ARNOLDO MONDADORI EDITORE S.p.A.

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

Third quarter report on the year to 30 September 2005

Corporate Boards

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Vice Chairman and Chief Executive
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Pier Silvio Berlusconi
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Roberto Poli
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Board of Statutory Auditors

Chairman
Achille Frattini

Acting Statutory Auditors
Antonio Aiello
Ferdinando Superti Furga

Substitute Statutory Auditors
Francesco A. Giampaolo
Francesco Vittadini

Mondadori Group

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The Mondadori Group's business activities

In the third quarter of 2005, the macroeconomic situation, and in particular the sectors in which Mondadori operates, changed little compared with the first half of the year, remaining characterised by a certain sluggishness and weakness in consumer confidence.

In this context, the Mondadori Group performed in line with or rather better than its specific sectors of reference.

What follows is an outline of the consolidated results for the first nine months of the year, prepared in line with IAS/IFRS accounting principles. The figures to 30 September 2004 have been recalculated according to the same principles in order to facilitate comparison with 2005.

In the first nine months of 2005 **consolidated revenues** amounted to €1,230 million, an increase of 1.5% on the €1,212.2 million of the same period of the previous year.

Gross operating profit came to €170.3 million, up by 1.6% on the €167.6 million of the same period of the previous year. Compared with last year, it is important to note that the result includes the impact of new launches in the TV listings segment and investments for the relaunch of R101, which have been concentrated in the third quarter. In 2005, moreover, the government paper contribution has been booked. Operating profit, as a proportion of revenues was stable at 13.8%.

Operating profit came to €144.4 million, an increase of 5.6% on the €136.8 million of the first nine months of the previous year. The improvement here was also due to lower amortizations in the printing sector. As a proportion or revenues, operating profit rose from 11.3% to 11.7%.

There was a marked increase in **net profit**, which ended the period at €92.1 million, up from the €77.2 of the first nine months of 2004, an increase of 19.3%.

The Group's **net financial position** at 30 September 2005 showed a deficit of €20 million, compared with a surplus of €63.2 million on 1 January 2005. This difference is due to dividend payments of €85.4 million and investments of around €75 million for the acquisition and development of R101.

The following comments refer to the consolidated results for the first nine months of 2005.

Results for the period

Consolidated income statement (in €m)	**Q3 2005**	**Q3 2004**	**Q3 Change**	**to 30 September 2005**	**to 30 September 2004**	**Change**
Revenues	404.5	401.4	0.8%	1,230.0	1,212.2	1.5%
Personnel costs	62.0	55.2	12.3%	197.4	182.9	7.9%
Cost of sales and management	282.1	285.6	(1.2%)	869.5	862.6	0.8%
Income (charges) from investments booked at net equity	2.5	1.2	108.3%	7.2	0.9	n.a.
Gross operating profit	**62.9**	**61.8**	**1.8%**	**170.3**	**167.6**	**1.6%**
-as a proportion of revenues	*15.6%*	*15.4%*		*13.8%*	*13.8%*	
Depreciations of fixed assets	8.4	9.7	(13.4%)	24.5	28.6	(14.3%)
Depreciations of intangible assets	0.4	0.8	(50.0%)	1.4	2.2	(36.4%)
Operating profit	**54.1**	**51.3**	**5.5%**	**144.4**	**136.8**	**5.6%**
-as a proportion of revenues	*13.4%*	*12.8%*		*11.7%*	*11.3%*	
Net financial income (charges)	2.3	(1.3)	n.a.	(3.6)	(4.7)	(23.4)%
Other income (charges)	(0.3)	-	n.a.	(0.3)	-	n.a.
Profit before taxation	**56.1**	**50.0**	**12.2%**	**140.5**	**132.1**	**6.4%**
-as a proportion of revenues	*13.9%*	*12.5%*		*11.4%*	*10.9%*	
Tax charges (income)	15.4	16.4	(6.1%)	47.4	54.3	(12.7%)
Minority interest	(0.4)	(0.2)	n.a.	(1.0)	(0.6)	n.a.
Net profit	**40.3**	**33.4**	**20.7%**	**92.1**	**77.2**	**19.3%**
-as a proportion of revenues	*10.0%*	*8.3%*		*7.5%*	*6.4%*	
Gross cash flow	**49.1**	**43.9**		**118.0**	**108.0**	

Consolidated revenues amounted to €1,230.0 million, an increase of 1.5%. The following table illustrates the business volumes for each business area.

Business volumes by business area	**€m 30 September 2005**	**€m 30 September 2004**	**Change %**
Books	311.2	305.3	1.9%
Magazines	603.0	582.2	3.6%
Advertising services	244.9	241.4	1.4%
Printing	333.8	335.6	(0.5%)
Direct	20.5	23.3	(12.0%)
Retail	89.6	69.7	28.6%
Radio	2.8	-	n.a.
Corporate and other business	11.3	11.9	(5.0%)
Total sales	**1,617.1**	**1,569.4**	**3.0%**
Intergroup sales	(387.1)	(357.2)	8.4%
Total consolidated revenues	**1,230.0**	**1,212.2**	**1.5%**

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

Revenues by geographical area	**€m 30 September 2005**	**€m 30 September 2004**	**Change %**
Italy	1,155.6	1,145.2	0.9%
EU countries	58.8	55.8	5.4%
USA	7.1	8.3	(14.5%)
Others	8.5	2.9	193.1%
Total consolidated revenues	**1,230.0**	**1,212.2**	**1.5%**

Book division

In the third quarter of 2005 the book market, according to Demoskopea figures, showed modest growth: +0.6% in terms of copies and +1.3% in terms of value. In this context, the Mondadori Group recorded an increase of 1.9%, thanks above all to growth at Edizioni Mondadori, Piemme, Mondadori Electa and Edumond Le Monnier.

The following table presents the performance of the Mondadori Group's Book Division.

	€m 30 September 2005	**€m 30 September 2004**
Book sales	307.8	301.5
Other revenues	3.4	3.8
	311.2	**305.3**
Operating costs	(254.2)	(261.7)
Gross operating profit	**57.0**	**43.6**
Amortisations & depreciations	(2.2)	(2.4)
Operating profit	**54.8**	**41.2**

The following table shows a breakdown of revenues from each of the Group's publishing houses:

Books	**€m 30 September 2005**	**€m 30 September 2004**	**Change %**
Edizioni Mondadori	100.2	97.8	2.5%
Einaudi	30.5	31.7	(3.8%)
Mondadori Electa	31.1	25.9	20.1%
Sperling & Kupfer Group	20.2	22.5	(10.2%)
Piemme	30.9	28.1	10.0%
Edumond Le Monnier	68.8	65.6	4.9%
Distribution & logistics	26.1	29.9	(12.7%)
Total consolidated sales	**307.8**	**301.5**	**2.1%**

Edizioni Mondadori

In the third quarter Edizioni Mondadori recorded an increase of 20% in sales, thanks to the successes of the summer season, raising September revenues to €100.2 million (+2.5% compared with 2004).

A significant component of this positive performance is attributable to the Dan Brown phenomenon: almost four million copies of the various editions (hardcover, paperback, special illustrated edition) of just two titles, *Il codice da Vinci* and *Angeli e demoni*. And for Christmas 2005 a new title will be published: *La verità del ghiaccio*.

Sales of titles in the Miti paperback series, in their new design and with titles of great public interest, were particularly positive during the summer: 9 titles published between June and August achieved sales of more than 100,000 copies, with an average of 150,000 copies sold per title. Another big summer success was the large format book by Giobbe Covatta, *Corsi e ricorsi ma non arrivai*, which with its humorous treatment of the front pages of newspapers sold well over 100,000 copies.

Between the end of August and the beginning of September new books by two very important authors were successfully published: *La regina della casa* by Sophie Kinsella, which achieved an immediate response and is moving in the direction of 100,000 copies, and *Il broker* by John Grisham, which, thanks to a significant advertising campaign, had an excellent launch and has been firmly placed at the top of the bestsellers lists for the whole of September.

Giulio Einaudi Editore

In the period January-September 2005, Einaudi saw a fall in sales, both through the retail channel, and through the instalments channel due to the closure of a number of agencies. Revenues came to €30.5 million (-3.8% on 2004).
However, there was an increase in the sale of rights of 24% compared with 2004, entirely attributable to the revenues from newspapers selling books as add-ons.

The most successful titles during the period included: *Crimini* by Giancarlo De Cataldo, *Sabato* by Ian McEwan, *Romanzo criminale* by Giancarlo De Cataldo, *Album* with DVD by Marco Paolini, *Sotto i venti di Nettuno* by Fred Vargas, *I figli non crescono più* by Paolo Crepet.

Mondadori Electa

Revenues in the period January-September came to €31.1 million, an increase of 20.1% compared with 2004.

In terms of editorial activities, among the most significant events of the quarter were the launch, in September, of the new series of the *Dizionari del Cinema* (organised to coincide with the Venice Film Festival) and the *Grande Atlante dell'Architettura* which aims to popularise its subject with a markedly contained price.

Editorial production related to add-on sales with magazines led to the launch, in August, of *Art Book* with *il Giornale* while very successful operations continued with the *I grandi musei* series with *il Sole 24 Ore* and the *Corriere della Sera* initiative with *Le Guide Turistiche Mondadori*.

In the area of cultural heritage two important events during the period were the opening of two significant temporary exhibitions: the firts at the Colosseum at the end of July, "Il Rito Segreto - Misteri in Grecia e a Roma", and the second "Rubens, Eleonora De Medici, Gonzaga e l'Oratorio sopra Santa Croce: Pittura devota a corte" at the Palazzo Ducale in Mantua.

Finally, there was a marked increase, compared with previous editions, in sales at the 51st Biennale Visual Arts Festival in Venice.

Sperling & Kupfer Group

For Sperling & Kupfer the shortfall in revenues to 30 September 2005 (-10.2% to €20.2 million) is largely the result of an editorial plan for the whole of 2005 that is less appealing than that of the previous year.

Also Frassinelli saw a fall in sales, due to the difficult comparison with the previous year which benefited from the success of *Pamela*, on which the successful TV series "Elisa di Rivombrosa" was based.

The titles and initiatives of note in the third quarter were: in the non-fiction area *Sconosciuto 1945* by Gianpaolo Pansa, the good performance of the book by Mireille Guiliano *Le francesi non ingrassano* and the consolidation of authors in the catalogue. At Frassinelli *Il posto che cercavo*, the new book by the best-selling author Nicholas Sparks stands out.

Edumond Le Monnier

In the first nine months of 2005, Edumond Le Monnier SpA recorded net revenues of €68.8 million, an increase of 4.9% compared with the previous year, also thanks to the contribution of Texto, the company acquired during the last quarter 2004.

Regarding the different school levels, following an effective adoption campaign, revenue performance in the first and second levels of secondary schools appears to be particulalry positive. Some of the new titles presented to the market have been particularly well received. In the first level of secondary schools a new edition of "Natura", the science course by Einaudi Scuola edited by L. and F. Cavalli Sforza, and "Contesti Musicali", a newly conceived music education published by Le Monnier. At the second level, the new Le Monnier Latin course, edited by G.B. Conte, and a new edition of "Radici del Futuro", a history course for professional schools by V. Calvani.

Sales at infant and primary schools, meanwhile, have been less brilliant. There were, however, exceptions with the decidedly positive performance, in particular, of “Vacanze Stratopiche con Geronimo Stilton”, a collection of holiday homework exercises for primary schools published together with Piemme Scuola.

Finally, note should be taken of the decision of MIUR to postpone the adoption of the new reforms for the second level of secondary schools until the academic year 2007/2008.

Piemme

The positive performance of Piemme continued, and revenues in the first nine months were up 10% on the previous year to €30.9 million, thanks to the positive contribution of both the fiction and non-fiction as well as the junior lines.

The fiction and non-fiction area consolidated the position of the previous year. The successes of the period included the excellent results of the new title by Michael Connelly *Utente sconosciuto* and the continuing success of *Il Cacciatore di Aquiloni*, a backlist title now in its twelfth edition and sales of 55.000 copies making it an editorial case history. Also the religious books sector continued the positive trend of the first half of the year.

Regarding the junior area, the second half of the year appears to have been especially favourable for the Il Battello a Vapore series, which in the last two years has concentrated its creative energies on the development of series dedicated to children’s characters, some under licence and others original, such as Milla & Sugar and Ulysses Moore.
The positive trend of 2004 was also confirmed for Geronimo Stilton (+7.6%), which in the second half of the year introduced an immediately popular series, *Alla ricerca della felicità*, which has been enthusiastically received by all the sales channels. This premium product was joined in October by other series aimed at younger readers, such as *Cinque minuti prima di dormire* (fables) and *Il grande libro dei dinosauri di Geronimo Stilton* (educational). An agreement has also been reached for the add-on sale with *Corriere della Sera* of a series of Geronimo Stilton books that, thanks to the supporting advertising campaign will extend the notoriety of the character.

Distribution and Logistics

Cumulative revenues to 30 September 2005 was down 12.7% on the previous year as a result of a reduction in third-party book distribution.

Magazine Division

In the first nine months of 2005 the Magazine Division generated consolidated revenues of €603.0 million, an increase of 3.6% compared with the same period of the previous year.

	€m 30 September 2005	**€m 30 September 2004**
Magazine revenues	596.1	573.1
Other revenues	6.9	9.1
	603.0	**582.2**
Operating costs	(505.7)	(489.8)
Gross operating profit	**97.3**	**92.4**
Amortizations and depreciations	(1.3)	(1.8)
Operating profit	**96.0**	**90.6**

The circulation market in which the Mondadori Group competes grew by 5.4% in terms of copies sold. This expansion was almost entirely due to the new launches in the TV-listings segment which saw the launch of four new titles (two of which from Mondadori) and which had a determining effect on expanding the segment.

This pattern of growth linked to new launches can be seen, albeit to a lesser degree, in the health/beauty segments (with the launch of *OK Salute*), as well as in youth titles (with the launches of *Pop's* and *Top of the Pops*), newsmagazines (*News*) and popular psychology (*Psycologies* and *Friendly*). All other segments remain either stable or in decline.

In the context of this new-launch led growth, Mondadori, which has the highest number of established titles and the biggest market share, contained its fall in market share to two points.

The Group's total circulation revenues grew by 5.3% to €444.4 million, thanks to the very positive performance of add-on sales (+24.9% to €188.8 million) which more than compensated for the fall in sales of copies (-5.6% to €255.6 million). Advertising sales fro Mondadori titles recorded an increase of 0.4% to €151.7 million.

In terms of the composition of add-on sales, revenues from the different types of goods confirmed the trends that emerged in the first half of the year which signalled an increase in the use of editorial products and DVDs, and a fall in VHS, music CDs and miscellaneous objects.

In fact, September was characterised by the newsstand launch of important editorial series such as the Meridiani, Mondadori's prestige series of literary works, the Treccani *Enciclopedia Dantesca*, sold with *Panorama* and the continuation of the "Garzantina", after the summer break.
Other important initiatives include, books by De Crescenzo, the pasta recipes of *Donna Moderna* and books by comedians with *TV Sorrisi e Canzoni.*

Advertising

	€m 30 September 2005	**€m 30 September 2004**
Advertising revenues	240.0	238.0
Other revenues	4.9	3.4
	244.9	**241.4**
Operating costs	(244.3)	(237.9)
Gross operating profit	**0.6**	**3.5**
Amortizations and depreciations	(0.2)	(0.2)
Operating profit	**0.4**	**3.3**

In terms of the total advertising market, in the third quarter of 2005 the level of investments confirmed the moderate growth trend that was seen in the first half.

In particular, in the magazine sector, in terms of pages, family titles continued to perform well, there was slight growth in the male lifestyle segments, while women's titles remained stable.
In terms of client categories, there was growth in finance. Telecoms, media/publishing and continued difficulty in cosmetics, tourism, IT and FMCGs.

The business of Mondadori Pubblicità, which sells advertising for all of the group's titles, the radio and third-party publishers, recorded an increase in revenues in the first nine months of 2005 of 1.4%.

Advertising sales for Mondadori had a good summer, particularly with *Chi*, *Panorama* and *Economy*; other titles were essentially stable.

The last three months, fundamental in identifying the underlying trend for 2006, appear to confirm the summer trend, even if compared with a particularly positive final quarter in the previous year.

Printing Division

	€m 30 September 2005	€m 30 September 2004
Printing revenues	333.8	334.3
Other revenues	-	1.3
	333.8	**335.6**
Operating costs	(305.0)	(298.4)
Gross operating profit	**28.8**	**37.2**
Amortizations and depreciations	(17.3)	(21.5)
Operating profit	**11.5**	**15.7**

In the first nine months of 2005 the printing area recorded revenues of €333.8 million (-0.5% compared with the previous year).

In the books sector, the positive trend in monochrome books continued, also thanks to the numerous initiatives of hardback books used as add-on sales with newspapers and magazines, while print volumes for illustrated books saw a falloff due to increased competition from printers in the Far East.

In the catalogues sector Mondadori Printing maintained its market share despite strong competition from European operators.

The investments approved in 2004 are currently at the implementation stage and concern the roto-offset department and will become operational in the first half of 2006.

The level of production at the plants is better represented by revenues net of the cost of paper and transport, as in the following table:

Printing revenues net of paper costs	**€m 30 September 2005**	**€m 30 September 2004**	**Change %**
Magazines	83.2	91.6	(9.2%)
Books	75.3	69.5	8.3%
Catalogues & promotional materials	21.2	19.7	7.6%
Directories	2.0	3.1	(35.5%)
Total printing revenues net of paper costs	**181.7**	**183.9**	**(1.2%)**

Direct

	€m 30 September 2005	€m 30 September 2004
Revenues from sales	20.5	23.3
Other revenues	-	-
	20.5	**23.3**
Operating costs	(16.7)	(19.9)
Gross operating profit	**3.8**	**3.4**
Amortizations and depreciations	(0.3)	(0.5)
Operating profit	**3.5**	**2.9**

The figure for sales revenues no longer includes the figures for **Mondolibri S.p.A.,** the joint venture with the Bertelsmann Group, previously consolidated on a proportional basis as per Italian accounting principles, but now booked at net equity as IAS/IFRS accounting principles.

In the first nine months of 2005 **Cemit** has been faced with the emerging difficulties resulting from new privacy legislation that has made it more difficult to compile address lists, it no longer being posible to use telephone directory listings. Moreover, the period was affected by the absence of significant non-recurring revenues that were a feature of the previous year. Total revenues were therefore down 12% to €20.5 million.
The company is, in the meantime, implementing a reorganisation programme for processes with a sharp focus on technological development and the expansion of information systems relating to the databases that are the company's principle asset. The aim is to ensure the company is prepared to face the new challenges of the direct marketing sector.

Retail

	€m 30 September 2005	€m 30 September 2004
Revenues from sales	89.6	69.7
Other revenues	-	-
	89.6	**69.7**
Operating costs	(88.5)	(70.7)
Gross operating profit	**1.1**	**(1.0)**
Amortizations and depreciations	(1.7)	(1.7)
Operating profit	**(0.6)**	**(2.7)**

Compared with the same period of 2004 **Mondadori Franchising** again recorded a significant increase in revenues (+24.1% to €25.2 million), thanks mainly to new affiliations in the twelve-month reference (the number of bookstores went up from 139 to 157) and the launch of the new Edicolè formula, which ended the experimental phase with the opening of 17 new sales outlets.
The new logistics system, which is highly automated, has also led to an increase in efficiency and sustained the increase in complexity resulting from growth in volumes and points of sale to be supplied.

Mondadori Retail recorded a marked increase in revenues (+30.4% to €64.4 million) both through established outlets and thanks to new openings.
Stringent warehouse controls of digital products has led to a reduction in inventory compared with the beginning of the year through the promotional sale of slow-moving and obsolescent stock. This had a partially negative impact on the profitability of outlets compared with the same period of 2004.

Over the period covering the end of the year and the beginning of 2006 two new stores will be opened at the new shopping mall at Rome Fiumicino.

Radio

	€m 30 September 2005	**€m 30 September 2004**
Revenues from sales	2.8	-
Other revenues	-	-
	2.8	**-**
Operating costs	(9.3)	-
Gross operating profit	**(6.5)**	**-**
Amortizations and depreciations	(0.6)	-
Operating profit	**(7.1)**	**-**

The third quarter saw the continuation of the relaunch activities for R101, acquired by the Group in January 2005.
The revenues in the table correspond to gross sales by the Group's advertising company of €4.7 million, a figure that confirms a very positive upward trend.
After changes to the name (from Radio 101 to R101), the logo, the schedule (music, programmes and information) and the hiring of a number of well-known presenters in the world of radio, the month of June saw the beginning of a big communication campaign
The total investment was initially planned on the group's titles and subsequently extended to include other media (newspapers, TV, outdoor and cinema).

At the same time, technical investments have been concentrated on signal distribution through the acquisition of new frequencies, which has extended coverage from an initial level of 56% to the current level of more than 80%.

In particular, in July an agreement was defined for the acquisition of 62 transmission units (and their relative frequencies) that markedly strengthened R101's coverage in Emilia Romagna, Marche, Tuscany, Lombardy and Lazio. In September four plants and frequencies were acquired in Valle d'Aosta, while, in October, transmission infrastructure was acquired for the main urban areas of Sicily.

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 September 2005 showed a deficit of €20 million, as illustrated in the following table:

Net financial position	**€m 30 September 2005**	**€m 1 January 2005**	**€m 30 September 2004**
Short-term bank deposits	42.2	135.4	157.3
Short-term borrowings from banks	(11.1)	(2.4)	(9.0)
Financing (short and medium/long term)	(163.5)	(115.4)	(116.4)
	(132.4)	17.6	31.9
Fixed interest securities	552.7	492.7	424.6
Bonds	(300.4)	(257.9)	(295.7)
Convertible bonds	(104.7)	(101.0)	(109.6)
Cash, post office accounts, net receivables from affiliates and third parties and accrued interest income	(35.2)	(88.2)	3.4
Net financial position	**(20.0)**	**63.2**	**54.6**

During the third quarter of the year there was a consolidation in world economic growth (global GDP at 3.1%) thanks both to the economies of the USA and growth in a number of Asian countries (where the driver of recovery remains China with growth rate of 8.5%).

In the context of such a macroeconomic situation, during the third quarter, the dollar went from 1.2087 to 1.2042 against the euro; while the overall increase since the beginning of the year was 10.51%, from a level of 1.3507. Sterling, meanwhile, went from 0.6790 to 0.6819 against the euro in the last quarter; where the increase since the beginning of the year has been 3.99% from a level of 0.7072.

In terms of interest rates relevant for the Mondadori Group, 3-month Euribor (act/360) 2.106% at the end of June to 2.176% at the end of the September (an average of 2.13%). Since the beginning of the year the average cost of money for the Mondadori Group (including structures aimed at neutralising exchange rate risks and assisted loans) was 2.48%.

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

Around 28% of the Group's short-term borrowing facilities, of a total of €622 million, were used as at 30 September 2005, through self-liquidating credit lines and stand-by loans with a duration of less than 18 months minus one day.

Medium-long-term lines of €406.3 million are made up of €296.4 million from a private placement in dollars in the U.S.A., over three tranches expiring in 2013/2015/2018, and €109.9 million in convertible bonds, guaranteed by Mondadori shares, expiring in 2008. As at 30 September medium/long-term lines of facilitated credit for publishers, amounted to €13.5 million.

The Group's structural liquidity is managed by Mondadori International and its subsidiaries. At 30 September the Group's financial surplus came to €512.6 million. The rate of return on the financial portfolio as of 30 September was 2.54% (figure calculated over 12 months).

Personnel

As of 30 September 2005 Group companies employed 4,503 people (4,492 at 31 December 2004), while the average number of personnel during the period amounted to 4,518 (4,498 in the same period in 2004).
It should be noted that the figures here include fixed-term contracts, while the figures for the previous periods have been reclassified in line with changes in the area of consolidation

(Mondolibri is consolidated at net assets rather than proportionately) following the introduction of the new IFRS principles.

The following table shows details of Group personnel as of 30 September 2005:

Personnel	**30-09-2005**	**30-06-2005**	**31-12-2004**	**30-09-2004**
Arnoldo Mondadori Editore SpA:				
- Managers, journalists and office staff	1,481	1,486	1,491	1,505
- Manual workers	107	109	109	109
	1,588	**1,595**	**1,600**	**1,614**
Italian subsidiaries:				
- Managers, journalists and office staff	1,574	1,594	1,559	1,536
- Manual workers	1,194	1,189	1,187	1,206
	2,768	**2,783**	**2,764**	**2,742**
Foreign subsidiaries:				
- Managers, journalists and office staff	44	44	42	38
- Manual workers	103	104	104	104
	147	**148**	**146**	**142**
Total	**4,503**	**4,526**	**4,492**	**4,498**

The cost of personnel amounted to €197.4 million, an increase of 7.9% compared with September 2004. The increase in costs was the result of both the development of new businesses and extraordinary charges for severance payments and the charges related to the application of the new international accounting principles concerning severance indemnities.

Probable development of business activity

In the last quarter of the year, in an economic context that shows little sign of changing significantly, the only element of discontinuity is represented by industrial action taken by journalists' unions for the renewal of the national journalists' contract.
Also with this in mind, the Group foresees that in any case it will be able to confirm results that are substantially in line with those of the previous year

For the Board of Directors
Chairman
Marina Berlusconi

Mondadori Group

Consolidated balance sheet and income statement

Consolidated balance sheet

Assets	**Period to 30 September 2005**	**Year ended 31 December 2004**
Intangible assets	**234,070**	**144,800**
Real estate investments	**5,333**	**12,686**
Land and buildings	86,734	90,645
Plant and machinery	77,679	87,273
Other fixed assets	33,297	19,252
Property, plant and machinery	**197,710**	**197,170**
Investments valued at net equity	104,261	100,951
Other investments	2,157	2,473
Total investments	**106,418**	**103,424**
Non-current financial assets	**546**	**130,531**
Advance tax assets	**42,099**	**40,812**
Other non-current assets	**14,877**	**17,810**
Total non-current assets	**601,053**	**647,233**
Tax credits	**22,996**	**7,709**
Other current assets	**67,067**	**64,390**
Inventories	**123,978**	**120,895**
Trade receivables	**395,565**	**387,302**
Shares and other current financial assets	**574,653**	**504,288**
Cash and other equivalent liquid assets	**42,151**	**137,190**
Total current assets	**1,226,410**	**1,221,774**
Assets destined for sale or disposal	**1,950**	**-**
Total assets	**1,829,413**	**1,869,007**

Consolidated balance sheet

Liabilities	Period to 30 September 2005	Year ended 31 December 2004
Share capital	67,452	67,452
Share premium reserve	283,747	283,747
Other reserves and results brought forward	41,813	159,078
Profit (loss) for period	92,147	112,023
Shareholders' equity pertaining to Group	485,159	622,300
Third-party shareholders' capital and reserve	4,052	3,478
Total shareholders' equity	489,211	625,778
Reserves	15,054	16,287
Severance indemnities	99,482	94,743
Non-current financial liabilities	418,184	418,773
Deferred tax liabilities	43,702	21,587
Other non-current liabilities	-	-
Total non-current liabilities	576,422	551,390
Income tax payables	24,842	18,769
Other current liabilities	170,510	179,185
Trade payables	349,289	359,899
Payables to banks and other financial liabilities	219,139	133,986
Total current liabilities	763,780	691,839
Liabilities destined for sale or disposal	-	-
Total liabilities	1,829,413	1,869,007

Consolidated income statement

	Period to 30 September 2005	Period to 30 September 2004
Income from sales and services to third parties	**1,230,010**	**1,212,174**
Decrease (increase) in inventories	(3,067)	14,596
Purchase of raw, ancillary and consumable goods and materials	384,307	365,478
Purchase of services	501,109	479,387
Personnel costs	197,371	182,901
Various charges (income)	(12,851)	3,148
Income (charges) from investments valued at net equity	7,170	913
Gross operating profit	**170,311**	**167,577**
Depreciations of property, plant and machinery	24,485	28,644
Depreciations of intangible assets	1,464	2,138
Operating profit	**144,362**	**136,795**
Financial income (charges)	(3,592)	(4,696)
Income (charges) from other investments	(237)	-
Results before tax and minority interests	**140,533**	**132,099**
Income taxes	47,358	54,261
Results pertaining to third-party shareholders	(1,028)	(622)
Net profit	**92,147**	**77,216**

Net profit per share (in €)	0.38	0.32
Diluted net profit per share (in €)	0.38	0.32

Consolidated income statement

	Q3 2005	Q3 2004
Income from sales and services to third parties	**404,464**	**401,350**
Decrease (increase) in inventories	(9,031)	6,037
Purchase of raw, ancillary and consumable goods and materials	128,453	119,847
Purchase of services	171,993	158,666
Personnel costs	61,967	55,175
Various charges (income)	(9,350)	1,036
Income (charges) from investments valued at net equity	2,508	1,161
Gross operating profit	**62,940**	**61,750**
Depreciations of property, plant and machinery	8,409	9,669
Depreciations of intangible assets	437	777
Operating profit	**54,094**	**51,304**
Financial income (charges)	2,271	(1,290)
Income (charges) from other investments	(237)	-
Results before tax and minority interests	**56,128**	**50,014**
Income taxes	15,421	16,450
Results pertaining to third-party shareholders	(411)	(160)
Net profit	**40,296**	**33,404**

For the Board of Directors
The Chairman
Marina Berlusconi

Mondadori Group

Effects of adoption of IAS/IFRS accounting principles on consolidated net equity and net result and the consolidated balance sheet and income statement as at 30 September 2004

Reconciliation of Consolidated Shareholders' Equity at 30 September 2004

	Consolidated Shareholders' Equity as per Italian accounting principles	**555,149**
1.	Reversals of intangible assets	(2,021)
2.	Depreciations of intangible assets	12,378
3.	Valuation of intangible assets as per IAS 36	(969)
4.	Effects on property, plant and machinery	28,482
5.	Depreciations of property, plant and machinery	700
6.	Valuation of inventories as per IAS 2	(5,369)
7.	Actuarial calculation of reserves	4,662
8.	Severance indemnities as per IAS 19	12,236
9.	Application of IAS/IFRS accounting principles to companies valued at net equity	458
10.	Variations in consolidation area and others	(337)
11.	Fiscal effects	(13,840)
12.	Net effect on result of different criteria used for recognising income	(1,845)
	Consolidated Shareholders' Equity as per IAS/IFRS accounting principles	**589,684**

The following comments refer to the items and amounts in the reconciliation table (see previous page) between the value of consolidated net equity at 30 September 2004 prepared in accordance with Italian accounting principles and the value prepared in accordance with IAS/IFRS accounting principles.

1. The costs that according to IAS/IFRS accounting principles do not satisfy the requirements for being booked under intangible assets have been eliminated from the value of intangible assets. These include the cost of plant and expansion, the cost of software and long-term charges that do not have the characteristics necessary to be recognised by IAS 38. The adjustments introduced resulted in a reduction of the value of intangible assets equal to €2,021 thousand.

2. Some intangible assets, among titles, series and imprints, have been qualified as having an indefinite life, therefore they are no longer subject to depreciations but to an impairment test. This has resulted in an increase of €12,378 thousand in net equity.

3. Following the application of an impairment test, designed to verify eventual losses in value in accordance with IAS 36, the Mondadori Group wrotedown an imprint, some titles and some goodwill not supported by their relative value in use for a total of €969 thousand.

4. The effects on property, plant and machinery include an increase in net equity relative to land and buildings that existed at 30 September 2004 that were valued at fair value at €23,854 thousand at 1 January 2004, and the separation of land from the buildings linked to it which produced a total of €4,794 thousand. They also include a writedown of other fixed assets of €179 thousand and other movements that resulted in an increase of € 13 thousand in net equity.

5. Depreciations in property, plant and machinery changed as a result of the economic effect of the utilisation of the fair value method for some land and buildings, when IAS/IFRS accounting principles were first applied, and for the elimination of depreciations on land for a total of €700 thousand.

6. The value of inventories is correctly shown in accordance with IAS/IFRS accounting principles. In particular, where the L.I.F.O. method is utilised, the average cost method has been utilised to evaluate raw material inventories. The adjustment also includes the effect deriving from the re-calculation of the reversals in profits made inside the Group. The total value of adjustments and net equity registered a decrease of €5,369 thousand.

7. The provisions made for risk reserves with a duration of more than 12 months deriving from court cases and contentions for which the pay-out date can be reliably estimated, has been re-calculated on the basis of an estimate of the time when the pay-out will be made. The adjustment has reduced the amount of risk reserves and increased net equity by €68 thousand. In addition, the supplementary indemnity for agents has been re-calculated utilising an actuarial method of valuation, with a positive impact on net equity of €4,594 thousand.

8. Italian accounting principles require any liabilities arising from severance indemnities (TFR) to be booked according to the accounting regulations in force when the Financial Statements are drawn up, while IAS/IFRS accounting principles require such liabilities to be valued using the actuarial method. This difference has resulted in a reduction of liabilities and an increase in net equity of €12,236 thousand.

9. Following the application of IAS/IFRS accounting principles, the book value of associated companies and joint ventures, valued at net equity, increased by €458 thousand, which was mainly due to the economic effects deriving from the reversals in the depreciation of the goodwill of some companies, the reversals in intangible assets that do not satisfy the requirements contained in IAS 38 and to the valuation of severance indemnities utilising the actuarial method.

10. The effect deriving from the variation in the consolidation area regarding investments in companies that were not consolidated in the Financial Statements prepared in accordance with Italian accounting principles because they were considered to be irrelevant in terms of representing the financial and economic situation of the Mondadori Group. With the adoption of international accounting principles, these companies have now been consolidated. The adjustment produced a decrease in consolidated net equity of €304 thousand. The item also includes reversals in third-party adjustments in the Group's net equity for €33 thousand.

11. The item in question includes the fiscal adjustment made when re-calculating the values in the financial statements following application of IAS/IFRS principles.

12. The adjustment in question represents the effects deriving from the economic re-calculation of some operations at 30 September 2004. This adjustment, relative to income from sales, variations in inventories and the cost of purchasing services, had a negative effect on shareholders' equity equal to €1,845 thousand, net of any fiscal effects.

Consolidated Balance sheet at 30 September 2004

Assets	**As per Italian accounting principles**	**Variations in consolidation area**	**IAS/IFRS reclassifications**	**IAS/IFRS reclassifications**	**As per IAS/IFRS**
Intangible assets	**144,528**	**(121)**	**(2,586)**	**9,388**	**151,209**
Real estate investments	**11,787**	**-**	**-**	**1,023**	**12,810**
Land and buildings	67,814	-	-	28,338	96,152
Plant and machinery	82,629	(287)	-	-	82,342
Other fixed assets	24,037	(515)	1,562	(179)	24,905
Property, plant and machinery	**174,480**	**(802)**	**1,562**	**28,159**	**203,399**
Investments valued at net equity	60,763	13,097	-	458	74,318
Other investments	5,028	(77)	-	-	4,951
Total investments	**65,791**	**13,020**	**0**	**458**	**79,269**
Non-current financial assets	**137,527**	**-**	**-**	**-**	**137,527**
Advance tax assets	**42,164**	**(1,155)**	**-**	**(9,656)**	**31,353**
Other non-current assets	**16,557**	**(122)**	**-**	**-**	**16,435**
Total non-current assets	**592,834**	**10,820**	**(1,024)**	**29,372**	**632,002**
Tax credits	**14,878**	**(4,924)**	**-**	**-**	**9,954**
Other current assets	**59,389**	**(558)**	**-**	**-**	**58,831**
Inventories	**118,205**	**(4,307)**	**-**	**(3,558)**	**110,340**
Trade receivables	**410,303**	**(2,013)**	**-**	**(6,426)**	**401,864**
Shares and other current financial assets	**547,315**	**(95,705)**	**-**	**-**	**451,610**
Cash and other equivalent liquid assets	**65,166**	**92,136**	**-**	**-**	**157,302**
Total current assets	**1,215,256**	**(15,371)**	**0**	**(9,984)**	**1,189,901**
Assets destined for sale or disposal	**-**	**-**	**-**	**-**	**-**
Total assets	**1,808,090**	**(4,551)**	**(1,024)**	**19,388**	**1,821,903**

Consolidated Balance sheet at 30 September 2004

Liabilities	As per Italian accounting principles	Variations in consolidation area	IAS/IFRS reclassifications	IAS/IFRS reclassifications	As per IAS/IFRS
Share capital	67,452	-	-	-	67,452
Share premium reserve	287,265	-	-	-	287,265
Other reserves and results brought forward	126,141	33	-	31,577	157,751
Profit (loss) for period	74,291	(337)	-	3,262	77,216
Shareholders' equity pertaining to Group	**555,149**	**(304)**	**0**	**34,839**	**589,684**
Third-party shareholders' capital and reserve	3,468	145	-	33	3,646
Total shareholders' equity	**558,617**	**(159)**	**0**	**34,872**	**593,330**
Reserves	15,971	-	-	(68)	15,903
Severance indemnities	113,868	(2,328)	-	(16,830)	94,710
Non-current financial liabilities	420,866	23	(1,024)	-	419,865
Deferred tax liabilities	13,847	(46)	-	4,184	17,985
Other non-current liabilities	-				0
Total non-current liabilities	**564,552**	**(2,351)**	**(1,024)**	**(12,714)**	**548,463**
Income tax payables	36,657	-	-	(1,095)	35,562
Other current liabilities	171,335	(785)	-	(1,675)	168,875
Trade payables	344,073	(4,415)	-	-	339,658
Payables to banks and other financial liabilities	132,856	3,159	-	-	136,015
Total current liabilities	**684,921**	**(2,041)**	**0**	**(2,770)**	**680,110**
Liabilities destined for sale or disposal	-		-	-	-
Total liabilities	**1,808,090**	**(4,551)**	**(1,024)**	**19,388**	**1,821,903**

The following comments refer to the items and amounts in the reconciliation table (see previous page) between the value of consolidated balance sheet at 30 September 2004 prepared in accordance with Italian accounting principles and the one prepared in accordance with IAS/IFRS accounting principles.

IAS/IFRS reclassifications

The reclassified column includes:

- €1,562 thousand for the cost of improvements made to third-party goods which, not having the requirements referred to, have been classified under other fixed assets;
- €1,024 thousand for accessory charges due to loans (private placement and convertible debenture bonds) entered as a reduction of the respective loan payables.

IAS/IFRS adjustments

In addition to those mentioned in the comments on reconciliations of items with an impact on net equity, the variation in consolidation area column mainly includes the effect:

- of the Mondolibri SpA joint venture, which was previously consolidated using the proportional method and valued in accordance with IAS/IFRS principles at net equity. The result of this was the booking of €13,150 thousand under "investments" and a variation in net assets for the same amount that had previously been booked to other items under assets and liabilities;
- of the SICAV Misa Finance Fund, held by Mondadori Finance and booked in accordance with Italian accounting principles as financial investments in shares valued at the lesser value between cost and market value, entirely consolidated in accordance with IAS/IFRS principles. In view of the fact that the Mondadori Group applied IAS/IFRS principles as from 1 January 2005, the effect of the consolidation has mainly resulted in an increase of €92,697 thousand in "cash and other equivalent liquid assets" and a reduction of €89,283 thousand in the balance of "shares and other current financial assets".

Reconciliation of Consolidated Net Result at 30 September 2004

	Consolidated Net Result as per Italian accounting principles	**74,291**
13.	**Net effect on result of different criteria used for recognising income**	**(1,845)**
14.	**Variations in inventories**	**(1,758)**
15.	**Effects on purchase of raw materials and service**	**(541)**
16.	**Personnel costs**	**2,451**
17.	**Effects on various charges (income)**	**161**
18.	**Depreciations and writedowns of property, plant and machinery**	**700**
19.	**Depreciations and writedowns of intangible assets**	**12,378**
20.	**Effects on financial income (charges)**	**(2,710)**
21.	**Effects on income (charges) from investments**	**727**
22.	**Variations in consolidation area and other adjustments**	**(348)**
23.	**Fiscal effects**	**(6,290)**
	Consolidated Net Result as per IAS/IFRS accounting principles	**77,216**

The following comments refer to the items and amounts in the reconciliation table (see previous page) between the Group's net result at 30 September 2004 prepared in accordance with Italian accounting principles and the one prepared in accordance with IAS/IFRS accounting principles.

13. The adjustment in question represents the effects deriving from the economic re-calculation of some operations at 30 September 2004. This adjustment, relative to income from sales, variations in inventories and the cost of purchasing services, had a negative effect on the income statement equal to €1,845 thousand, net of any fiscal effects.

14. The economic variation in inventories decreased by €1,758 thousand, producing a contraction in the result, as a result of the utilisation of the average cost method of valuation and of the effect deriving from the re-calculation of the reversals of the Group's entire profit.

15. The adjustments shown in the reconciliation refer to costs entered in the income statement which, in accordance with Italian accounting principles, were booked to intangible assets (€541 thousand) and other minor amounts.

16. Personnel costs decreased by €3,648 thousand as a result of the application of IAS 19, and these were partially compensated for by an increase of €1,197 thousand due to stock option plans. This amount represents the fair value of stock options assigned during the year.

17. Adjustments to various charges (income) amounted to €161 thousand and refer mainly to provisions for supplementary indemnities for clients.

18. Depreciations of property, plant and machinery changed as a result of the economic effect of the separation of the value of land and of the fair value valuation, when IAS/IFRS accounting principles were first applied, of some buildings for €700 thousand.

19. Adjustments made to the depreciations and writedowns of intangible assets include the elimination of depreciations of goods with an indefinite life, such as titles, series and imprints, for €12,378 thousand.

20. Adjustments refer to increased charges relative to the financial portion of severance indemnities and to risk reserves for legal cases for €2,710 thousand.

21. The increase in income from investments is the result of the write off of depreciations of goodwill for some joint ventures, for €1,642 thousand, and lower results for the period from companies valued at net equity, for €915 thousand, as a consequence of the application of IAS/IFRS accounting principles.

22. This item includes the effect on the income statement of the consolidation of companies that are not consolidated when Italian accounting principles are utilised. It also includes the effect of adjustments to the net result of third-party interests, equal to €13 thousand.

23. This item includes fiscal adjustments made when re-calculating balance sheet values when applying IAS/IFRS accounting principles.

Consolidated Income statement at 30 September 2004

	As per Italian accounting principles	Variations in consolidation area	IAS/IFRS reclassifications	IAS/IFRS reclassifications	As per IAS/IFRS
Income from sales and services to third parties	**1,244,254**	**(25,654)**	**-**	**(6,426)**	**1,212,174**
Decrease (increase) in inventories	**15,309**	**(660)**	**-**	**(53)**	**14,596**
Purchase of raw, ancillary and consumable goods and materials	**369,593**	**(4,535)**	**-**	**420**	**365,478**
Purchase of services	**493,299**	**(12,358)**	**-**	**(1,554)**	**479,387**
Personnel costs	**188,573**	**(3,221)**	**-**	**(2,451)**	**182,901**
Various charges (income)	**6,627**	**(3,318)**	**-**	**(161)**	**3,148**
Income (charges) from investments valued at net equity	**(345)**	**531**	**-**	**727**	**913**
Gross operating profit	**170,508**	**(1,031)**	**0**	**(1,900)**	**167,577**
Depreciations of property, plant and machinery	**28,693**	**(132)**	**783**	**(700)**	**28,644**
Depreciations of intangible assets	**15,458**	**(47)**	**(895)**	**(12,378)**	**2,138**
Operating result	**126,357**	**(852)**	**112**	**11,178**	**136,795**
Financial income (charges)	**(2,391)**	**517**	**(112)**	**(2,710)**	**(4,696)**
Income (charges) from other investments	**-**	**-**	**-**	**-**	**0**
Results before tax and minority interests	**123,966**	**(335)**	**0**	**8,468**	**132,099**
Income taxes	**49,066**	**-**	**-**	**5,195**	**54,261**
Results pertaining to third-party shareholders	**(609)**	**(2)**	**-**	**(11)**	**(622)**
Net result	**74,291**	**(337)**	**0**	**3,262**	**77,216**

The following comments refer to the items and amounts in the reconciliation table (see previous page) between the consolidated income statement at 30 September 2004 prepared in accordance with Italian accounting principles and the one prepared in accordance with IAS/IFRS accounting principles.

IAS/IFRS reclassifications

The reclassified column includes:

- the depreciations relating to the cost of improvements made to third-party goods (€783 thousand) reclassified from depreciations of intangible assets to depreciations of property, plant and machinery;
- depreciations of accessory charges due to loans (private placement and convertible debenture bonds) for €112 thousand booked to financial charges instead of to depreciations of intangible assets.

IAS/IFRS adjustments

In addition to those mentioned in the comments on reconciliations of items with an impact on the net result, the variation in consolidation area column mainly includes the effect:

- of the Mondolibri SpA joint venture, consolidated in accordance with IAS/IFRS principles at net equity instead of with the proportional method. This change resulted in €531 thousand being booked to investment income (charges) and a corresponding net variation in the other items in the income statement;
- of the SICAV Misa Finance Fund, held by Mondadori Finance and booked in accordance with Italian accounting principles as financial investments in shares valued at the lesser value between cost and market value, entirely consolidated in accordance with IAS/IFRS principles. In view of the fact that the Mondadori Group applied IAS/IFRS principles as from 1 January 2005, the effect of the consolidation was an increase of €618 thousand in financial income (charges) and a corresponding increase in service costs (€558 thousand) and various charges (income) (€60 thousand).

Effects on the consolidated net financial position at 30 September 2004 of the adoption of IAS/IFRS accounting principles

The following table shows the effects on the consolidated net financial position deriving from the application of IAS/IFRS accounting principles:

Net financial position using Italian accounting principles	**60,280**
IAS/IFRS reclassifications	1,024
Variations in the consolidation area and others	(6,751)
IAS/IFRS net financial position	**54,553**

The reclassifications refer to accessory charges sustained on loans (private placement and convertible debenture loans), booked under intangible assets in accordance with Italian accounting principles and booked as a reduction in the relative financial losses, in accordance with IAS/IFRS principles.

The item "variations in the consolidation area and others" mainly refers to the Mondolibri SpA joint venture, valued using the net equity method instead of proportionally, used in accordance with Italian accounting principles.