **Mondadori Retail** remained essentially stable compared with the same period of the previous year, when considered net of sales for large-scale retail clients, that had already been suspended at the end of the first half of 2006.
In the first quarter of 2007, the expansion of the company's network of directly controlled stores continued with the opening, at the end of March, of the store in the Roma Lunghezza shopping mall and the April inauguration of the new Multicenter in Piazza Duomo in Milan.

Messaggerie Musicali, acquired at the end of 2006, generated revenues of €8.2 million: work began during the period on the restyling of the two outlets (Rome and Milan) to bring them more into line with the Mondadori Multicenter format, to which they will be converted, with an expansion of the books area, in which there is a marked growth in sales that will compensate for the natural fall in the music market.

Radio Division

	€m 31 March 2007	€m 31 March 2006
Revenues from sales	2.0	1.6
Other revenues	-	-
	2.0	**1.6**
Operating costs	(6.1)	(6.1)
Gross operating profit	**(4.1)**	**(4.5)**
Amortization and depreciations	(0.3)	(0.2)
Operating profit	**(4.4)**	**(4.7)**

Activities during the period involved changes to the schedule, in particular during the weekend, and a big communication campaign (using TV, print media and outdoor) on the brand and editorial product.
Marketing activities were focused especially on the morning show *La carica di 101*, which now includes among its presenters the actor and comedian Massimo Lopez. Particular prominence has also been give to the new prize game show *Regalo di Compleanno* presented by Gerry Scotti.

At the same time, activities have continued for the acquisition of additional frequencies and the relative infrastructure, in particular in the Veneto and Emilia Romagna regions, which has become the third biggest region in terms of daily listeners. As a result of these activities an 89% coverage of the population has now been achieved with a higher level of intensity of the network's presence around the country.

This combination of communication activities and the acquisition of frequencies led to a marked increase in the network's Audiradio ratings in the first two months of 2007, which attributed to Radio R101 a daily average of around 1.8 million listeners (+20% vs. 4th cycle of 2006) and around 7.5 million listeners over seven days, with a consequent increase in the loyalty index (the ratio of average of daily/seven day listeners) to 24%, compared with 13% two years ago (with a market average of 35%).

Compared with its direct competitors, R101 has almost closed the gap in terms of the average number of listeners and has ratings across 7 days that are markedly superior.

Net revenues generated by Radio R101 in the first quarter of the year amounted to €2 million (€ 1.6 million in Q1 2006). This figure reflects the company's share of the generation of gross advertising revenues of €3.3 million (+26.9% on the same period of the previous year).

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 31 March 2007, showed a deficit of €517.4 million, as illustrated in the following table:

Net financial position	**€m**	**€m**	**€m**
	31 March 2007	**31 December 2006**	**31 March 2006**
Cash and other equivalent liquid assets	108.3	105.5	106.6
Financial investments at fair value	160.6	152.5	432.6
Gains (losses) from derivatives	(33.8)	(35.5)	(13.0)
Other financial gains (losses)	(7.9)	(11.0)	(17.4)
Financing (short and medium/long term)	(377.5)	(401.3)	(57.5)
Bonds	(260.1)	(259.0)	(283.0)
Convertible bonds	(107.0)	(105.9)	(104.7)
Net financial position	**(517.4)**	**(554.7)**	**63.6**

The first quarter of 2007 saw a continuation of a period of economic growth in the markets that began in recent years, with the confirmation, in particular, of the capacity of the European economy to develop and sustain a favourable cycle, despite the international scenario.

Available figures show that GDP growth was more consistent in Europe (+2.0%) than in the United States (+1.3%), with a forecast for a continuation or even improvement in this trend for the full year: +2.5% in Europe, +2.0% in the US.

The development of domestic demand, with inflation essentially stable and a monetary policy that is for the moment favourable, is encouraging for this phase in the European economy – despite a progressive strengthening of the euro against other currencies, especially the dollar.

In terms of market interest rates, Euribor 3 months (Act/360) went up from 3.725% at the end of December 2006 to 3.924% at the end of March 2007. In the same period the average cost of money for the Mondadori Group was 3.76%.

The overall credit lines available to the Group at 31 March 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 €56 million as of 31 March 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;
- €51.4 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 31 March 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.

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 31 March 2007, amounted to €172.3 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 €143.4 million;
- hedge fund investments for around €28.9 million (broadly diversified by management and strategy).

The return of the financial portfolio in the first three months of 2007 was 5.19% .

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.

Figures are in €m

Personnel

As of 31 March 2007 Group companies employed 5,571 people (5,668 at 31 December 2006), while the average number of personnel during the period amounted to 5,584 (4,407 in the same period of 2006). On a like-for-like basis, the average payroll for the first quarter of the current year would be 4,335.

The following table shows details of Group personnel as of 31 March 2007:

Personnel	**31-03-2007**	**31-12-2006**	**31-03-2006**
Arnoldo Mondadori Editore SpA:			
- Managers, journalists and office staff	1,364	1,477	1,486
- Manual workers	108	101	105
	1,472	**1,578**	**1,591**
Italian subsidiaries:			
- Managers, journalists and office staff	1,786	1,706	1,551
- Manual workers	1,054	1,098	1,121
	2,840	**2,804**	**2,672**
Foreign subsidiaries:			
- Managers, journalists and office staff	1,154	1,181	41
- Manual workers	105	105	102
	1,259	**1,286**	**143**
Total	**5,571**	**5,668**	**4,406**

For a correct interpretation of the above figures it should be noted that the fall in the number of employees of Arnoldo Mondadori Editore SpA is largely due to the contribution of the magazine distribution activities to the subsidiary Press-Di Distribuzione Stampa and Multimedia Srl.

Personnel costs rose from €66.4 million to €92.2 million, an increase of 38.9% due to a changed consolidation area that now includes Mondadori France and Messaggerie Musicali SpA.
Net of these acquisitions, the increase would be around 1%.

As of 31 March 2007, the following contracts had expired:

- the remuneration and normative components of the national contract for managers;
- the remuneration and normative components of the national commercial labour contract;
- the remuneration and normative components of the national contract for journalists.

Capital investments

Capital investments in the first quarter of 2007 amounted to €6.3 million, and were principally made for the printing (€2.2 million) and retail areas, the latter in connection with the opening of new bookstores.

Disinvestments during the period amounted to a residual total of €0.1 million.

Other information

This consolidated quarterly report has been prepared in compliance with IAS/IFRS standards and the evaluation criteria adopted are in line with those used at 31 December 2006.

The quarterly report to 31 March 2007 has been prepared in line with Art. 82 of Consob regulation n°. 11971/1999, and subsequent modifications, and Enclosure 3D of the same regulation.
Consequently, international accounting principle n° 34, concerning financial communication during the course of the fiscal year has not been applied.

Expectations for the current year

In a market which, for books, is expected to confirm the positive trend of recent years, while magazines show the first timid signs of a recovery in advertising, while remaining weak on the circulation and, particularly, add-on sales fronts, the company expects to be able to increase its overall revenues and operating profit compared with the previous year, thanks also to the enlargement of the company itself.

On behalf of the Board of Directors
The Chairman
Marina Berlusconi

Consolidated financial statements
to 31 March 2007

Consolidated balance sheet

Assets	**Q1 31 March 07**	**FY 31 December 06**
Intangible assets	**935,648**	**918,075**
Fixed assets	**4,689**	**4,744**
Land and buildings	86,160	86,878
Plant and machinery	93,050	98,010
Other assets	40,158	36,979
Property, plant and machinery	**219,368**	**221,867**
Investments booked using net equity method	119,629	120,230
Other investments	2,174	2,174
Total investments	**121,803**	**122,404**
Non-current financial assets	**2,061**	**1,533**
Advanced taxes	**47,578**	**46,100**
Other non-current assets	**3,397**	**3,525**
Total non-current assets	**1,334,544**	**1,318,248**
Tax credits	**33,195**	**29,854**
Other current assets	**72,491**	**72,204**
Inventories	**142,921**	**141,126**
Trade receivables	**446,785**	**479,018**
Stocks and other current financial assets	**207,872**	**206,713**
Cash and equivalents	**108,259**	**105,507**
Total current assets	**1,011,523**	**1,034,422**
Assets destined to be sold or closed	**-**	**-**
Total assets	**2,346,067**	**2,352,670**

Consolidated balance sheet

Liabilities	Q1 31 March 07	FY 31 December 06
Share capital	67,452	67,452
Share premium reserve	286,742	285,467
Treasury shares	(120,503)	(127,998)
Other reserves and results carried forward	258,821	148,532
Profit (loss) for the period	23,583	108,960
Total Group shareholders' equity	516,095	482,413
Minority capital and reserves	2,532	4,020
Total shareholders' equity	518,627	486,433
Reserves	29,692	35,187
Severance payments	103,376	104,182
Non-current financial liabilities	746,993	744,706
Deferred tax liabilities	106,558	102,240
Other non-current liabilities	-	-
Total non-current liabilities	986,619	986,315
Income taxes payable	63,517	49,682
Other current liabilities	278,913	272,168
Trade liabilities	409,810	434,316
Bank debts and other financial liabilities	88,581	123,756
Total current liabilities	840,821	879,922
Liabilities deriving from sales or closures	-	-
Total liabilities	2,346,067	2,352,670

Consolidated income statement

	Q1 31 March 07	Q1 31 March 06
Income from sales of goods and services	**468,122**	**409,592**
Decrease (increase) in inventories	(1,794)	2,943
Cost of raw materials and consumables and goods for resale	111,698	127,275
Cost of services	210,451	167,719
Personnel costs	92,224	66,409
Other income (expense)	1,164	1,595
Income (charges) from investments (calculated on a net equity basis)	83	309
Gross operating profit	**54,462**	**43,960**
Depreciation of property, plant and equipment	8,926	7,251
Amortisation and impairment of intangible assets	1,765	327
Operating profit	**43,771**	**36,382**
Financial income (expense)	(6,174)	2,274
Income (expense) from investments	-	-
Profit before income taxes	**37,597**	**38,656**
Income taxes	13,833	13,284
Profit from continuing activities	**23,764**	**25,372**
Income (expense) from assets/liabilities held for sale		-
Result attributable to minorities	(181)	(307)
Net profit	**23,583**	**25,065**
Net profit per share (in €)	0.098	0.105
Diluted net profit per share (in €)	0.111	0.104

On behalf of the Board of Directors
The Chairman
Marina Berlusconi