2017 ANNUAL REPORT

GRUPPO MONDADORI

ARNOLDO MONDADORI EDITORE S.p.A.

Share Capital 67,979,168.40 euro

Registered Office in Milan
Administrative Offices in Segrate (Milan)

2017
ANNUAL
REPORT

Mondadori Group
Consolidated Financial Statements
and
Arnoldo Mondadori Editore S.p.A.
Financial Statements
at 31 December 2017

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FINANCIAL STATEMENTS AT 31 DECEMBER 2017

LETTER
TO STAKEHOLDERS

Last year's excellent results were the crowning achievement of the process that began in 2013 to strategically redefine the Group's areas of operation and restore its financial soundness. After announcing those results, we said that 2017 would be a year of consolidation and, essentially, of forging ahead with the plan to improve our income and financial position.

Challenging targets indeed, if one considers the overall magazine market trend.

Those objectives – as announced to the market – have been achieved and in some cases even surpassed, which is proof of the step change that we have successfully made to the Company's operations and development.

By harnessing the benefits of the investments made two years ago through acquisitions in the books and digital segments, the Mondadori Group's leadership in books and magazines grew stronger in 2017.

The year's good results pave the way for the next phase in the development of the Group, which over the coming years will continue its strategic repositioning and the review of its portfolio of activities. The aim in doing so is to create the financial conditions to embark on a new period of further growth in our strategic core businesses, focusing in particular on the books segment – in both the trade and education segments – which currently generates by far the lion's share of the Group's profits.

In the coming pages you will find a detailed breakdown of Company performance in 2017 – not only in terms of income, finance and business, but also in relation to sustainability issues as they most affect the Group and our place in the publishing industry.

We began voluntarily corporate social responsibility reporting in 2011 through our Sustainability Reports. This information is now mandatory under Legislative Decree 254/2016 and from this year we are including it in a *Consolidated Non-Financial Statement* – part of the Directors' Report on Operations – to provide all our stakeholders with a 360-degree picture of our activities and the strategic approach to managing them.

This change marks another step towards ever more comprehensive reporting, meeting the expectations of our stakeholders and reflecting increasingly widespread concerns over global sustainable development objectives.

Marina Berlusconi
Chairman of the Mondadori Group

Ernesto Mauri
CEO of the Mondadori Group

COMPOSITION
OF CORPORATE BODIES

CORPORATE OFFICES AND BOARDS

Board of Directors

CHAIRMAN
Marina Berlusconi

CEO
Ernesto Mauri

DIRECTORS
Pier Silvio Berlusconi
Paolo Ainio**
Pasquale Cannatelli
Alfredo Messina

Martina Forneron Mondadori*
Danilo Pellegrino
Roberto Poli
Oddone Pozzi
Angelo Renoldi*
Mario Resca
Cristina Rossello*
Marco Spadacini*

* Independent Directors pursuant to the Corporate Governance Code for Listed Companies
** Director Paolo Ainio was co-opted on 28 July 2016, following the resignation of Director Bruno Ermolli, and will remain in office together with the entire Board of Directors

Board of Statutory Auditors

CHAIRMAN
Ferdinando Superti Furga

STANDING AUDITORS
Francesco Antonio Giampaolo
Flavia Daunia Minutillo

SUBSTITUTE AUDITORS
Annalisa Firmani
Ezio Maria Simonelli
Francesco Vittadini

The Board of Directors and the Board of Statutory Auditors currently in office were appointed by the Shareholders' Meeting of 23 April 2015

MONDADORI GROUP ORGANIZATION*

ARNOLDO MONDADORI EDITORE S.P.A.

Books
- Mondadori Libri S.p.A. **100%**
  - Giulio Einaudi editore S.p.A. **100%**
    - Edizioni EL S.r.l. **50%**
  - Mondadori Education S.p.A. **100%**
  - Mondadori Electa S.p.A. **100%**
  - Rizzoli Libri S.p.A. **99.99%**
  - Mach 2 Libri S.p.A. **44.91%**

Retail
- Mondadori Retail S.p.A. **100%**

Magazines Italy
- AdKaora S.r.l. **100%**
- Mondadori International Business S.r.l. **100%**
- Attica Publications S.A. **41.98%**
- Press-di S.r.l. **100%**
- Mondadori Scienza S.p.A. **100%**
- Inthera S.p.A. **100%**
- Press-di Abbonamenti S.p.A. **100%**
  - Mediamond S.p.A. **50%**
  - Mondadori Seec (Beijing) Advertising Co. Ltd **50%**

Magazines France
- Mondadori France S.a.s. **100%**

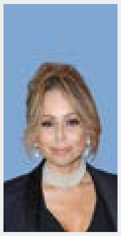
Other business
- Società Europea di Edizioni S.p.A. **36.89%**
- Monradio S.r.l. **20%**

Legenda:

Subsidiary companies	Affiliated companies

* As at the date of approval of this 2017 Annual Report (March 2018)

MONDADORI GROUP ORGANIZATION CHART



Marina Berlusconi*

Chairman

Ernesto Mauri*

Chief Executive Officer

Federico Angrisano

Director of Communications and Media Relations

Daniele Sacco

Group HR and Organization Director

Oddone Pozzi*

Group Director of Finance, Procurement and IT

Enrico Selva Coddè

Managing Director of Mondadori Libri S.p.A. Trade area

Antonio Porro

Deputy Chairman and Managing Director of Mondadori Libri S.p.A.

Pierluigi Bernasconi

Managing director of Mondadori Retail S.p.A.

Carlo Mandelli

General Manager - Magazines Italy

Carmine Perna

Managing Director - Mondadori France

* Board of Directors members
As at the date of approval of this 2017 Annual Report (March 2018)

OVERVIEW
OF GROUP ACTIVITIES

Mondadori is one of Europe's top publishing groups, the **leading publisher** of books and magazines in Italy and **among the main publishers** in the consumer magazines segment in France. The Group also operates in the retail business with the most extensive network of bookstores throughout Italy (over 600 points of sale).

BOOKS

The business area is managed through Mondadori Libri S.p.A., a subsidiary which has absorbed the range of book publishing activities over the last three years, with a view to strengthening and developing the segment.

The Group leads the Trade market with a **28.7%** share in the areas of fiction, non-fiction and children's books, in both traditional and digital formats, published under the following brands: Mondadori, Electa, Giulio Einaudi editore, Piemme, Sperling & Kupfer, Rizzoli, BUR, Fabbri Editori and Rizzoli Lizard.

Additionally, it has operations in the school textbooks area through Mondadori Education and Rizzoli Education: leader of the segment, its market share stands at **23.7%** at end 2017, with a total catalogue of over 30 proprietary and distributed brands, and production spanning from preschool to university.

Complementing the book publishing activities are those revolving around art books, the management of museum concessions, and the organization and management of exhibitions and cultural events, managed in Italy by Mondadori Electa (under the Mondadori, Electa and Rizzoli brands) and internationally by Rizzoli International Publications (under the Rizzoli, Rizzoli New York, Rizzoli Electa and Universe brands).

RETAIL

Through its subsidiary Mondadori Retail S.p.A., the Group manages the largest network of bookstores in Italy, with approximately 600 points of sale under four different formats either managed directly or franchised: Mondadori Megastore, Mondadori Bookstore and Mondadori Point. The physical network is complemented by the online sales channels (mondadoristore.it and rizzolilibri.it) and the bookclub.

Concurrent to the development of the book business, and as a result of Retail's focus on the book product (representing **80%** of store revenue), Mondadori Retail's market share stands at **15%** in 2017 in this specific segment.

[1] Source: GFK, December 2017
[2] Source: AIE, 2017 (adopted sections)
[3] Source: GFK, December 2017

MAGAZINES ITALY

Leveraging on the expansion strategy in the digital business, implemented mainly through the acquisition of the Banzai media activities in 2016, the Mondadori Group has added to its traditional **leadership** position in the print segment, confirmed at end 2017 by a **31.8%** share of the circulation market, the **record** in the digital segment of magazines, with a unique audience of **over 16 million contacts/month**.

The well-established portfolio of weekly and monthly magazines in hard and soft copy, sold at newsstands or by subscription, complemented over the years by websites and portals that have added value to the magazine brands and expanded the audience of the Group magazines, has been further strengthened by the sites acquired from Banzai, positioning Mondadori as Italy's top digital publisher and allowing it to achieve a leadership in the women, food, and health & wellness vertical segments.

Through the subsidiary Press-di Distribuzione Stampa e Multimedia, the Group distributes its own magazines and the dailies and magazines of third parties on Italian newsstands, while through Press-di Abbonamenti, it covers the subscriptions channel for both its own magazines and those of third parties.

The wealth of magazine brands has gradually come to form an important network of international editions, through joint ventures, on-the-ground presence or licensing agreements with international publishers. *Grazia* is the most prominent brand abroad, operating a network of over 20 editions throughout the world today.

MAGAZINES FRANCE

Established in 2006, the French subsidiary Mondadori France has come to be one of the top magazine publishers in the Country and **one of the major players** in the advertising field (with an **11.1%** share).

It boasts a portfolio of over 30 highly popular brands in the women's, men's and TV magazines segments, such as the French edition of Grazia, Closer, Pleine Vie, Science & Vie, and Télé Star, in addition to Auto Plus, leader in the car segment published by EMAS, the joint venture with German publisher Axel Springer.

Thanks to the growth of the digital business in recent years, the total number of readers of Mondadori France magazines reached **over 12 million unique users/month in 2017**.

OTHER BUSINESS

Other business includes the minority investment in Società Europea di Edizioni, publisher of daily *Il Giornale* and the investment in Monradio, active on the national radio broadcasting market through R101.

CORPORATE, SHARED SERVICES & CRM

The Corporate segment includes – besides the Group top management organizations – Parent Company functions providing services that cut across the different companies and business areas of the Group.

These services involve administration, planning and control, treasury and finance, IT, HR management and organization, legal and corporate affairs, management of Group purchasing, general location services, communications and media relations, and CRM.

Revenue is mainly referred to amounts billed to subsidiaries and associates, as well as other entities using a number of the above services.

GROUP HISTORY MILESTONES

1907

Arnoldo Mondadori establishes ***Luce!***, the first magazine with which he started his publishing house in Ostiglia (Mantua).

1920

1929 - Launch of ***Gialli Mondadori***, the first Italian series of crime novels.

1950

1954 - The Mondadori per Voi book shop chain is established, to re-launch domestic book circulation.

1960

1962 - Mondadori launches Italy's first news magazine: ***Panorama***.

1965 - The Italian book market is swept by the launch of the ***Mondadori Oscar*** series: the first budget price paperbacks sold also at newsstands.

1990

1991 - Mondadori becomes part of the Fininvest Group.

1995 - Following the launch of ***Miti***, Italy's first series of budget paperbacks. Mondadori launches a new mass-market strategy designed to expand the book market in Italy.

1998 - Development of the franchising sector through the acquisition of the Gulliver series and the opening of a chain of franchised Mondadori bookstores.

2000

2002 - Leonardo Mondadori passes away. Marina Berlusconi is appointed Group Chairman.

2003 - Mondadori acquires 70% of Piemme and an investment in Attica Publishing, a leader in the Greek magazines sector.

2005 - Mondadori lands in the radio industry with **R101**.

2006 - The Group further expands in the international market, acquiring Emap France, France's third magazine publisher. Establishment of Mondadori France. Mondadori's international expansion policy aims also at single brand licensing, in particular, ***Grazia*** which, starting with the English edition in 2005, grows into a broad global network in just few years.

2007 - Mondadori celebrates its 100th anniversary.

1930

1938 - Launch of ***Grazia***, the first large distribution women's weekly.

1940

1948 - Mondadori publishes ***Biblioteca Moderna Mondadori***, the first series of quality books at budget prices designed to reach a large number of readers, mainly young people.

1970

1975 - Inauguration of the new Mondadori headquarters at Segrate, designed by one of the most renowned architects of the 20th century, Oscar Niemeyer.

1980

1982 - The Group is listed on the Milan Stock Exchange.

1988 - Mondadori establishes Elemond, a publishing house that controls the established Electa and Einaudi brands.

2010

2011 - The development strategy in the digital publishing market, launched in the previous year, picks up speed with the forging of new agreements with Amazon and Apple for the distribution of e-books.

2013 - The Group reorganizes its operating and top management structures, to concentrate on core activities (trade and educational books; magazines in Italy, France and international network; retail) and breathe new life into the development of the digital business.

2014 - Incorporation in Mediamond, the equally-held joint venture established with Publitalia '80, of Mondadori Pubblicità advertising sales activities focusing on magazines and radio stations; establishment of Mondadori Libri S.p.A., at the head of the Books Area.

2015 - Non-core assets disposed of (80% in Monradio, investment in the Harlequin Mondadori JV, and a property in Rome) in order to focus on the core business: agreement signed for the acquisition of RCS Libri, with investment in Gruner+Jahr/Mondadori JV (publisher of Focus) increased to reach 100%.

2016 - Acquisition of **RCS Libri**, renamed Rizzoli Libri, and disposal of Marsilio and Bompiani as requested by the Antitrust Authority. Acquisition of **Banzai Media Holding**, renamed Banzai Media, and gradual integration in the Magazines Italy division.

2017

Outsourcing of the **logistics activities** of Mondadori Libri and Mondadori Retail to CEVA; merger by incorporation of Piemme and Sperling & Kupfer and transfer of the Rizzoli Libri trade BU to Mondadori Libri. Launch of the **Rizzoli Electa** brand for the international expansion of illustrated books and the organization of international exhibitions. Launch, in the Books Area, of the **Children's Business Unit**.

INVESTOR RELATIONS

Arnoldo Mondadori Editore S.p.A. ordinary shares have been listed on the Milan Stock Exchange since 1982 (ISIN Code: IT0001469383).
The Mondadori share is listed in the following indexes:
- indexes of Borsa Italiana: FTSE Italia All Share, FTSE Italia Star (since December 2016) and FTSE Italia Mid Cap;
- Industry specific: *FTSE Italia Servizi al consumo* and FTSE Italia Media*;*
- National ethical: FTSE ECPI Italia SRI Benchmark and FTSE ECPI Italia SRI Leaders.

On 19 October 2017, the share moved from the FTSE Italia Small Cap index to the **FTSE Italia Mid Cap index**.

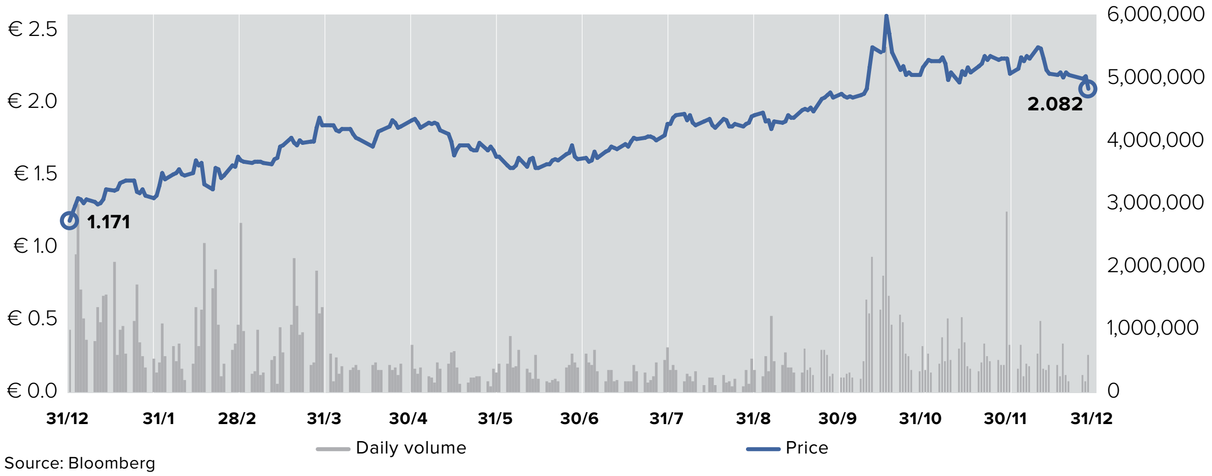
In 2017, Mondadori's share traded at an average price of **1.81 euro** (average market capitalization 473.0 million).

On 29 December 2017, the last trading day of the year, Mondadori's share recorded a closing price of **2.08 euro**, with a market capitalization of 544.0 million euro.

Share price and share trading data	2017
Closing price on 29/12/2017 in euro	2.08
Average price in euro	1.81
Maximum price in euro (18/10/2017)	2.58
Minimum price in euro (02/01/2017)	1.28
Average volume (thousands)	610.0
Maximum volume (thousands, 18/10/2017)	5,445.3
Minimum volume (thousands, 28/08/2017)	80.6
Number of ordinary shares (mn)*	261,458,340
Average market capitalization in euro millions*	473.0
Market capitalization at 29/12/2017 in euro millions	544.0

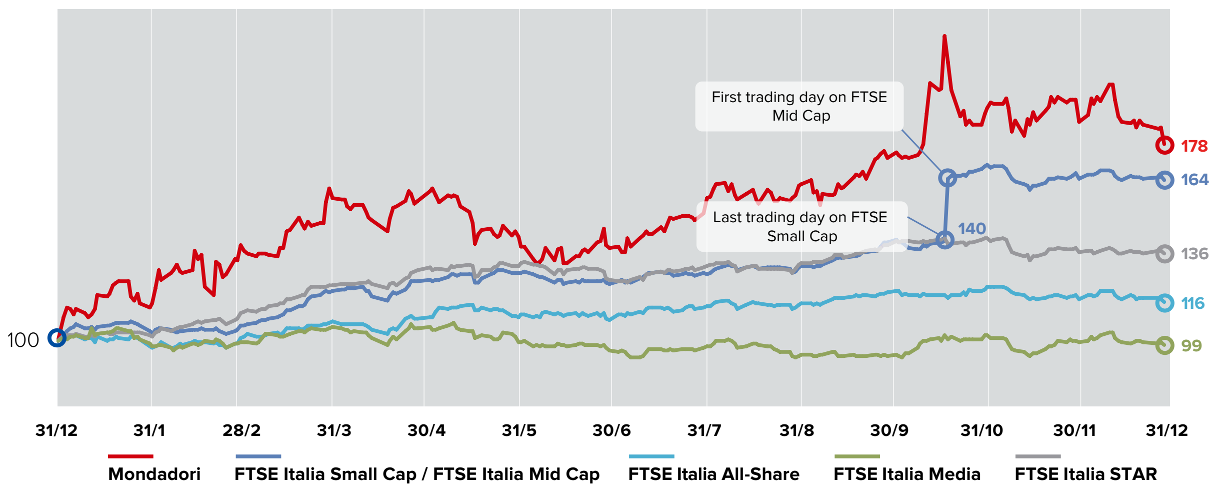
Source: Borsa Italiana
* Number of shares issued at 31 December 2017

MONDADORI SHARE PRICE PERFORMANCE IN 2017



Source: Bloomberg

MONDADORI SHARE PRICE PERFORMANCE AGAINST MAIN SE INDEXES IN 2017



Source: Bloomberg

FINANCIAL MARKETS

All the main **advanced and emerging economies** grew in 2017.

Inflation remained weak in the advanced economies – except the United Kingdom – and was moderate in the emerging economies.

There are, however, several persistent global risks, such as the potential increase in volatility on financial markets and an unexpected increase in geopolitical tensions.

The international financial markets generally saw share prices at record highs, while on the currency markets the Euro has risen against the other major currencies.

The **Italian financial market** gained +16% versus 2016 (FTSE Italia All Share).

In the same period, the **Mondadori share** posted a **positive performance** of approximately **+78%** versus end 2016, bucking the trend of the Italian (FTSE Italia Media -1%) index and outstripping the European index (Euro STOXX Media +4%) and the trend of the FTSE Italia Mid Cap index (+64%) for Italian mid cap shares.

In 2017, Mondadori shares traded on the market managed by Borsa Italiana S.p.A. reached the average daily equivalent of **1.1 million euro** (the maximum registered on 18 December 2017 was 14.0 million euro).

OWNERSHIP STRUCTURE

At 31 December 2017, the Company's share capital amounts to 67,979,168.40 euro, equal to 261,458,340 ordinary shares with a par value of 0.26 euro each.

SHAREHOLDER BASE

At the same date, to the knowledge of the Company, based on the disclosures received pursuant to art. 120 of the TUF (Finance Consolidation Act) and other available information, the Company shareholding structure includes the following relevant equity investments.

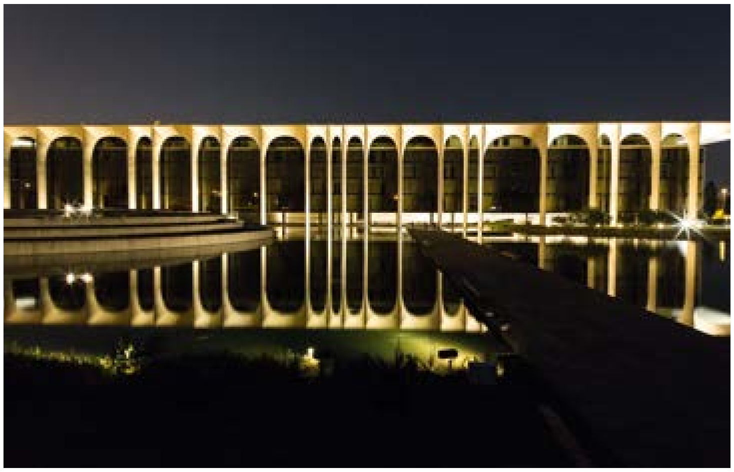
Shareholders	Equity investment at 31/12/2017
Fininvest S.p.A.	53.3%
Silchester International Investors Llp	12.4%

INVESTOR RELATIONS

The Mondadori Group pursues a policy of communication vis-à-vis the financial market players, hinged upon the disclosure of complete and correct news on corporate results, initiatives and strategies, in accordance with the rules set by Consob and Borsa Italiana and by confidentiality requirements that certain information may need, paying particular attention to ensure transparent and timely information to facilitate relations with the financial community.

Communication and development of relations with shareholders, institutional investors and financial analysts continued in 2017 through numerous meetings organized in Milan and the main European markets.

The switch to the STAR segment of Borsa Italiana in December 2016 marks yet another step on the path of development taken over the past three years, positioning Mondadori among the top companies listed on the Italian stock market. Its admission has further developed relations with the market and with Italian and international investors, which will shine greater light on the Mondadori Group's business activities, in order to enhance the value of the Company, also through corporate governance practices that are in line with best international standards and through high levels of liquidity of its share.



21 June 2017
Sospeso, ma non troppo, with a preview for our staff and associates, marks the inauguration of Mario Nanni's artistic restoration of the external lighting of Palazzo Niemeyer, home to the Mondadori Group in Segrate.

Directors' Report on Mondadori Group Operations in 2017

MONDADORI GROUP HIGHLIGHTS IN 2017

(Euro/millions)	2017	2016	Var. %*
Mondadori Group			
Revenue	**1,268.3**	**1,263.3**	**0.4%**
Adjusted EBITDA	**106.3**	**108.5**	**(2.0%)**
% on revenue	*8.4%*	*8.6%*	
EBITDA	**101.1**	**94.0**	**7.5%**
% on revenue	*8.0%*	*7.4%*	
EBIT	**61.5**	**60.0**	**2.4%**
% on revenue	*4.8%*	*4.8%*	
Net result	**30.4**	**22.5**	**34.9%**
Business Areas			
Revenue	**1,268,3**	**1,263.3**	**0.4%**
Books	523.9	475.1	10.3%
Retail	198.5	199.6	(0.5%)
Magazines Italy	290.7	310.6	(6.4%)
Magazines France	297.4	321.7	(7.5%)
Corporate & Shared Services	26.2	23.3	12.6%
Intercompany	(68.5)	(66.8)	2.5%
EBITDA	**101.1**	**94.0**	**7.5%**
Books	74.5	72.3	3.0%
Retail	0.6	1.4	(56.6%)
Magazines Italy	12.8	3.6	n.s.
Magazines France	18.4	30.8	(40.3%)
Corporate & Shared Services	(5.2)	(14.0)	(63.3%)
Balance Sheet	**31/12/2017**	**31/12/2016**	**Var. %***
Equity	**345.4**	**317.8**	**8.7%**
Net financial position	**(189.2)**	**(263.6)**	**(28.2%)**
Human Resources			
End-of-period headcount	3,026	3,261	(7.2%)

* Changes in this report were calculated on amounts expressed in euro thousands

2017 was a year in which the Mondadori Group consolidated the goals achieved in the preceding three-year period, on the path of strategic redefinition of its activities and of **further operating and financial improvement**, while continuing to push strongly on **efficiency measures** consistent with the relevant market trends and **strengthening its leadership** across all business areas.

The results achieved were in line with the expectations disclosed to the market:

- **revenue** was basically steady versus 2016 (-0.9% on a pro-forma basis);
- **adjusted EBITDA grew** by approximately **6%** (from 100 million euro pro-forma in 2016), with margins on revenue of **8.4%**, up from 7.8% and with a higher contribution of Books to Group profitability (approximately 70% of total);
- **net profit increased by 35%** versus 31 December 2016;
- **cash flow from ordinary operations** stood at approximately **68 million euro**, allowing for an **approximately 28% reduction in net debt** (below 190 million euro) and a debt/adjusted EBITDA ratio of **1.8x** (from the forecast ratio within 2x).

Additionally, at year end, a **new (five-year) loan agreement** was concluded for a total of 450 million euro, setting better financial conditions in terms of lower average debt cost and a new duration from the previous agreement.

MAIN ELEMENTS IN MONDADORI BUSINESS AREAS

- In the **Trade Books** Area, in a growing market versus 2016 (**+5.4%**), the Group retained its leadership position in Italy with a **28.7%** market share, and with **8 of its books appearing in the top 10 bestselling titles** of the year.

  In the **school textbooks** market, Mondadori retained its leadership position of the overall market, with a **23.7%** share, adoptions-wise. Mondadori Electa delivered a solid performance in both the management of museum concessions and the organization of exhibitions.

- In the **Retail** Area, where the Group continued to implement strategic actions to align the organization and the sales channels to the developments of the market, the Books segment performed equally well in 2017, focusing on steady format and network revision.

  In the Books segment (making for **80%** of store revenue), Mondadori Retail's market share stood at **15%**, up versus 14.9% in 2016.

- Gross advertising sales posted by the **Magazines Italy** Area in Italy **increased by over 7%** versus 2016, driven by the contribution of Banzai Media activities and by the stronger performance versus the circulation trend seen in the newsstands and subscriptions channels (**-10.6%**).

  Mondadori retained its market leadership position with a **31.8%** share, in terms of value, at 31 December 2017.

  With a total audience of approximately **16 million unique visitors/month**, Mondadori is **Italy's top publisher in the digital business**.

- **Magazines France**'s circulation figures fell versus the prior year, due mainly to the negative performance of newsstands sales, driven down by the market trend (**-6.1%**), partly offset by the resilience of the subscriptions channel.

The **digital readers** of Mondadori France were over **12.0 million unique users**.

CONSOLIDATED FINANCIAL HIGHLIGHTS IN 2017

(Euro/millions)	2017	% on revenue	2016	% on revenue	Var. %
Revenue from sales and services	**1,268.3**	***100.0%***	**1,263.3**	***100.0%***	**0.4%**
Cost of sold items	401.5	*31.7%*	396.4	*31.4%*	1.3%
Variable costs	421.9	*33.3%*	415.4	*32.9%*	1.6%
Fixed costs	99.9	*7.9%*	102.4	*8.1%*	(2.5%)
Cost of personnel*	231.9	*18.3%*	240.7	*19.1%*	(3.7%)
Other costs/(income)	2.5	*0.2%*	0.5	-	n.s.
Result - associates	(4.2)	*(0.3%)*	0.5	-	n.s.
Adjusted EBITDA	**106.3**	***8.4%***	**108.5**	***8.6%***	**(2.0%)**
Restructuring costs	(12.3)		(10.8)		14.0%
Non-ordinary items	7.1		(3.7)		n.s.
EBITDA	**101.1**	***8.0%***	**94.0**	***7.4%***	**7.5%**
Amortization, depreciation and impairment	39.6	*3.1%*	34.0	*2.7%*	16.5%
EBIT	**61.5**	***4.8%***	**60.0**	***4.8%***	**2.4%**
Net financial income (costs)	(14.0)	*(1.1%)*	(17.7)	*(1.4%)*	(21.0%)
Income (costs) from other investments	-	-	-	-	-
Result before tax for the period	**47.5**	***3.7%***	**42.3**	***3.3%***	**12.3%**
Income tax	14.5	*1.1%*	18.0	*1.4%*	(19.1%)
Minority shareholders' result	2.5	*0.2%*	2.7	*0.2%*	(8.2%)
Result from continuing operations	**30.4**	***2.4%***	**21.6**	***1.7%***	**41.1%**
Result from discontinued operations	-	-	1.0	*0.1%*	n.s.
Net result	**30.4**	***2.4%***	**22.5**	***1.8%***	**34.9%**

* Cost of personnel includes, as from 1 January 2017, costs for collaborations and temporary employment. Accordingly, the prior year's cost of personnel has been reclassified for comparative purposes

2017 at Group level includes the contribution as from 1 January of:

i) Rizzoli Libri, which was outside the scope of consolidation in 1Q16;

ii) Banzai Media activities, consolidated as from 1 June 2016 and merged by incorporation into the parent Arnoldo Mondadori Editore S.p.A., with accounting effects as from 1 January 2017.

Given the above, to provide a clearer picture and a consistent comparison, a number of comments on the Group's performance have been made by comparing the final figures of 2017 with the pro-forma figures of 2016, which consider the contribution of Rizzoli Libri and Banzai Media for the entire 2016[4].

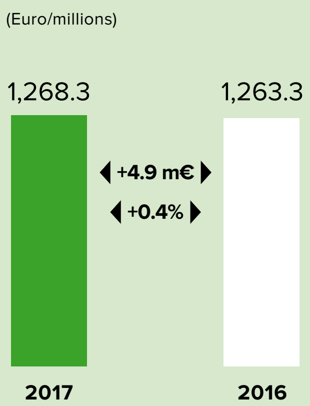
ALTERNATIVE PERFORMANCE MEASURES

This document, in addition to the conventional statements and financial measures required by IFRS, presents a number of reclassified statements and alternative performance measures in order to provide a better understanding of the operating and financial performance of the Group, the definition of which is explained in the section "Glossary of terms and alternative performance measures used".

[4] On a like-for-like consolidation basis with Rizzoli Libri as from 1 January 2016, revenue of 1,280 million euro and adjusted EBITDA of 100 million euro

INCOME STATEMENT

REVENUE



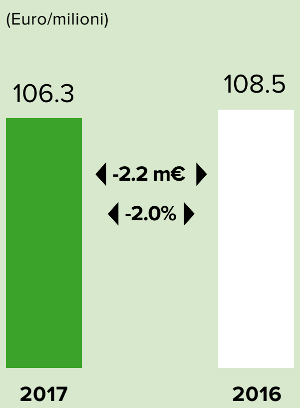
In 2017, **consolidated net revenue** came to 1,268.3 million euro, up by **0.4%** versus 1,263.3 million euro in 2016. Revenue was down by approximately 1% versus the pro-forma figure of 2016.

The Group's areas showed a different revenue pattern: an **over 10% increase by Books** (due also to the different consolidation period), in line with relevant market dynamics and the publication of a number of bestseller titles in the year; an overall drop of approximately 7% by Magazines, attributable to the retreat of the circulation and advertising markets.

Revenue by Business Area (Euro/millions)	**2017**	**2016**	**Var. %**
Books	523.9	475.1	10.3%
Retail	198.5	199.6	(0.5%)
Magazines Italy	290.7	310.6	(6.4%)
Magazines France	297.4	321.7	(7.5%)
Corporate & Shared Services	26.2	23.3	12.6%
Total aggregate revenue	**1,336.8**	**1,330.2**	**0.5%**
Intercompany revenue	(68.5)	(66.8)	2.5%
Total consolidated revenue	**1,268.3**	**1,263.3**	**0.4%**

Revenue by geographical area (Euro/millions)	**2017**	**2016**	**Var. %**
Italy	908.3	894.5	1.5%
France	291.5	314.6	(7.3%)
Other EU countries	25.8	21.5	20.2%
Other extra EU countries	42.6	32.3	30.1%
Total consolidated revenue	**1,268.3**	**1,263.3**	**0.4%**

EBITDA



In 2017, consolidated adjusted EBITDA was **up by approximately 6%** (on a pro-forma basis), reaching **106.3 million euro** (down by approximately 2% versus the prior year on a different basis).

The **Books Area** contributed **approximately 70% to Group EBITDA**, with **margins on revenue of 14%** and a **12% increase** on a like-for-like consolidation basis with Rizzoli Libri (including in 2016 the negative contribution in the first quarter from the seasonal nature of the Education business, which includes in the first quarter expenses to promote the campaign on school textbooks adoption).

Magazines Italy continued its **upswing in profit**, with adjusted EBITDA of 15.4 million euro, up by 47% versus the prior year.

Magazines France, instead, saw its percentage of profit drop from 10% to 8.5%, managing to only partly alleviate the effects of the sharp drop of the markets.

Adjusted EBITDA by Business Area (Euro/millions)	**2017**	**2016**	**Var.**	**Var. %**
Books	74.3	75.1	(0.7)	(1.0%)
Retail	0.7	1.8	(1.1)	(60.8%)
Magazines Italy	15.4	10.5	5.0	47.3%
Magazines France	26.0	33.2	(7.1)	(21.5%)
Corporate & Shared Services	(10.2)	(12.1)	1.8	(15.3%)
Total adjusted EBITDA	**106.3**	**108.5**	**(2.2)**	**(2.0%)**

The **EBITDA margin**, on a pro-forma basis, **grew for the fourth consecutive year**, from 7.8% to **8.4%** of **consolidated revenue**, confirming the **improvement in operating efficiency**, benefiting also from the integration synergies of the companies acquired in 2016, despite the loss of 4.2 million euro suffered by the associates in the year, due in particular to the performance of Mach2 Libri (44.91% investee) and to the publisher of Il Giornale (36.89% investee).

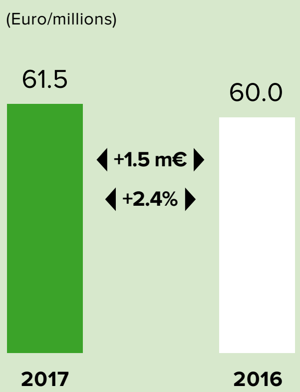
On a like-for-like consolidation scope, the impact on revenue of the cost of goods sold, variable costs and structural costs, decreased as a result of the ongoing cost-curbing measures adopted across all business areas; even stronger benefits came from the cost of personnel, which amounted to -3.7% versus the prior year (approximately -2% on a like-for-like basis); the headcount at year-end dropped to 3,026 units, or by approximately 7% versus 31 December 2016, or by approximately 4% on a like-for-like basis, as a result of the ongoing reorganization process implemented both in Italy and in France.

Total EBITDA **grew by 7.5%**, from 94 million euro in 2016 to **101.1 million euro** in the year under review, or by **approximately 17% on a pro-forma basis**. 2017 benefited from net positive non-ordinary items of 8.3 million euro referring to the gains from the disposal of certain assets in the second quarter of the year (4.2 million euro from the disposal of property in the Corporate & Shared Services Area and 4.3 million euro from the disposal of *NaturaBuy* in the Magazines France Area, or 3.3 million euro net of relating charges), while recording restructuring costs of 12.3 million euro.

Consolidated EBITDA by Business Area (Euro/millions)	**2017**	**2016**	**Var.**	**Var. %**
Books	74.5	72.3	2.2	3.0%
Retail	0.6	1.4	(0.8)	(56.6%)
Magazines Italy	12.8	3.6	9.2	n.s.
Magazines France	18.4	30.8	(12.4)	(40.3%)
Corporate & Shared Services	(5.2)	(14.0)	8.9	(63.3%)
Total EBITDA	**101.1**	**94.0**	**7.1**	**7.5%**

[5] Net of the effects of the outsourcing of logistics activities

EBIT

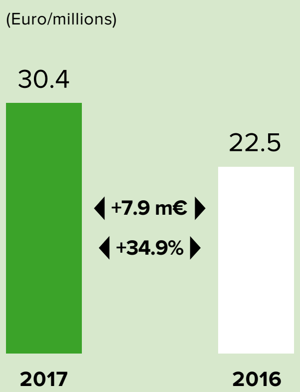


Consolidated EBIT in the year **amounted to 61.5 million euro**, **improving** by approximately **2%** versus 60.0 million euro in 2016, as a result of the abovementioned increased EBITDA, despite the increase in amortization, depreciation and impairment:

- amortization and depreciation increased by 3 million euro, from the impact of the amortization of Banzai Media intangible assets, and from the capitalized expenses of the Rizzoli Libri school business;
- the item includes impairment of 1.7 million euro (2 million euro in 2016) recognized on the investment held in the Greek Attica Publications subsidiary (Magazines Italy Area) and impairment of 2.9 million euro recognized on the investment in the publisher of *Il Giornale*

Consolidated EBIT by Business Area (Euro/millions)	**2017**	**2016**	**Var.**	**Var. %**
Books	62.8	61.9	0.9	1.4%
Retail	(3.7)	(3.5)	(0.2)	n.s.
Magazines Italy	7.0	(1.6)	8.6	n.s.
Magazines France	5.0	18.9	(13.9)	(73.3%)
Corporate & Shared Services	(9.7)	(15.7)	6.1	(38.5%)
Total EBIT	**61.5**	**60.0**	**1.5**	**2.4%**

NET RESULT



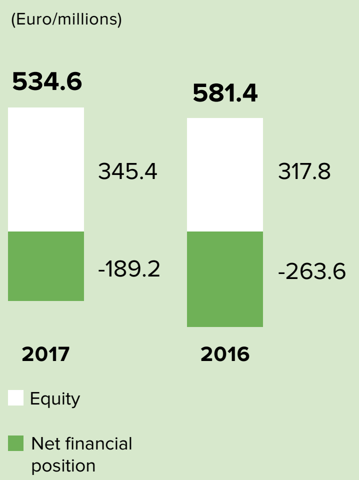
Consolidated profit before tax came to a positive 47.5 million euro, **up by approximately 12%** versus 42.3 million euro in 2016; **financial costs** in 2017 amounted to 14 million euro versus 17.0 million euro in 2016, down by 21% as a result of the **reduction in the average interest rate of over 60 bps and of a lower average net debt**.

Overall tax costs in the period under review amounted to 14.3 million euro, down versus 18 million euro in 2016, benefiting from the positive adjustment of deferred tax of Mondadori France of 6.3 million euro, as a result of a plan to gradually reduce the tax rate from 34.43%, in force until 2018, to 25.83%, from 2022, legislated by the French authorities.

Group profit at 31 December 2017 amounted to **30.4 million euro**, **up by 35%** versus 22.5 million euro in 2016 (which included a gain of 1 million euro from the disposal of Marsilio Editori S.p.A. and of the Bompiani BU).

FINANCIAL RESULTS

NET INVESTED CAPITAL



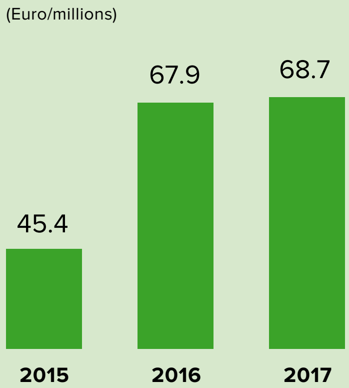
The **Group net invested capital** at 31 December 2017 came to 534.7 million euro, **down by 47 million euro** versus the prior year.

The **net working capital** in 2017 (including provisions for risks and post-employment benefits) **dropped** by approximately 15 million euro, as a result mainly of improved warehouse management.

Fixed assets decreased by approximately 32 million euro, and include capital expenditure of approximately 20 million euro, amortization, depreciation and impairment of 41 million euro, as well as the disposal of a number of assets.

The **Group's net financial position** at 31 December 2017 stood at **-189.2 million euro**, **down by approximately 30% versus -263.6 million euro** at 31 December 2016, as a result of the Group's positive **cash generation from ordinary operations** of **68.7 million euro**.

CASH FLOW



At 31 December 2017, **cash flow from operations** in the year came to a positive **90.3 million euro**; **cash flow** from **ordinary operations** (after outlays for financial charges and tax for the period) came to **68.7 million euro,** including, versus the prior year, cash used in the January-March quarter for Rizzoli Libri and attributable to the capital expenditure and the typical seasonal nature of the Education business.

Cash flow from non-ordinary operations came to a positive 5.6 million euro and includes:

- disposals amounting to 12.6 million euro;
- restructuring costs amounting to approximately 14 million euro;
- cash-ins from prior-years' tax amounting to 6.8 million euro.

CONSOLIDATED FINANCIAL HIGHLIGHTS IN 4Q17

(Euro/millions)	4Q17	% on revenue	4Q16	% on revenue	Var. %
Revenue from sales and services	**343.5**	***100.0%***	**328.1**	***100.0%***	**4.7%**
Cost of sold items	119.2	*34.7%*	103.1	*31.4%*	15.6%
Variable costs	107.2	*31.2%*	99.2	*30.2%*	8.1%
Fixed costs	25.8	*7.5%*	30.5	*9.3%*	(15.3%)
Cost of personnel*	58.0	*16.9%*	65.1	*19.8%*	(10.9%)
Other costs/(income)	0.5	*0.1%*	(1.6)	*(0.5%)*	n.s.
Result - associates	(1.8)	*(0.5%)*	0.5	*0.1%*	n.s.
Adjusted EBITDA	**31.1**	***9.1%***	**32.3**	***9.8%***	**(3.7%)**
Restructuring costs	(7.3)		(6.9)		6.0%
Non-ordinary items	(2.0)		(1.7)		21.9%
EBITDA	**21.8**	***6.4%***	**23.8**	***7.2%***	**(8.3%)**
Amortization, depreciation and impairment	15.5	*4.5%*	11.8	*3.6%*	31.5%
EBIT	**6.4**	***1.8%***	**12.0**	***3.7%***	**(47.2%)**
Net financial income (costs)	(3.8)	*(1.1%)*	(5.0)	*(1.5%)*	(24.6%)
Income (costs) from other investments	-	-	-	-	
Result before tax for the period	**2.6**	***0.7%***	**7.0**	***2.1%***	**(63.4%)**
Income tax	2.7	*0.8%*	1.8	*0.5%*	56.2%
Minority shareholders' result	0.6	*0.2%*	0.8	*0.3%*	(24.5%)
Result from continuing operations	**(0.8)**	***(0.2%)***	**4.4**	***1.3%***	**n.s.**
Result from discontinued operations	-	-	0.3	*0.1%*	n.s.
Net result	**(0.8)**	***(0.2%)***	**4.7**	***1.4%***	**n.s.**

* Cost of personnel includes, as from 1 January 2017, costs for collaborations and temporary employment. Accordingly, the prior year's cost of personnel has been reclassified for comparative purposes

Revenue by Business Area (Euro/millions)	**4Q17**	**4Q16**	**Var. %**
Books	138.7	119.6	15.9%
Retail	65.9	64.5	2.1%
Magazines Italy	74.4	75.8	(1.8%)
Magazines France	77.3	82.4	(6.1%)
Corporate & Shared Services	6.0	6.1	(1.9%)
Total aggregate revenue	**362.3**	**348.5**	**4.0%**
Intercompany revenue	(18.8)	(20.4)	(7.7%)
Total consolidated revenue	**343.5**	**328.1**	**4.7%**

Consolidated revenue in 4Q17 amounted to **343.5 million euro**, **up by approximately 5%** versus 328.1 million euro in 4Q16, driven by the growth of Books; Retail too posted a positive 4Q17, with revenue from the Book product rising by +8.2%, thanks to the market performance (sell-out of the bestseller titles published in the third quarter) of Books (+11.9%). Magazines continued the downward revenue trend, in line with the relevant markets, but with a more modest decline in Italy, driven by the **over 10% growth in the digital revenue of the properties**.

Adjusted EBITDA felt slightly in the last quarter of the year, closing at **31.1 million euro** versus 32.3 million euro in 4Q16, due mainly to the Books Area, as a result of the benefits in 4Q16 from the adjustment of the provision for bad debts (approximately 3.5 million euro) regarding the positions of a number of clients whose receivables had been cashed in, and to an adverse product mix of revenue. The Magazines areas, instead, reported a strong upswing in Italy, which more than offset the downward trend seen in France.

Adjusted EBITDA by Business Area (Euro/millions)	**4Q17**	**4Q16**	**Var.**	**Var. %**
Books	13.5	16.6	(3.1)	(18.6%)
Retail	4.6	4.5	0.1	2.7%
Magazines Italy	6.9	3.6	3.3	91.9%
Magazines France	9.2	11.9	(2.6)	(22.2%)
Corporate & Shared Services	(3.2)	(4.3)	1.1	(25.3%)
Total adjusted EBITDA	**31.1**	**32.3**	**(1.2)**	**(3.7%)**

Consolidated EBITDA amounted to 21.8 million euro, down versus 23.8 million euro in 4Q16, as a result also of extraordinary costs/reorganization reported by Magazines France in 4Q16, which include the remediation costs for the current offices, allocated on an accrual basis in 2017.

Consolidated EBITDA by Business Area (Euro/millions)	**4Q17**	**4Q16**	**Var.**	**Var. %**
Books	13.9	14.6	(0.7)	(4.8%)
Retail	5.2	3.7	1.6	42.2%
Magazines Italy	4.6	(1.7)	6.3	n.s.
Magazines France	0.1	11.4	(11.3)	(98.7%)
Corporate & Shared Services	(2.0)	(4.1)	2.1	(50.6%)
Total EBITDA	**21.8**	**23.8**	**(2.0)**	**(8.3%)**

Amortization, depreciation and impairment increased versus 4Q16, as a result of the write-down of 2.9 million euro of the investment in the associate publisher of Il Giornale.

Financial costs, as in prior quarters, benefited from lower debt costs and lower average debt versus the prior year.

The weight of tax in the last quarter was affected by the impact of the write-downs of non-fiscally deductible investments.

Accordingly, the net result came to -0.8 million euro (versus +4.7 million in 4Q16).

PERFORMANCE
BY BUSINESS AREA

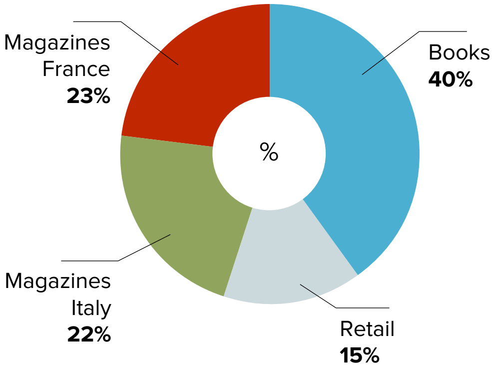
PERFORMANCE BY BUSINESS AREA

(Euro/millions)	Revenue		Adjusted EBITDA		EBITDA		Amortization, depreciation and impairment		EBIT	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Books	523.9	475.1	74.3	75.1	74.5	72.3	11.7	10.3	62.8	61.9
Retail	198.5	199.6	0.7	1.8	0.6	1.4	4.3	4.9	(3.7)	(3.5)
Magazines Italy	290.7	310.6	15.4	10.5	12.8	3.6	5.8	5.2	7.0	(1.6)
Magazines France	297.4	321.7	26.0	33.2	18.4	30.8	13.3	11.9	5.0	18.9
Corporate & Shared Services	26.2	23.3	(10.7)	(10.6)	(5.6)	(12.6)	4.5	1.7	(10.1)	(14.2)
Adjustments and cancellations	(68.5)	(66.8)	0.5	(1.5)	0.5	(1.5)			0.5	(1.5)
Total	**1,268.3**	**1,263.3**	**106.3**	**108.5**	**101.1**	**94.0**	**39.6**	**34.0**	**61.5**	**60.0**

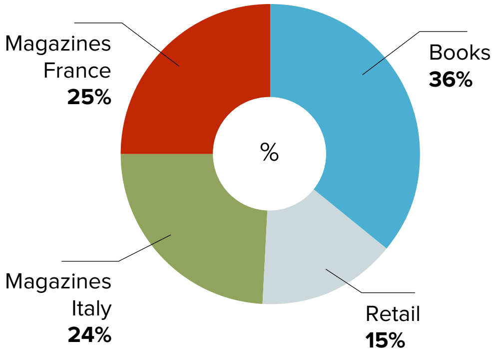
The breakdown of performance by business area reflects the system used by Management to oversee Group performance, in accordance with IFRS 8

REVENUE

2017



2016



BOOKS

Mondadori Libri S.p.A. is the Company at the head of all Group activities in the Books Area.
The Mondadori Group is Italy's market leader in the **Trade Books** Area: the publishing products that traditionally make up the core business are fiction, non-fiction, and books for young readers, both in print and electronic format; the Mondadori Group operates under various publishing brands: Mondadori, Giulio Einaudi editore, Piemme, Sperling & Kupfer, Rizzoli, BUR, Fabbri Editori and Rizzoli Lizard.

In the **Educational** segment, the Group is also present in the Italian school textbooks, legal, professional and university publishing market through the publications of Mondadori Education and the Rizzoli Libri brands, and in art and illustrated book publishing under the Electa and Rizzoli brands, management of museum concessions, and organization of exhibitions and cultural events through Mondadori Electa.
The Group is also active in the United States through Rizzoli International Publications under the Rizzoli, Rizzoli New York and Universe brands and Rizzoli Electa.

Relevant market performance

Following the slight drop reported in 2016, the national **Trade** books market grew by 5.4% in 2017, in terms of value, versus the prior year[6].

Sales channels trend:
- bookstore chains (44.2% of the market), up by 2.7% (+2.4% in 2016);
- independent bookstores (25.6% of the market), down by 2.0% (-6.4% in 2016);
- e-commerce channel (21.0% of the market), up by 37.3% (+15.6% in 2016);
- large retailers (9.1% of the market), down by 12.2% (-15.8% in 2016).

As for the e-book market, following the growth enjoyed over the past few years (2015: +25%, 2016: +8%), 2017 came to be a basically steady year, with an overall penetration of the book market at 4.7% (4.6% in 2015, 5% in 2016).[7]

As for products, hardcovers (83% of the market in terms of value) increased by 6.3%, while paperbacks, making for the remaining 17% of the market, grew by 1.3%.

Against this backdrop, the Mondadori Group, considering all its publishers, boasts a market leadership position, with a **28.7%** share versus 29.3% in 2016.

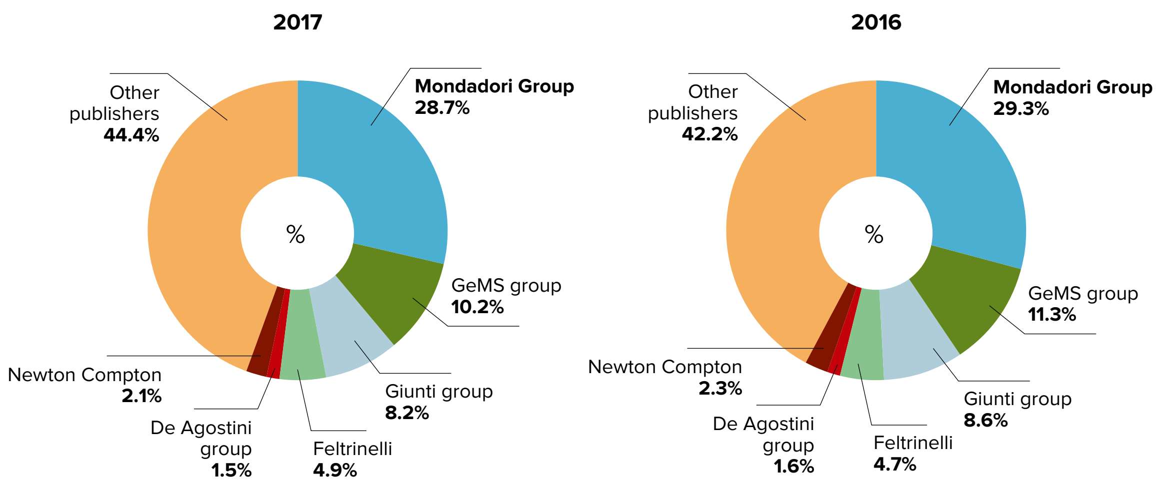
The persisting downturn of large retailers, a market where the Group holds the highest share (35.6% at end of 2017), helps explain the above slight drop, despite the remarkable success of the titles published in the year by the Group, as witnessed by the 8 titles placed in the top 10 bestselling books (in terms of value).

[6] Source GFK, December 2017
[7] Source: in-house projections

The Group holds, in fact, the first position in the ranking of the 10 bestselling titles in terms of value:

#	Title	Author	Publisher
1	Origin	Brown Dan	Mondadori
2	Storie della buonanotte per bambine ribelli. 100 vite di donne straordinarie	Cavallo Francesca, Favilli Elena	Mondadori
3	La colonna di fuoco	Follett Ken	Mondadori
4	Quando tutto inizia	Volo Fabio	Mondadori
5	Le otto montagne	Cognetti Paolo	Einaudi
6	La rete di protezione	Camilleri Andrea	Sellerio Editore Palermo
7	L'arte di essere fragili. Come Leopardi può salvarti la vita	D'Avenia Alessandro	Mondadori
8	Dentro l'acqua	Hawkins Paula	Piemme
9	Oltre l'inverno	Allende Isabel	Feltrinelli
10	L'Arminuta	Di Pietrantonio Donatella	Einaudi

TRADE AREA

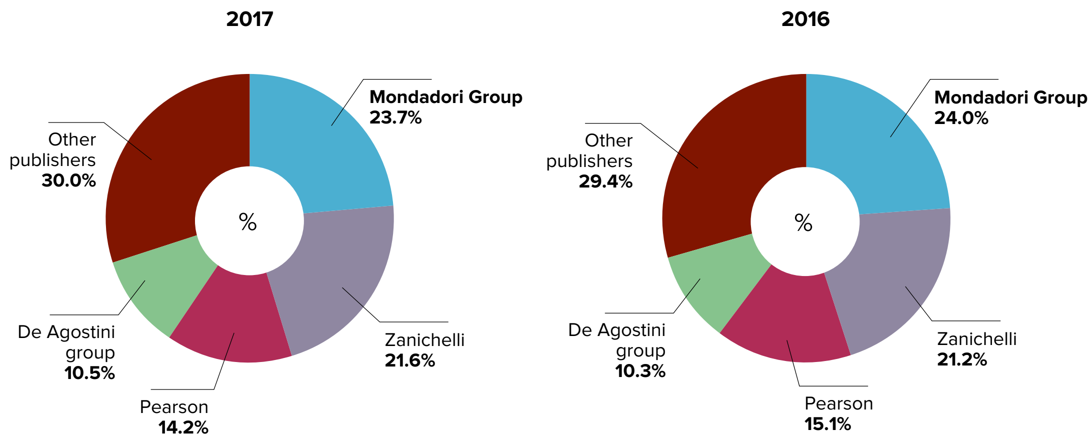


Source: GFK, figures at December in terms of value

In the **school textbooks** market, the Mondadori Group retained its leadership position of the overall market, with a **23.7%** share, adoptions-wise, basically steady versus the prior year.

The market in 2017 witnessed a slight downward trend, with the Primary and lower Secondary segments reporting a steady performance, while the upper Secondary segment saw a sharper decline[8].

EDUCATION MARKET



Source: AIE, 2017 (adopted sections)

Performance of the Books Area

Books (Euro/millions)	**2017**	**2016**	**Var.**	**Var. %**
Revenue	523.9	475.1	48.9	10.3%
Adjusted EBITDA	74.3	75.1	(0.7)	(1.0%)
EBITDA	74.5	72.3	2.2	3.0%
EBIT	62.8	61.9	0.9	1.4%

Revenue

Revenue in 2017 amounted to **523.9 million euro**, **up by 10.3%** versus the prior year, due also to the different consolidation period of Rizzoli Libri versus 2016.

Specifically, revenue grew across all areas: Trade was up by 12.3%, Educational by 10.5% while distribution activities increased by 2.2%.

The Trade segment produced 2,265 new titles in 2017 (2,264 in 2016); Mondadori Electa 206 (164 in 2016, net of Rizzoli Libri Illustrati), and Mondadori Education 240 (276 in 2016).

[8] Source: Databank, 2017 figures in terms of value

Books Revenue (Euro/millions)	**2017**	**2016**	**Var. %**
Mondadori Libri	185.8	163.3	13.8%
Rizzoli Libri	37.9	35.8	5.9%
Total Trade	**223.7**	**199.1**	**12.3%**
Mondadori Education	74.3	71.5	4.0%
Rizzoli Education	85.2	81.0	5.1%
Total Education	**159.5**	**152.5**	**4.6%**
Mondadori Electa	53.3	45.6	16.8%
Rizzoli International Publications	35.0	25.5	37.1%
Total Educational	**246.9**	**223.7**	**10.4%**
Distribution and other services	53.4	52.2	2.2%
Total consolidated revenue	**523.9**	**475.1**	**10.3%**

Trade Books Revenue

Trade Books revenue in 2017 was up by **12.3%** versus the prior year, thanks also to the inclusion in the consolidation period of 12 months of revenue from Rizzoli Libri versus only 9 months in 2016 (April-December).

In 2017, **Mondadori** further strengthened its position as the top player of the market with an 11.7% share, up versus 2016 (10.6%), propelled by the success of the published titles.

In the **Hardcover** segment, the foreign fiction bestsellers were:

- *"Origin",* by D. Brown (460,000 copies),
- "*La Colonna di fuoco*", by K. Follett (328,000 copies) and
- "*Tredici*", by J. Asher (150,000 copies).

In Italian **fiction**:

- *"Ogni storia è una storia d'amore",* by A. D'Avenia (220,000 copies) and
- "*Nessuno come noi*", by L. Bianchini (93,000 copies).

The main **non-fiction** titles of the year were:

- *"Quando tutto inizia", by* F. Volo (410,000 copies),
- "*Soli al comando*", by B. Vespa (100,000 copies) and
- "*Metti via quel cellulare*", by A. Cazzullo (over 90,000 copies).

In the **Paperback** segment, the Publisher held a 26.8% market share, down half a percentage point versus the prior year.

In the **Children's Books** segment, Mondadori held a 10.5% market share, rising sharply versus 2016 (7.1%), driven by the success of "*Storie della buonanotte per bambine ribelli"* by F. Cavallo/E. Favilli (460,000 copies).

Einaudi in 2017 further increased its market share to reach 5.9% (5.5% in 2016) becoming the second Italian publisher after Mondadori.
Bestselling titles included "*Le otto montagne",* by P. Cognetti, winner of the 2017 Strega Prize (277,000 copies) and "*L'Arminuta",* by D. Di Pietrantonio, winner of the Campiello Prize (150,000 copies).
As for *Stile Libero*, mention should be made of the success of G. Carofiglio with "*Le tre del mattino"* (160,000 copies), M. De Giovanni with "*Rondini d'inverno*" and "*Souvenir*" (110,000 and 95,000 copies, respectively).

In the **Paperback** segment, Einaudi published the works of Kazuo Ishiguro, winner of the 2017 Nobel Prize in Literature.

Rizzoli's market share in 2017 stood at 5.1% (6.2% in 2016).

In the Hardcover segment, the bestselling titles of 2017 were "*E allora baciami*", by R. Emanuelli (95,000 copies), "*Esercizi di memoria*", by A. Camilleri (50,000 copies), and "*Da dove la vita è perfetta*", by S. Avallone (45,000 copies); the Young Adults section featured the new novel by US writer J. Green, "*Tartarughe all'infinito*".

Piemme's market share at end 2017 stood at 3.4% (3.9% in 2016).
The main titles were:
- "*La ragazza del treno*", by P. Hawkins, which continues its successful streak (167,000 copies in the year, including the paperback edition, making a total of over 700,000 copies since its launch in 2015), plus her new novel published in 2017, *"Dentro l'acqua"* (235,000 copies);
- the new novel by M. Connelly *"Il passaggio"* (66,000 copies).

In the **Children**'s **Books** segment, Piemme retained its top market position (10.3% share) with the character Geronimo Stilton and the brand Battello a Vapore.

Sperling & Kupfer held a 2.6% market share (2.9% in 2016), with the main titles of the year including *"Festa di famiglia",* by S. Casati Modignani (158,000 copies) and *"La vita in due"*, by N. Sparks (130,000 copies).

Educational Books Revenue
Revenue in this segment amounted to **246.9 million euro** in 2017, **up by 10.4%** versus the prior year, which did not include the first quarter of Rizzoli Libri.

The increase is explained by the positive performance delivered by all the publishers, meaning those operating in the school textbooks market and in trade books - Mondadori Electa's market - and by the activities revolving around the management of exhibitions, museums and art catalogues.

School Textbooks
The Mondadori Group covers the school textbooks segment through Mondadori Education and Rizzoli Education, who produce textbooks, courses, teaching tools and multimedia content for every school level, from primary school to the first and second-level secondary schools.

Mondadori Education
In 2017, Mondadori Education strengthened its top-ranking position in the school textbooks segment, clinging firmly to its third place for number of sections in terms of books adopted, with a market share at 12.6%, slightly higher than the prior year (Source: AIE, number of sections).

The year closed with a 4% increase in revenue (74.3 million euro versus 71.5 million euro in 2016), driven by the goods results in terms of books adopted in the first-level secondary school segment.

- **In primary schools**, the segment with the highest percentage of changes (83%), Mondadori reported a slight drop in its market share,
- **In first-level secondary schools**, where the percentage was 36%, Mondadori Education grew for the third consecutive year, increasing by approximately 5% in terms of books adopted.
- **In second-level secondary schools**, the result in terms of books adopted was slightly higher than last year (+0.2%).

Rizzoli Education
In 2017, Rizzoli Education retained its high-ranking position in the school textbooks segment, firmly at fourth place for number of sections in terms of books adopted, with a market share at 11.1%[9], down slightly versus 2016.

The year closed with revenue at 85.2 million euro, up by 5.1% versus 81 million euro in 2016 (+2.4% on a like-for-like basis including the first quarter of 2016), due mainly to the performance in terms of books adopted of proprietary products, and to a slightly lower-than-expected result in the sale of second-hand books.

[9] Source: AIE, number of sections

- **In primary schools**, Rizzoli Education retained its leadership position with a 14.3% market share, dropping slightly versus 2016 as a result of the results from the distribution of the third-party publisher Oxford.
- **In first-level secondary schools**, revenue was slightly lower than 2016.
- **In second-level secondary schools,** the new titles released in 2017 performed well.

Mondadori Electa

Under the Electa brand, it publishes Art, Kids and Architecture books, including exhibition catalogues, museum guides and sponsor books; under the Mondadori brand, it publishes Illustrated Books, Various, Non-Fiction and Tourist Guides; under the Rizzoli brand, it publishes fashion, luxury, photography and sponsor books.

Revenue in the year under review amounted to 53.3 million euro, rising sharply by approximately 17% versus 2016 (+7.3% including, in the prior year, the illustrated books business unit acquired by Rizzoli Libri), as a result of the good performance delivered by both activities.

- **Publication of Books**

  Mondadori Electa's market share rose by **0.3%**, making it one of the top 15 Italian publishers, with a 1.2% market share and with strong increases in terms of copies (32.6%) and in terms of value (35.9%).

  Positive sales results were achieved particularly in the Various and Illustrated segment by the titles published by Sveva Casati Modignani in the Madeleines series, Benedetta Rossi in the cooking series, and Marco Montemagno in the coachstar series, as well as the webstar series.

  In the Kids segment, 2017 saw the good performance of Electajunior, the new line for youngsters from lower secondary schools, in particular with the *Cube Kid* series, which reached 100 thousand copies.

  April 2017 saw the first titles published on the US market, distributed by Rizzoli International Publications, which marked the development of international operations.

- **Art, Exhibitions and Museums**

  This segment ended the year delivering positive results across all areas (exhibitions, publishing, bookshops), while starting work on outlining future strategies to cope with the sweeping changes and the challenges of the coming years:
  - in the organization of exhibitions, good results were achieved by Naples and Pompeii, with the exhibitions organized in Pompeii, at the National Archaeological Museum and at the Capodimonte, while efforts continued to develop activities across the Country (Rome, Milan, Turin, Bergamo, Mantua);
  - Bookshops grew thanks to the positive results of the Venice Art Biennial and of the Milan Triennale. 2017 also saw the awarding of the management of the bookshop at the National Museum of Italian Judaism and the Shoah in Ferrara.

Rizzoli International Publications

The US publisher of high-end illustrated books for the US, UK and French markets in the retail segment, achieved revenue of 35 million euro, rising sharply by 37% versus 25.5 million euro in 2016, which did not include the first three months of the JV Skira Rizzoli, as it was outside the consolidation scope.
In fact, revenue in 2017 includes the former joint venture Skira Rizzoli Publications, active on the US art catalogues market, as a result of the merger by incorporation into *Rizzoli International Publications*, which took place in August.

Rizzoli USA's main segment of operation in the US (high-end illustrated books with a cover price above Usd 50), fell by 7% at end 2017 versus the same period last year. Against this downturn of the domestic market, Rizzoli International revenue (USD 36.9 million), driven by the sales in the UK and France of its publishing business (which now includes the former JV Skira-Rizzoli incorporated in Rizzoli International Publications), grew by over 7% versus the entire 2016 pro-forma.

The Retail segment, which includes the Broadway bookstore in NYC and five corners managed at Eataly locations in the US, posted a similarly good performance in the year.

Revenue from distribution activities and other services
Revenue from distribution activities and other services on behalf of third-party publishers amounted to 53.4 million euro in 2017, up by 2.2% versus the prior year, due to the different consolidation period of Rizzoli Libri from 2016 to 2017.

E-book
Revenue from e-book sales amounted to 12.5 million euro in 2017, basically in line with the prior year and accounting for **6%** of total revenue from Trade Books. Downloads in the year totaled 2.5 million (versus 2.8 million in 2016), with a daily average of 6,800 (7,600 in 2016) and with an average price up by 12% versus the prior year.

Main titles include *"Origin"*, by Dan Brown, *"La colonna di fuoco"*, by Ken Follett, *"Le otto montagne"*, by Paolo Cognetti and *"Dentro L'acqua"*, by Paula Hawkins.

The digital catalogue at 31 December 2017 counted almost 22,000 titles.

EBITDA
Adjusted EBITDA of the Books Area amounted to **74.3 million euro** which, on a like-for-like consolidation basis with Rizzoli Libri, **would be up by approximately 12**% versus 2016, despite a more negative contribution from the associate Mach2 Libri in 2017 (down by 1.8 million euro versus 2016).

2017 saw efforts continue on implementing the management policy focused on a **targeted editorial planning** in the Trade segment (meticulous selection of less profitable new titles, reduction of average print runs) and on the ongoing optimization of operating processes, which allowed the Group to keep **profitability** above **14%**.

The Area's **reported EBITDA** amounted to 74.5 million euro, **up by 3%** versus 72.3 million euro in 2016, which included certain non-recurring charges amounting to approximately 2.3 million euro from the acquisition of Rizzoli Libri.

RETAIL

The Mondadori Group operates in Italy with a network of approximately 600 stores composed of directly-managed stores (31), including bookstores (21) and megastores (10), and other franchised stores, including bookstores (354), Mondadori Points (211), in addition to shop-in-shops (50), and web channels (www.mondadoristore.it) and book clubs.

Relevant market performance

Books

The relevant market for the Retail Area is Books (**80% of revenue**), which rose sharply in 2017 versus the prior year (+5.4%), while chains grew by 2.4%.

In this segment, Mondadori Retail's **market share** stood at **15.0%** (14.9% at 31 December 2016).

Mondadori Retail network trend

Stores	**Dec. 2016**	**Dec. 2017**	**Var. 12M17**
Megastore	11	10	-1
Directly-managed bookstores	20	21	+1
Franchised bookstores	547	565	+18
Total	**578**	**596**	**+18**

Performance of the Retail Area

Retail (Euro/millions)	**2017**	**2016**	**Var.**	**Var. %**
Revenue	198.5	199.6	(1.1)	(0.5%)
Adjusted EBITDA	0.7	1.8	(1.1)	(60.8%)
EBITDA	0.6	1.4	(0.8)	(56.6%)
EBIT	(3.7)	(3.5)	(0.2)	n.s.

Revenue

In 2017, the Retail Area revenue was basically in line with the prior year (-0.5%), despite the upward trend of the Book product, driven by the targeted reduction in revenue from consumer electronics products implemented from the first half of the year.

In the fourth quarter, revenue grew by 2% versus the prior year, driven by the promotional activities launched, with a **sharp increase by 8.2% delivered by Books**.

[10] Store revenue
[11] Source: GFK, 2017

Revenue - Retail (Euro/millions)	**2017**	**2016**	**Var. %**
Megastores	50.1	54.6	(8.3%)
Directly-managed bookstores	31.1	30.8	1.3%
Franchised bookstores	84.8	84.1	0.9%
Online	15.5	11.4	36.4%
Stores	**181.5**	**180.9**	**0.4%**
Book clubs and other	16.9	18.7	(9.7%)
Total revenue	**198.5**	**199.6**	**(0.5%)**

Store revenue was **up by 0.4%** versus 2016.

By type of product:

- **Books** were the predominant product category, making for **80%** of the total, **up by 5.8%**;
- **non-book** revenue showed a positive trend in the Impulse category (+5.4% stationery and toys), a basically steady trend in the Media category, while Consumer Electronics continued to fall, due also to the space reduction strategy (approximately -25% versus 2016).

The analysis by channel shows the following:

- **a 1.3% increase by directly-managed bookstores**, led by the positive performance of Books. On a like-for-like basis in terms of stores, revenue was on the rise for the fifth consecutive year (+2.5% in 2017, in line with the prior year);
- the positive momentum of **Franchised Bookstores (+0.9%)**, driven by the growth of the network, which saw 19 new openings (-1.5% on a like-for-like basis in terms of stores);
- the drop by Megastores (-8.3%), due not only to the shrinking sales in Consumer Electronics - attributable partly to the reduction in dedicated spaces (closure of the Department in Turin and Bologna), but also to the closure of a store in Palermo in July 2017. **The Books category achieved a positive performance of 1.2%**;
- an **over 36% increase** in the online segment, driven by the positive performance of sales related to the government's "Culture Bonus" for 18 year olds ("18app")[12];
- a lower drop by the Bookclub than in prior years, thanks to the relaunching policy involving the channel.

EBITDA

In 2017, Mondadori Retail achieved **adjusted EBITDA** of **0.7 million euro**, deteriorating versus 1.8 million euro in 2016, as a result of the temporary decline in margins from the franchised channel, affected by a number of promotional campaigns whose benefits are expected to be felt starting from next year, of the structural decline in sales volumes in the book club channel, and of the costs associated with the targeted reduction in the sales of consumer electronics products.

EBITDA stood at **0.6 million euro** (1.4 million euro in 2016) and includes higher restructuring costs (1.5 million euro) and a number of non-ordinary positive items (including key money from the closure of two stores).

[12] Bonus earmarked in the 2016 Stability Law (Law no. 208 of 28 December 2015) for young people who turned eighteen in 2016, amounting to 500 euro, usable until 31 December 2017 to buy: tickets for cinema, theatre and live performances; books and visits to museums and exhibitions

MAGAZINES ITALY

Relevant market performance

2017 witnessed a continued drop in the relevant markets:

- broadly speaking, the **advertising** market fell by an overall **-2.1%** versus the prior year, with Magazines dropping by **-6.2%** while Internet grew by **+1.7%**[13];
- the magazine **circulation** market lost **10.6%** (in terms of value), with a downturn of both newsstands and subscriptions. Against this backdrop, Mondadori, whose circulation in the newsstands channel outperformed the market as a result of the new launches and ongoing focus on the publishing quality of its magazines, secured its leadership with a **31.8%** market share (versus 30.8% at December 2016)[14];
- the **add-ons** market deteriorated a great deal versus 2016 (-21.9%), due to the performance of newspapers (-25.9%) and magazines (-16.5%). Mondadori's performance was in line with the magazine market, but better than the overall market, with its share increasing to 34.3% (from **32.1% at end 2016**).

Performance of Magazines Italy

Magazines Italy (Euro/millions)	**2017**	**2016**	**Var.**	**Var. %**
Revenue	290.7	310.6	(19.9)	(6.4%)
Adjusted EBITDA	15.4	10.5	5.0	47.3%
EBITDA	12.8	3.6	9.2	n.s.
EBIT	7.0	(1.6)	8.6	n.s.

Following the merger by incorporation of Banzai Media S.r.l. into Arnoldo Mondadori Editore S.p.A. - on 10 January 2017, with accounting and tax effects from 1 January 2017 - and the resulting integration of its digital activities, the scope acquired in 2016 is no longer recognized separately as from 2017

Revenue

In 2017, Magazines Italy's **revenue amounted to 290.7 million euro**, down by 6.4% versus 2016, in line with the relevant markets.

Magazines Italy (Euro/millions)	**2017**	**2016**	**Var. %**
Circulation	105.8	110.4	(4.2%)
Advertising	87.3	85.8	1.8%
Add-on sales	40.1	53.0	(24.4%)
Distribution and revenue towards third publishers	33.6	34.5	(2.8%)
Other revenue	24.0	26.9	(11.0%)
Total revenue	**290.7**	**310.6**	**(6.4%)**

[13] Source: Nielsen, December 2017
[14] Internal source: Press-di, December 2017

- **Circulation** revenue (newsstands + subscriptions) fell by 4.2%, but outperformed the relevant market, thanks mainly to the performance of the TV magazines (*TV Sorrisi e Canzoni* was once again the leading magazine in Italy with an average circulation of over 500,000 copies a week[15]); as part of the integration and development projects, March saw the start of the first brand extension initiative with the launch of the monthly magazine *Giallo Zafferano*, which achieved an average circulation of approximately 200 thousand copies. In June, in line with the selective strategy on the development of the product portfolio to sustain revenue and optimize editorial costs, Mondadori launched *Spy*, the new gossip weekly, which reached an average circulation of approximately 150 thousand copies in 2017.
- **total advertising revenue** (print + web) **grew by 1.8%** in 2017; gross advertising sales in Italy **increased by over 7%** versus 2016, driven by the contribution of Banzai Media activities: the trend of print advertising sales, on a like-for-like basis of titles and barter deals for goods, was basically in line (-6.0%) with the relevant market, while digital revenue grew by approximately **27%**, increasing the percentage of digital advertising revenue on the total to approximately **27%**;
- **revenue from add-on products**, sold in attachment to Group magazines, dropped sharply (-24.4%) versus 2016, in line with the market trend throughout the year, with a general drop of all products (DVDs, CDs, books and gadgets);
- regarding **distribution and revenue towards third parties**, despite the drop in copies sold reported by ADS in the Newsstands/Large Retailers channel in 2017, -8% in newspapers and -5% in magazines, and -9% in newspapers and -15% in magazines in the Subscriptions channel, in the reporting period the Area lost 2.8% versus the prior year, outperforming the market trend, driven by the ongoing commitment to the development of the portfolio of distributed publishers both in the Newsstands and Subscriptions channel.
- Other revenue includes:
  - **international operations**, which achieved revenue of 4.4 million euro in the reporting period (down from 5.1 million euro in 2016), as a result of the drop in licensing activities caused by the deteriorated international market environment, and by exchange rate fluctuations, particularly for the UK. *Grazia* is the most prominent brand abroad, operating a network of over 20 editions throughout the world today;
  - revenue from **Digital Marketing Service** activities (16.2 million euro) **grew by approximately 4%**, as a result of the contribution of the consolidation of AdKaora activities, acquired in the scope of Banzai Media.

Mondadori retained its position as Italy's top digital publisher in 2017, reaching a **unique audience of 16.2 million/month**[16], a position corroborated by comScore surveys, which reported in December 2017 a Group audience of **24.2 million unique users/month**.
Digital revenue reached an overall 38 million euro, up by **approximately 16%** versus the prior year.
The Banzai Media units acquired in 2016 were fully integrated in 2017, enhancing the complementarities of the brands and creating synergies for product management/development and promotional support, which produced a sharp increase in profitability.
Efforts continued in seizing the new opportunities offered by the digital advertising market (particularly in the native adv, mobile adv and video segments), and in supporting user growth and retention, which helped strengthen Mondadori's leadership in key vertical segments such as women, food, health & wellness, and students.

Special mention should be made of the websites of:
- *Grazia*, the undisputed reference in the fashion segment, reported an approximately 30% increase in advertising sales;
- *Donna Moderna*, the leading Italian property in the women's segment, unveiled a revamped website with a new look&feel and a technology infrastructure aligned to the highest standards of the market;

[15] Source: ADS – average circulation, December 2017
[16] Source: Audiweb, December 2017

- *GialloZafferano*, now featuring a mobile app boasting a high level of user engagement, hit a new record of sessions (4.3 million on Christmas Eve).

EBITDA

Adjusted EBITDA in the **Magazines Italy** Area **improved significantly by approximately 47%**, rising from 10.5 million euro to **15.4 million euro**, driven mainly by the benefits of the digital business achieved with the combination of Banzai Media and Mondadori's teams and digital products, but also by print activities, which offset the drop triggered by the trend of the markets, with ongoing optimization actions and containment of editorial and overhead costs.

The Area's **reported EBITDA improved further**, closing at 12.8 million euro (3.6 million euro in 2016), thanks also to lower restructuring costs.
The result includes the contribution of a number of companies consolidated at equity:

- foreign subsidiaries (including Attica Publications and Mondadori Seec Advertising - exclusive agency for the sale of advertising spaces in the Chinese edition of *Grazia*), whose overall contribution in the period under review came to a positive **0.7 million euro** (**1.2 million euro** in the prior year);
- the Mediamond joint venture, whose pro-rata result in 2017 came to **breakeven** (0.1 million euro at December 2016).

MAGAZINES FRANCE

Relevant market performance

In 2017, the relevant markets of Mondadori France continued to drop:
- in sales in the newsstands channel (**-6.1%**)[17];
- in print advertising sales (**-10.8%**)[18], where Mondadori France retained its position as one of the top players in the magazine market, with its share (in terms of volume) at **11.1%**;
- in digital advertising sales (**-4.6%**[19]).

Performance of Magazines France

Magazines France (Euro/millions)	**2017**	**2016**	**Var.**	**Var. %**
Revenue	297.4	321.7	(24.3)	(7.5%)
Adjusted EBITDA	26.0	33.2	(7.1)	(21.5%)
EBITDA	18.4	30.8	(12.4)	(40.3%)
EBIT	5.0	18.9	(13.9)	(73.3%)

Revenue

In a shrinking market (advertising and circulation-wise), Mondadori France achieved revenue of 297.4 million euro, down by 7.5% or by 7.0% on a like-for-like basis (net of NaturaBuy) versus 2016.

Magazines France (Euro/millions)	**2017**	**2016**	**Var. %**
Circulation	219.9	231.1	(4.9%)
Advertising	61.8	74.5	(17.1%)
Other revenue	15.7	16.1	(2.0%)
Total revenue	**297.4**	**321.7**	**(7.5%)**

[17] Internal source: Distributors and Mondadori, Jan.–Dec. 2017
[18] Source: Kantar Media, Jan.-Dec. 2017
[19] Source: SRI, Jan.-Dec. 2017

Circulation revenue

Circulation revenue (newsstands and subscriptions), accounting for approximately 74% of the total, posted a **4.9%** downturn versus 2016.

Specifically:

- newsstands were down by **5.4%** versus the prior year, lower however than the relevant market (**-6.1%**)[20];
- subscriptions, **-3.7%** versus the prior year, contributed a steady share to circulation revenue (53% in 2017).

Revenue from the sale of digital copies doubled versus 2016, driven by the new partnerships with the main French telco players, to offer Mondadori France brands to their subscriber base.

In September, Mondadori France launched *Dr. Good*!, the new bi-monthly women's health magazine, which scored positive results both in newsstand circulation (an average of 130,000 copies sold by the first three issues) and in advertising.

Brand extension activities in 2017 counted a total of **45 special issues** versus 2016.

Advertising revenue

Advertising revenue dropped by approximately 17% versus 2016:

- **print advertising revenue** fell by 11.8% versus the prior year, in line with the relevant market trend (**-10.8%**)[21], accounting for approximately 90% of total advertising revenue.

In 2017, Mondadori France retained its position as second top player in the magazine advertising market, with its share in terms of volumes steady versus the prior year.

- **digital advertising revenue** saw a more marked decline versus the prior year, with a below-market performance (-4.6%)[22]. The performance was affected by the internalization of advertising sales related to the Mobile/Video segment.

Digital and Diversification Activities

The digital readers of Mondadori France (web, mobile and tablet de-duplicated) reached **12.1 million unique users**[23], with 6 brands topping the one million mark of unique users (*Closer* 3.9 million, *Télé Star* 3.6 million, *Top Santé* 2.8 million, *Kiosquemag* 2.5 million, *Auto Plus* 2.2 million, *Grazia* 1.3 million).

EBITDA

Adjusted EBITDA in 2017 came to **26.0 million euro** versus 33.2 million euro in the prior year. The drop is mainly attributable to the downturn in print and digital advertising revenue, affected also by the increase in circulation expenses. Adjusted EBITDA was also affected by the increase in rental costs for the offices (1.4 million euro) and by the deconsolidation of NaturaBuy (from May).

Reported EBITDA amounted to 18.4 million euro, down from 30.8 million euro in 2016, as a result of higher restructuring costs in 2017 (7.1 million euro versus 2.3 million euro in 2016) from the new voluntary staff departure plan announced in December - whose benefits will be felt in 2018 - and of extraordinary costs for the remediation of the current offices, allocated on an accrual basis in 2017 and amounting to 3.1 million euro, despite the capital gain of 4.3 million euro from the disposal of NaturaBuy in May 2017 (3.3 million euro net of relating charges).

[20] Internal source: Distributors and Mondadori, Jan.–Dec. 2017
[21] Source: Kantar Media, Jan.-Dec. 2017
[22] Source: SRI, Jan.-Dec. 2017
[23] Source: Nielsen, October 2017

CORPORATE & SHARED SERVICES

The **Corporate & Shared Services** segment includes - besides the Group's top management organizations - Parent Company functions providing services to Group companies and the different business areas. These services are mainly associated with activities regarding: Administration, Management Control and Planning, Treasury and Finance, IT, Human Resources, Legal and Corporate Affairs, and External and Institutional Relations.

Revenue refers mainly to amounts billed to subsidiaries and associates as well as other entities using the above services.

The **Corporate & Shared Services** Area had absorbed the comparable activities of Rizzoli Libri and Banzai Media, acquired in 2016, without increasing staff and reducing the percentage of overall costs on revenue.

Also included are the results of the minority interests in Monradio S.r.l. (20%) and Società Europea di Edizioni S.p.A., publisher of the daily *Il Giornale*.

Monradio: the results of R101, 80% of which was sold to R.T.I. S.p.A. on 30 September 2015, for the share attributable to the Mondadori Group, came to -0.8 million euro in 2017 (-1.0 million euro in 2016).

Società Europea di Edizioni: the publisher of *Il Giornale* posted a pro-rata loss of 2.1 million euro before non-ordinary items in 2017 versus 0.3 million euro in 2016, as a result of the downturn of the relevant daily newspaper markets, both in terms of circulation (-8/9%[24]) and advertising (-7.7% in 2017[25]).

Adjusted EBITDA of the **Corporate & Shared Services Area** came to an overall -10.2 million euro, improving versus -12.1 million euro in 2016, despite the deterioration in the contribution of minority interests; including non-ordinary items, EBITDA stood at -5.2 million versus -14 million euro in 2016, as a result of lower restructuring costs and the positive contribution of a gain of 4.2 million euro from the disposal of a property in Verona, aimed also at outsourcing logistics activities.

[24] Source: ADS, December 2017, newsstands and subscriptions
[25] Source: Nielsen, December 2017

FINANCIAL POSITION

In 2017, the 3-month Euribor remained in negative territory, dropping to a low of -0.332% in April, while the average was -0.329%; the average cost of debt of the Mondadori Group on the interest rate component at 31 December 2017 was **2.72%** versus 3.13% in 2016.

The Mondadori Group's net financial position at 31 December 2017 stood at -189.2 million euro versus -263.6 million euro at December 2016.

Net financial position (Euro/millions)	**31/12/2017**	**31/12/2016**
Cash and cash equivalents	66.6	77.6
Assets (liabilities) from derivative instruments	(0.3)	(1.6)
Other financial assets (liabilities)	(10.0)	(13.4)
Loans (short and medium/long term)	(245.4)	(326.2)
Net financial position	**(189.2)**	**(263.6)**

In December 2017, the Mondadori Group renegotiated the existing committed credit lines, underwriting a new amortizing loan agreement with a pool of major banks (Banca Popolare di Milano, Intesa Sanpaolo, UniCredit) for a total of 450 million euro, coming to maturity in December 2022. The agreement sets improved financial conditions in terms of interest rate and commissions from the previous agreement. The **initial margin** for the Term Loan line is **120 bps**, with a reduction of about 130 bps from the cost of the previous loan. Additionally, the rate may vary, on an annual basis, from a low of 95 bps to a high of 200 bps, depending on the debt/EBITDA ratio.

The overall credit lines available to the Group at 31 December 2017 amounted to 664.1 million euro, 450.0 million euro of which committed; the change in committed lines versus 31 December 2016 amounts to -20.6 million euro, following a mandatory partial early repayment of the previous loan.

The Group's short-term loans, amounting to 214.1 million euro, 1 million euro of which drawn down at 31 December, include overdraft credit lines on current accounts, advances subject to collection and "hot money" flows.

At 31 December, the **450.0 million euro pool** consisted of:

(Euro/millions)	Bank pool		Of which: unutilized	Of which: with interest rate hedge
Term Loan A	150.0	(1)	-	100.0
Term Loan B	100.0	(2)	-	75.0
RCF	100.0	(3)	100.0	-
Acquisition Line C	100.0	(4)	100.0	
Total loans	**450.0**		**200.0**	**175.0**

(1) Maturity dates: 15.0 million euro December 2018, 17.5 million euro December 2019, 22.5 million euro December 2020, 27.5 million euro December 2021, 67.5 million euro December 2022
(2) Maturity dates: (a) Bullet 30/6/2019, or (b) in the event of an extension for Mondadori, 5.0 million euro December 2019 and December 2020, 7.5 million euro December 2021, 82.5 million euro December 2022
(3) bullet loan, coming to maturity in December 2022
(4) bullet loan, coming to maturity in December 2022

The Group's net financial position and the relating cash flow in the reporting period are detailed below:

(Euro/millions)	31/12/2017	31/12/2016
NFP beginning of period	**(263.6)**	**(199.4)**
Adjusted EBITDA	106.3	108.5
Effect of investments/dividends	(2.1)	(4.7)
Change in NWC + provision	5.7	12.7
CAPEX	(19.6)	(17.2)
Cash flow from operations	**90.3**	**99.3**
Financial costs	(14.0)	(17.7)
Tax	(7.6)	(13.8)
Cash flow from ordinary operations	**68.7**	**67.9**
Restructuring costs	(13.8)	(14.9)
Extraordinary tax amounts/prior years	6.8	15.5
Asset acquisition/disposal	12.6	(132.6)
Cash flow from extraordinary operations	**5.6**	**(132.0)**
Total Cash Flow	**74.3**	**(64.2)**
NFP end of period	**(189.2)**	**(263.6)**

The net financial position improved by over 74 million euro, with net debt decreasing to reach -**189.2 million euro** versus -263.6 million euro at 31 December 2016.

Cash generation in the year is structured as follows:
- **cash flow from ordinary operations** stood at **68.7 million euro**, 90.3 million euro of which from operations minus tax and financial costs of 21.6 million euro.

- **Cash flow from operations** benefited from the performance of operations net of non-ordinary items, which came to a positive 106.3 million euro, and from the generation of net working capital of 5.7 million euro (including provisions); this performance was mitigated by capital expenditure of approximately 20 million euro;
- **cash flow from extraordinary operations came to a positive 5.6 million euro** and included:
  - the net impact of **disposals and acquisitions** of approximately 12.6 million euro, referring mainly to the disposal of NaturaBuy by Mondadori France, and to the outsourcing of logistics activities (which included the disposal of the related property);
  - cash-outs for **restructuring costs** of 13.8 million euro;
  - collection of **tax receivables** accrued in prior years for a total of 6.8 million euro.

Trend of key balance sheet figures:

(Euro/millions)	31/12/2017	31/12/2016	Var.
Net trade receivables	298.0	298.7	(0.7)
Inventory	127.6	143.4	(15.8)
Trade payables	(416.3)	(415.0)	(1.3)
Other assets/liabilities	(12.1)	(14.6)	2.6
Net working capital	**(2.8)**	**12.5**	**(15.3)**
Tangible assets	593.0	612.1	(19.1)
Intangible assets	26.9	33.3	(6.4)
Investments	38.0	43.0	(5.0)
Net fixed assets	**657.9**	**688.5**	**(30.5)**
Provisions	(73.1)	(68.6)	(4.5)
Post-employment benefits	(47.5)	(51.0)	3.5
Net invested capital	**534.6**	**581.4**	**(46.8)**
Share capital	68.0	68.0	(0.0)
Reserves	246.9	227.3	19.6
Profit (loss) for the period	30.4	22.5	7.9
Equity	**345.3**	**317.8**	**27.5**
Net financial position	**189.2**	**263.6**	**(74.3)**
Total equity	**534.6**	**581.4**	**(46.8)**

Net Working Capital, down by approximately 15 million euro versus 2016, showed a basically steady trend in trade receivables and payables and in other assets/liabilities, and was mainly affected by effective warehouse management.

Specifically:
- **trade receivables** were basically steady versus 31 December of the prior year, consistent with the revenue trend;
- **inventory** dropped by approximately 15 million euro versus 31 December 2016, attributable mainly to the Books Area;
- **trade payables** and **other assets/(liabilities)** were basically steady versus 31 December 2016.

Fixed assets were down by approximately 30 million euro versus the prior year, despite capital expenditure in excess of 20 million euro, as a result of:
- the disposal of a property and relating plant and equipment, as part of the outsourcing of logistics activities (2.8 million euro);
- the disposal of NaturaBuy at end April 2017 (5.8 million euro);
- impairment of the investments booked at equity (Società Europea di Edizioni S.p.A. and Attica Publications S.A.), and the write-down of a number of Mondadori France magazines for a total of 7.4 million euro;
- normal amortization and depreciation in the year (33.5 million euro).

Provisions and post-employment benefits increased by an overall 1.5 million euro; provisions increased and regarded tax and legal disputes; post-employment benefits, instead, decreased by 3.5 million euro, due to the reduction in the workforce and the transfer of the logistics business unit, which included approximately 110 employees.

PERSONNEL

HUMAN RESOURCES

At 31 December 2017, Group employees with a fixed-term or permanent labour contract amounted to **3,026 units**, **down by 7.2%** versus 3,261 units at December 2016, as a result of the outsourcing of logistics activities in May, as well as the ongoing restructuring and efficiency improvement measures involving each of the Group's business areas.

Group Employees at 31 December 2017:

Headcount	**31/12/2017**	**31/12/2016**
Arnoldo Mondadori Editore S.p.A.:		
- Managers, journalists, office staff	925	822
- Blue collars	5	5
	930	**827**
Italian subsidiaries:		
- Managers, journalists, office staff	1,289	1,485
- Blue collars	9	99
	1,298	**1,584**
Foreign subsidiaries:		
- Managers, journalists, office staff	798	850
- Blue collars	-	-
	798	**850**
Total	**3,026**	**3,261**

Headcount by Business Area	**31/12/2017**	**31/12/2016**	**Var. %**
Books	641	789	(18.8%)
Retail	410	436	(6.0%)
Magazines Italy	762	794	(4.0%)
Magazines France	751	801	(6.2%)
Corporate, CRM & Shared Services	462	441	4.8%
Total	**3,026**	**3,261**	**(7.2%)**

In the **Books** Area, the sharp drop (-18.8%) versus 31 December of the prior year is attributable mainly to the outsourcing of Mondadori Libri's logistics activities to CEVA Logistics Italia, with the resulting transfer of approximately 100 employees.

The drop reported by **Retail** equally benefited from the above transaction, which involved the transfer of approximately 10 employees, and from the effects of the centralization of administrative activities from Rimini to Segrate.

The approximately 4% reduction reported in the year by **Magazines Italy** reflects the efficiencies achieved from the rationalization measures on magazines.
The segment continued implementing the status of crisis, with the introduction from 30 June 2017 of redundancy payments (CIGS) for the next 12 months.

The **Corporate & Shared Services** Area saw an approximately 4.8% increase in headcount, following centralization of the non-outsourced logistics activities (11 resources), the insourcing from RCS MediaGroup of the IT services, as well as the current insourcing of the administrative activities of Rizzoli Libri.

The cost of personnel[26] in the year amounted to 231.9 million euro, down (-3.7%) versus 2016, which had seen the consolidation of Rizzoli Libri as from April and Banzai Media as from June, mitigated by the ongoing reduction in headcount and by the effects (from 1 May) of the transfer of resources in the transaction involving the outsourcing of logistics activities.

On a pro-forma basis, the cost of personnel would have dropped by approximately 5%.

(Euro/millions)	2017	2016	Var. %
Cost of enlarged personnel (before restructuring)	**231.9**	240.7	(3.7%)

[26] Cost of enlarged personnel includes, as from 1 January 2017, costs for collaborations and temporary employment. Accordingly, the prior year's cost of personnel has been reclassified for comparative purposes

PERFORMANCE OF ARNOLDO MONDADORI EDITORE S.P.A.

In the year under review, given the significant differences between cost and equity of investments as a result of retained earnings, the Directors deemed it appropriate to change the measurement method of investments in subsidiaries and associates. IAS 27 (Equity Method in Separate Financial Statements) provides, in fact, the option of adopting the equity method for measuring investments in separate financial statements.

Following this change in the accounting method, consolidated and Parent Company equity are now in line and amount to 315.8 million euro; the Parent Company income statement at 31 December 2017 shows the same net result as the consolidated side of **30.4 million euro**.

Revenue increased to 241.6 million euro versus 239.2 million euro in the prior year, thanks mainly to the discontinuity from the merger by incorporation of Banzai Media S.r.l. and to the advertising sales on the acquired websites. The Parent also comprises Magazines Italy Print activities, whose **revenue dropped** versus the prior year, in line with the relevant market trend, as well as activities from services provided to other Group companies, which amounted to 29.8 million euro.

Adjusted EBITDA improved from -4.2 million euro to +0.3 million euro, driven by the positive contribution of the former Banzai websites and the efficiencies achieved in the Corporate and Digital structure segments.
2017 benefited from net positive extraordinary items of 4.6 million euro, attributable mainly to the disposal of the Verona-based site, but was affected by higher amortization from the merger with Banzai Media S.r.l. and by the resulting purchase price allocation process for the amount of 2.4 million euro.

2017 also included net financial costs of 4.8 million euro, in line with 2016, and a positive contribution from the measurement at equity of investments of 40.1 million euro, in line with the pro-forma figure on a like-for-like basis of the prior year.

The Parent ended the year with a **net profit of 30.4 million euro**, up versus the figure on a like-for-like basis in 2016 (**22.5 million euro**).

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Mondadori Group's internal control and risk management system refers to the set of procedures, organizational structures and associated activities designed to ensure proper management of the Company in line with its pre-established objectives, through adequate identification, measurement and monitoring of the main risks it faces.

The guidelines and overarching themes of the internal control and risk management system are based on the principles set out in Enterprise Risk Management (ERM), an international standard drawn up by the Committee of Sponsoring Organizations of the Treadway Commission (CoSO Report).

As of 2008, when defining these guidelines, the Mondadori Group has followed a process designed to identify, measure and manage the main risks and uncertainties it faces as it pursues its business objectives.

It has established a Risk Management function, which is responsible for developing an internal risk management model and overseeing the execution and periodic updating and monitoring of the process.

The significance of the risks – which are classified into categories and sub-categories – is determined based on measures of their likelihood of occurrence and their impact not only in financial terms, but also in terms of market share, competitive advantage and reputation.

Using a self-assessment process, Company management identifies the risks associated with their areas of responsibility and assesses their effects on the objectives previously set out by overall business managers and staff. This assessment is carried out both at "inherent" level (without considering mitigating actions) and at "residual" level (considering actions taken to reduce the likelihood of the occurrence of the risk event and/or to contain its possible negative effects).

The results are collated and processed by the Risk Management function and reported specifically to the Risk and Control Committee, the Board of Statutory Auditors and the Board of Directors. The status of the risks is reviewed and updated at least annually.

The existence and effectiveness of mitigation actions, as reported by management in the assessment phase, is checked by the Internal Audit function. In addition, to bring residual risk below an acceptable risk threshold (the "risk appetite"), the Risk Management function works in conjunction with Company managers to plan and implement risk response actions, mapping the additional mitigating actions it prepares.

Based on the results of the analyses carried out, the following is a brief summary of the main risks and uncertainties the Group is exposed to, in the following risk spheres:

- risks associated with the economic scenario;
- financial and credit risks;
- business risks: competitive scenario and strategic risks;
- regulatory risks;
- risks associated with brand protection.

RISKS RELATED TO THE ECONOMIC SCENARIO

The preliminary GDP forecast provides encouraging signs on the state of the economy. Italian exports continue to perform well against a background of strong growth in world trade, although output in the manufacturing sector shows some signs of slowing down. Still, Italy's recovery remains weaker than in other major European countries, and shows the persisting structural gap that is hard to fill in the short term. On the economic front, Italian confidence indexes show mixed and volatile trends. Public debt remains high, while the unemployment rate has improved slightly.

Against this market backdrop – which has a significant and direct impact on the sectors of business in which the Group operates – a contraction in the advertising and circulation market is the main external risk according to the latest Risk Assessment.

Main risks	Mitigation actions
Downturn of the advertising and circulation market.	Portfolio innovation, focusing on the development of websites, integrated communication platforms and events.
Relevant market trends, with repercussions on Group performance.	Ongoing focus on product quality and innovation of the range of publishing products, also through targeted integration strategies with the development of digital activities, hinging on the power and value of fundamental assets such as brands and content.

FINANCIAL AND CREDIT RISKS

The current market context, which has been set out in detail in the foregoing paragraph, is mirrored in additional elements of risk tied to trade receivables, arising from lengthened average collection times, potential contract non-fulfilment and cases of insolvency of counterparties, to poor warehousing in terms of misguided planning processes in purchasing and print runs, and to inadequate support given to the assets of the Company's balance sheet.

Main risks	Mitigation actions
Inadequate support to the assets on the balance sheet, in light of the current and future market trend and of the Group's financial results.	Ongoing monitoring of assets and write-off in order to ensure that the economic-financial performance is in line with the Company plans.
Risk related to ineffective warehousing, in terms of erroneous procurement/print run planning processes, with possible reverberations on stock breakage or high quantities of stock to be depreciated.	Improvement in publishing efficiency and process rationalization.
Trade receivables: longer payment collection time and increased counterparty defaults.	Ongoing monitoring of customer credit exposure and use, if required, of hedging instruments. Preventive analysis of customer solvency. Introduction of financial balance among management incentives parameters.

BUSINESS RISK: COMPETITIVE SCENARIO AND STRATEGIC RISKS

The publishing and media industries are still facing great uncertainty. Uncertainty arising from relevant market trends on the one hand, and the crucial transition towards new business models on the other, represent elements of discontinuity that may have reverberations on the traditional market balance.

In this context, the risk generated by the increased level of competition in the main areas remains a priority.

Main risks	Mitigation actions
Growing pressure on relevant markets, due to fiercer competition from existing players and/or to new players coming into the market.	Ongoing investment in improving publishing content and product quality. Integration of the sales networks to create cost and revenue synergies.

REGULATORY RISKS

The Mondadori Group operates in a complex regulatory context given the variety of the business areas in which it operates.

The introduction of new regulations as well as changes to existing regulations may have an impact in terms of affecting competitiveness and market conditions in specific business areas in addition to generating higher charges in the internal compliance processes.

In this respect, the Mondadori Group, in line with the requirements set out in the Corporate Governance Code for Listed Companies, defined an adequate internal control and risk management system which, through the identification and management of the main Company risks, contributes to ensuring the protection of the Company assets, the efficiency and effectiveness of Company processes, the reliability of financial disclosures, and the compliance with laws and regulations, the Company by-laws and internal procedures.

Main risks	Mitigation actions
Criticalities associated with regulatory developments on specific business topics inherent to the activity areas in which the Group operates.	Constant control and active participation in discussions for the issuance of new regulatory provisions also thanks to the involvement of the main category associations. Timely adjustment of business activities and products to regulatory changes also through the adoption of newly enforced regulations in the Group's internal policies.
Onerousness/importance of regulatory obligations due to changes in the legal framework (Privacy, MAR, Whistleblowing).	Ongoing monitoring of legislation. Process and organizational changes to adapt the internal structure to the changing legal framework.

RISKS ASSOCIATED WITH BRAND PROTECTION

The value and the prestige of the brands, contents, authors and reader communities represent a relevant asset for the Group to develop and grow also in the new business areas of the publishing industry.

Consequently, the Group's policies and activities are geared to maintaining and improving the value of such intangible assets.

Main risks	Mitigation actions
The occurrence of events that may damage the Group's image and brands could result in the loss of customers, profits and reputation.	Monitoring and prompt actions on different information sources through appointed functions (external relations, sustainability, and social media).

As part of the Group's increasing commitment to sustainability, the latest Risk Assessment also included a complete and systematic analysis of the risks associated with the social and environmental effects of the Company's activities, which also took its cue also from a review of the relevant stakeholders. The main aspects of this mapping process cover risks relating to changes in the legal and regulatory framework, supplier selection and assessment, customer relationships in terms of satisfaction and ability to meet their needs, the environmental impact of Company operations and decisions, and the allocation of resources to sustainability projects and initiatives. Appropriate mitigation actions are set up for the outcomes of this process.

The Risk Assessment system also maps transparency and anti-corruption in all Company departments.
Besides the Risk Management function, the internal control system also comprises:

- Internal Audit, which performs an average of 55-60 audits each year on: operations (Company processes), compliance (respect for procedures), compliance with Legislative Decree 231/2001, IT, compliance with Law 262/2005 (financial audit), and fraud. Violations discovered during audits are recorded in detail and are subject to follow-ups every six months. In order to plan the audits to be carried out in the year, an analysis is carried out of the requests made by the legal office, risk management and the other relevant functions. Out of all the audit proposals put forward, audits are carried out on those issues that present the greatest risk. The selected audits are then approved by the Control and Risk Committee (comprising three non-executive, independent directors) and the Board of Directors;
- Compliance 231: which mainly carries out audits pertaining to Legislative Decree 231/2001;
- Compliance: in addition to overseeing the chart of accounts, web invoicing and database management, this function also draws up, updates and maintains the Group's procedures and operating policies.

The Compliance 231 function's main activities in 2017 included:

- updating and approving the Organization, Management and Control Model of Rizzoli Libri, Press-di Distribuzione and Press-di Abbonamenti.

Training on the Organization, Management and Control Model was provided in 2017 for the following companies: Electa, Rizzoli Libri, Mondadori (former Banzai and other staff).

The internal control system has a committee responsible for mapping and updating all existing procedures, with representatives of the following departments: Internal Control, Human Resources, Legal and Corporate Affairs, Purchasing.

As regards environmental risks, the analysis carried out in 2015 to identify any activities at risk pertaining to the new environmental offences introduced by Legislative Decree no. 121/2011 led to the approval of two new procedures (underground tanks and waste management).

Finally, since 2011 the Group has operated a "Work-Related Stress Listening Point" called PADL, with an email address where staff can report stressful situations. The Internal Audit function responds directly to the reports received, having first consulted the Legal Office and the staff member's manager. Upon receipt of the report, it carries out a preliminary analysis of the circumstances in question and subsequently initiates an investigation. Since 2011 there has only been one such case (in 2012).

SIGNIFICANT EVENTS DURING THE YEAR

On **10 January**, the Board of Directors concluded the merger by incorporation into Arnoldo Mondadori Editore S.p.A., with no share exchange, of the wholly-owned company Banzai Media S.r.l., in accordance with the previously approved merger plan. The merger took effect for statutory purposes as from 15 January 2017, and for accounting and tax purposes as from 1 January 2017.

On **28 April**, the Mondadori Group concluded an agreement on the disposal of the business units involved in the logistics activities of Mondadori Libri and Mondadori Retail to CEVA Logistics Italia S.r.l.

The agreement marks a further step in the plan to focus on core businesses, including through the disposal of non-strategic assets, in a highly competitive market populated by international players. Among these players, following a tendering process, the Group chose CEVA Logistics Italia, already a provider of Rizzoli Libri distribution services, as its qualified partner.

The agreement will increase flexibility in managing logistics services and will reduce operating costs starting from 2018, guaranteeing the Mondadori Group and its customers high quality standards.

Additionally, the agreement envisages:
- the disposal of the logistics business units of Mondadori Libri and Mondadori Retail to CEVA Logistics Italia (a workforce of approximately 110 employees) for a consideration of 0.5 million euro;
- the disposal of the Verona-based site used for these activities to AKNO Trading S.r.l. (property company part of the AKNO group, industrial partner of the CEVA group) for a consideration of 6 million euro;
- the conclusion of an exclusive agreement for the supply by CEVA Logistics Italia of logistics services to the Mondadori Group's Books and Retail areas for a period of 9 years, which entails compliance with pre-set performance indicators and SLAs (Service Level Agreements), as well as improvement actions.

The disposal of the above business units and the supply of services took effect as from 1 May 2017.

The disposal of the site produced a gain (before tax) of 4.2 million euro, already included in the guidance for 2017 (with no impact on estimated adjusted EBITDA which, by definition, excludes non-recurring income).

On **2 May**, the Mondadori Group announced the completion, through its subsidiary Mondadori France, following the purchase of the 20% minority interest in the share capital, of the disposal of 100% of NaturaBuy SAS: the marketplace of small ads and the purchase/sale of hunting, fishing and outdoor items was acquired by NextStage, a private equity fund based in Paris.

The transaction is in line with the Mondadori Group's plan to focus on core businesses, including through the disposal of non-strategic assets aimed at the development of the print and digital publishing brands held in its portfolio.

The disposal of 100% of NaturaBuy came to 12.2 million euro, based on an enterprise value of 10.5 million euro.

In 2016, NaturaBuy achieved revenue of 2.6 million euro and EBITDA of 1.5 million euro. The company was deconsolidated as from 1 May 2017.

The impact on the 2017 net financial position of Mondadori France amounts to 9.4 million euro, net of the purchase of the minority interest in NaturaBuy and the positive financial position of the Company.

The disposal of this asset produced a gain before tax of 4.3 million euro.

On **19 October**, the Mondadori share moved from the FTSE Italia Small Cap index to the FTSE Italia Mid Cap index.

On **22 December,** the Group concluded a new five-year loan agreement with a pool of three banks (Banca Popolare di Milano S.p.A., Intesa Sanpaolo S.p.A. and UniCredit S.p.A.) for a total of 450 million euro (coming to maturity on 31 December 2022), changing the previous credit lines (2015-2020).

The agreement sets better financial conditions than those under the pool loan agreement concluded on 18 December 2015, in terms of lower interest rates and ancillary charges.

On **31 December**, in order to streamline the Group's corporate structure, Mondadori Libri S.p.A. approved the merger by incorporation of Sperling & Kupfer S.p.A. and of Edizioni Piemme S.p.A. and the transfer of the Trade BU of Rizzoli Libri.

Both transactions are effective for accounting purposes as from 1 January 2017.

PURCHASE OF TREASURY SHARES

On **26 June**, the Group announced the start of a share buyback plan - under art. 5 of Regulation (EU) No. 596/2014 - on the Electronic Stock Market (MTA) to provide the Company with 2.49 million shares to service the Incentive Plan named "2017-2019 Performance Share Plan" approved by the Shareholders' Meeting on 27 April 2017.

In 2017, the Group announced the purchase of **840,000 ordinary shares**, equal to **0.321%** of the share capital.

At 31 December 2017, Arnoldo Mondadori Editore S.p.A. directly owned no. **920,000 treasury shares**, equal to **0.352%** of the share capital.

SIGNIFICANT EVENTS AFTER YEAR END

CREATION OF A SINGLE BUSINESS AREA FOR THE GROUP'S BOOK ACTIVITIES

On 1 February 2018, the Mondadori Group adopted a new organizational structure hinged on a single business area covering the whole range of book activities, from the trade area to school textbooks, from illustrated books and international publications to art and exhibitions.

Head of the new area is Antonio Porro, who has also been appointed Deputy Chairman and Managing Director of Mondadori Libri S.p.A., a Company chaired by Ernesto Mauri, CEO of the Group.

BUSINESS OUTLOOK

The Group will continue on the path of **strategic repositioning** and **focus** on its core businesses, specifically on consolidating its leadership in the **Books** Area, on **developing the digital area** of Magazines Italy, and on **expanding** the **franchised channel** in the Retail Area.

In line with the above strategy and in light of the current relevant context, the plan sets operational targets which, based on the current scope, allow the Group to estimate a **slight fall in consolidated revenue in 2018 and a basically steady adjusted EBITDA** versus 2017.

Net profit in 2018 is expected to drop versus the prior year, which had included positive non-recurring items of approximately 7 million euro (net of tax).

Cash flow from ordinary operations in 2018 is forecast at around 50 million euro.

On a like-for-like basis, forecasts for **2019** indicate the same trend in revenue seen in 2018, **a growth in adjusted EBITDA to reach approximately 110 million euro**, a **net profit above 30 million euro**, **cash generation from ordinary operations** above 50 million euro, and a **net financial position below -150 million euro** (with a debt/adjusted EBITDA ratio of approximately 1.3x).

The forecast for 2019 updates the estimates disclosed to the market on the approval of the 2016 results.

Due to the sharp reduction in net debt and to the expected cash flows, the Group is well-positioned to consider development opportunities in its core strategic businesses, also through external growth.

OTHER INFORMATION

In the reporting period, Arnoldo Mondadori Editore S.p.A. did not carry out any development activities. At closure or during the period, it did not hold any shares in parent companies, not even through trusts or trustees.

TRANSACTIONS WITH RELATED PARTIES

In compliance with the provisions set out in art. 5, par. 8 and art. 13, par. 3, of the “Regulation in the matter of transactions with related parties” issued by Consob through Resolution 17221 of 12 March 2010 (the “Consob Regulation”), the following is reported relating to the period of reference:

a) no transactions were completed with related parties that could be qualified as of greater relevance under the provisions of the Consob Regulation and of the Procedures adopted by Arnoldo Mondadori Editore S.p.A. in compliance with art. 4 of the Regulation;
b) no transactions were completed with related parties which had an impact on the Company’s equity or performance, in accordance with law;
c) no changes or developments relating to the transactions with related parties illustrated in the last Annual Report are reported which had a significant impact on the Company’s equity or performance in the financial year of reference.

Mention should additionally be made that no transactions were completed with related parties, also pursuant to the provisions of art. 2427, no. 22 *bis* and *ter,* of the Italian Civil Code.

Transactions with related parties were regulated under normal market conditions: those concluded with Mondadori Group companies are intercompany current account trade and financial transactions, managed by Arnoldo Mondadori Editore S.p.A., to which the various subsidiaries and associated companies contributed based on their relevant debt and credit positions.

For further details, reference should be made to the Explanatory Notes to the Financial Statements of Arnoldo Mondadori Editore S.p.A. and to the Group’s Consolidated Financial Statements.

TAX CONSOLIDATION

In relation to the tax consolidation regime pursuant to art. 117 and following of Italian Presidential Decree 917/1986, Arnoldo Mondadori Editore S.p.A. renewed the option in 2016 also for its subsidiaries (Mondadori Group) to adhere to the tax consolidation regime with Fininvest S.p.A. as consolidating Company for the 2016-2018 three-year period. The consolidation agreement contains a protection clause according to which Arnoldo Mondadori Editore S.p.A. and its subsidiaries adhering to tax consolidation shall not be required to pay more income tax than the Group would have paid if Arnoldo Mondadori Editore S.p.A. and its subsidiaries had created its own tax consolidation agreement. Therefore, this protection clause is aimed at only accounting the tax amount that would have been paid by the subsidiaries excluded from the fiscal unit belonging to Fininvest S.p.A. as a result of the application of the so-called “demultiplier”.

The agreement sets the priority for the Mondadori Group to offset current tax receivables against payables (i.e. referred to the same year in which tax payment is due) transferred by the adhering companies and, in the case of residual taxable income, to subsequently use prior-year tax losses within the limits set by current legislation. Pursuant to the currently applicable regulations on the matter, the agreement allows the transfer, within the consolidation scope, of tax benefits enjoyed by

the adhering companies, which are transferred or made available to the fiscal unit against recognition of a compensation (paid at a rate corresponding to the ordinary IRES tax value) by the companies benefiting from it.
Any tax receivables or payables resulting from adherence to such tax consolidation agreement are posted as receivables or payables to holding companies, with the latter acting as “clearing house”.

TAX TRANSPARENCY

With reference to art. 115 of Italian Presidential Decree 917/1986, the “tax transparency” option was exercised by Press-di Abbonamenti S.p.A. and Mediamond S.p.A.

After exercising this option, the taxable income and tax losses of the aforementioned companies concur to form the taxable income of Mondadori Pubblicità S.p.A., in proportion to their shareholding.

DIRECTION AND COORDINATION ACTIVITIES (ART. 2497 AND FOLLOWING OF THE ITALIAN CIVIL CODE)

While Fininvest S.p.A. holds a controlling stake pursuant to art. 2359 of the Italian Civil Code, it does not exercise any direction and coordination activity as defined in art. 2497 *bis* and ensuing articles of the Italian Civil Code on Arnoldo Mondadori Editore S.p.A.; it manages the investment held in Arnoldo Mondadori Editore S.p.A. merely from a financial standpoint.
In relation to the companies controlled by Arnoldo Mondadori Editore S.p.A., the Board of Directors ascertained – pursuant to law requirements and bearing in mind that the Board of Directors defines the general strategic and organizational orientation for the subsidiaries as well – the exercise of direction and coordination activities pursuant to art. 2497 and following of the Italian Civil Code in relation to the following subsidiaries, pursuant to art. 2359 of the Italian Civil Code:

- Inthera S.p.A.
- Edizioni Piemme S.p.A. (merged into Mondadori Libri with legal effects as from 31/12/2017)
- Giulio Einaudi editore S.p.A.
- Mondadori Retail S.p.A.
- Mondadori Education S.p.A.
- Mondadori Electa S.p.A.
- Mondadori International Business S.r.l.
- Mondadori Libri S.p.A.
- Press-di Abbonamenti S.p.A.
- Mondadori Scienza S.p.A.
- Press-di Distribuzione Stampa e Multimedia S.r.l.
- Sperling & Kupfer Editori S.p.A. (merged into Mondadori Libri with legal effects as from 31/12/2017)
- AdKaora S.r.l.
- Rizzoli Libri S.p.A.

The abovementioned companies consequently fulfilled their respective disclosure obligations pursuant to art. 2497 *bis* of the Italian Civil Code.

REGISTER OF PROCESSING OPERATIONS PURSUANT TO ART. 30 OF REGULATION (EU) 679/2016

Arnoldo Mondadori Editore S.p.A. plays an active role in the Mondadori Group’s adjustment to the new privacy requirements set out in Regulation (EU) 2016/679. Specifically, in accordance with article 30 of the Regulation, Arnoldo Mondadori Editore S.p.A. is mapping all the personal data processing operations it carries out in its capacity as data controller or processor, based on the processing register template that has been adopted. Arnoldo Mondadori Editore S.p.A. is also carrying out all the document reviews and security activities required under the new approach to privacy set out in the Regulation, which are based in particular on the principles of data protection by design and data protection by default.

TRANSACTIONS RELATING TO TREASURY SHARES

Renewal of the authorization to purchase and sell treasury shares

Pursuant to art. 2357 and ensuing articles of the Italian Civil Code, the Shareholders' Meeting of 27 April 2017 resolved upon the renewal of the authorization to purchase and sell treasury shares, following the expiry of the preceding authorization resolved upon on 21 April 2016, with the aim of retaining the applicability of law provisions on buyback plans, if any, and, consequently, the possibility of seizing any investment and operational opportunities involving treasury shares.

Here below are the main elements of the buyback plan authorized by the Shareholders' Meeting:

Motivations

- to use the treasury shares purchased as consideration in the acquisition of interests as part of the Company's investment policy;
- to use the treasury shares purchased against the exercise of option rights, including conversion rights, deriving from financial instruments issued by the Company, its subsidiaries or third parties and to use the treasury shares for lending, exchange or transfer transactions or to support extraordinary transactions on the Company's capital or financing transactions that imply the transfer or sale of treasury shares;
- to undertake any investments, directly or through intermediaries, including for the purpose of containing abnormal movements in share prices, stabilizing share trading and prices, supporting the liquidity of the share on the market, in order to foster the regular conduct of trading beyond normal fluctuations related to market performance, without prejudice in any case to compliance with applicable statutory provisions;
- to rely on investment or divestment opportunities, if considered strategic by the Company, also in relation to available liquidity;
- to sell treasury shares as part of share-based incentive plans pursuant to art. 114-*bis* of the TUF, and of plans for the free allocation of shares to Shareholders.

Duration

The authorization to purchase treasury shares is set to last until the approval of the financial statements for the year ending 31 December 2017, while the authorization to sell is granted to last for an unlimited period.

Maximum number of purchasable treasury shares

The authorization involves the purchase of a maximum number of treasury shares - taking also account of the shares held directly and indirectly from time to time in the portfolio - no higher than 10% of the share capital.

Criteria for purchasing treasury shares and indication of the minimum and maximum purchasing cap

Purchases shall be made on regulated markets pursuant to the combined provisions of art. 132 of Legislative Decree no. 58 of 24 February 1998, of art. 5 of Regulation (EU) 596/2014, (ii) of art. 144-*bis* of the Issuer Regulation, (iii) of the EU and national legislation on market abuse, and (iv) of Accepted Practices.

Purchases shall be made on regulated markets, according to operating criteria which do not allow the direct combination of the purchase negotiation proposals with pre-determined sale negotiation proposals.

The minimum and maximum purchase price shall be determined under the same conditions established by the preceding Shareholders' Meeting authorizations, i.e. at a unit price not lower than the official Stock Exchange price of the day preceding the purchase transaction, reduced by 20%, and not higher than the official Stock Exchange price of the day preceding the purchase transaction, increased by 10%.

In terms of daily prices and volumes, the purchase transactions shall be completed in compliance with the conditions established in art. 3 of the Delegated Regulation (EU) 2016/1052.

Any completed transaction shall be subject to disclosure pursuant to the terms and criteria set out in art. 87-*bis* of Consob Regulation no. 11971/1999.

Purchases instrumental in (a) the support to market liquidity and (b) the purchase of treasury shares to build a so-called "treasury shares" portfolio, shall also be made in accordance with the conditions provided by market practices, under the combined provisions of art. 180, par. 1, lett. C) of the TUF and of art. 13 of (EU) Regulation 596/2014.

With regard to the sale of treasury shares, the Shareholders' Meeting resolved to authorize the Board of Directors to sell purchased treasury shares:
(i) through disposal of the shares on regulated markets; (ii) as consideration in the acquisition of interests as part of the Company's investment policy; (iii) in the exercise of option rights, including conversion rights, deriving from financial instruments issued by the Company or third parties; (iv) to service share-based incentive plans approved by the Shareholders' Meeting without any time limits.
Following partial execution of the resolution adopted on 27 April 2017, Arnoldo Mondadori Editore S.p.A. purchased a total of no. 920,000 treasury shares on the market (equal to 0.352% of the share capital), including the no. 80,000 treasury shares held in the Company portfolio.

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE (ART. 123 *BIS* OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998)

The report on corporate governance and ownership structure containing information on the adoption by Arnoldo Mondadori Editore S.p.A. of the Corporate Governance Code for Listed Companies established by Borsa Italiana S.p.A., as well as further information pursuant to art. 123 *bis*, par. 1 and 2 of the Italian Legislative Decree 58 of 24 February 1998 is available – together with this Directors' Report on Operations on the www.mondadori.it website under the Governance section, and through the storage mechanism www.1info.it.

ADHESION TO THE LEGISLATIVE SIMPLIFICATION PROCESS ADOPTED BY CONSOB RESOLUTION NO. 18079 OF JANUARY 20, 2012. DISCLOSURE PURSUANT TO ART. 70, PAR. 8, AND ART. 71, PAR. 1-*BIS* OF CONSOB REGULATION NO. 11971/99 AND SUBSEQUENT AMENDMENTS

On and with effect from 13 November 2012, the Board of Directors of Arnoldo Mondadori Editore S.p.A., pursuant to Art. 3 of Consob Resolution no. 18079 of 20 January 2012 and in relation to the provisions set out in Art. 70, par. 8, and Art. 71, par. 1-*bis* of Consob Regulation no. 11971/1999, resolved to avail itself of the faculty of waiving the obligation of disclosure envisaged by the aforementioned Consob Regulation on the occasion of significant transactions relative to mergers, spin-off and capital increases through contribution of assets in nature, acquisitions and transfers.

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES USED

This document, in addition to the conventional statements and financial measures required by IFRS, presents a number of reclassified statements and alternative performance measures, in order to provide a better understanding of the operating and financial performance of the Group. These statements and measures should not be considered as a replacement of those required by IFRS. With regard to these figures, in accordance with the recommendations contained in Consob Communication no. 6064293 of 28 July 2006, and in Consob communication no. 0092543 of 3 December 2015, as well as with the 2015/1415 ESMA guidelines on alternative performance measures ("Non GAAP Measures"), explanations are given on the criteria adopted in their preparation and the relevant notes to the items appearing in the mandatory statements.

Specifically, the alternative measures used include:

Gross Operating Profit (EBITDA): EBITDA, or gross operating profit, is equal to earnings before interest, tax, depreciation and amortization. The Group also provides information on the percentage of EBITDA on net sales. EBITDA measured by the Group allows operating results to be compared with those of other companies, net of any effects from financial and tax items, and of depreciation and amortization, which may vary from company to company for reasons unrelated to general operating performance.

Adjusted gross operating profit (adjusted EBITDA) is gross operating profit as explained above, net of income and expenses of a non-ordinary nature such as:

(i) income and expenses from restructuring, reorganization and business combinations;

(ii) clearly identified income and expenses not directly related to the ordinary course of business;

(iii) as well as any income and expenses from non-recurring events and transactions as set out in Consob communication DEM6064293 of 28/07/2006.

(Euro/thousands)	2017	2016
Gross Operating Profit - EBITDA (as shown in the financial statements)	**101,118**	**94,038**
Restructuring costs under "Cost of personnel" NOTE 34	12,266	10,763
Expenses from acquisition and disposal of companies and business units NOTE 33 and NOTE 35	1,326	3,663
Loss (profit) from disposal of fixed assets and investments NOTE 35	(8,406)	
Adjusted Gross Operating Profit - Adjusted EBITDA (as shown in the Directors' Report on Operations)	**106,304**	**108,464**

Operating profit (**EBIT**): net result for the period before income tax, and other income and expenses.

Net invested capital is equal to the algebraic sum of Fixed Capital, which includes non-current assets and non-current liabilities (net of non-current financial liabilities included in the Net Financial Position) and Net Working Capital, which includes current assets (net of cash and cash equivalents and current financial assets included in the Net Financial Position), and current liabilities (net of current financial liabilities included in the Net Financial Position).

Cash flow from operations: adjusted EBITDA, as explained above, plus or minus the decrease/(increase) in working capital in the period, minus capital expenditure (CAPEX/Investment) and income and expenses from equity investments.

Cash flow from ordinary operations is cash flow from operations as explained above, net of financial expenses and tax paid in the period.

LTM cash flow from ordinary operations: cash flow from ordinary operations in the last 12 months.

Cash flow from extraordinary operations: cash flow generated/used in transactions that are not considered ordinary, such as Company restructuring and reorganization, share capital transactions and acquisitions/disposals.

CONSOLIDATED NON-FINANCIAL STATEMENT

PURSUANT TO ITALIAN LEGISLATIVE DECREE 254/2016

INTRODUCTION

On 6 December 2014, **Directive 2014/95/EU** of the European Parliament and Council came into force, introducing the obligation for large undertakings which are public-interest entities to disclose "non-financial and diversity information". The Directive reflects the Community legislature's wish to promote, through the disclosure of information regarding the main corporate practices concerning non-financial sustainability, the transition towards a sustainable economy that is able to combine long-term profitability with social justice and environmental protection. That process of change is only possible thanks to companies that implement transparent management policies aimed at achieving tangible results both in the financial and non-financial spheres.
In Italian law, the Directive was transposed in **Legislative Decree 254** of 30 December 2016, which requires large public-interest entities to publish a consolidated non-financial statement (NFS). Specifically, to the extent necessary to facilitate comprehension of the company's activities, its performance, results and impacts, the NFS is required to provide information relating to five areas of reference, namely: environmental matters, social matters, employee-related matters, respect for human rights, and anti-corruption and bribery matters. With reference to these areas, the Decree additionally requires a description to be provided of the main risks generated and/or incurred, policies adopted by the company, relative performance indicators and the company's business model and organisational arrangements (Article 3(c)(1)).

As a large public-interest entity, the Mondadori Group (also "the Group" or "Mondadori" or "the Company") is subject to the requirements of the Decree for the reporting year 2017.
In accordance with those requirements, this NFS includes a qualitative and quantitative description of the non-financial performance of the Company in relation to the most significant topics falling within the five areas identified by the Decree. Specifically, for each aspect the following information is reported:

- a brief description of reasons underlying the **materiality** of the non-financial topics reported, the assessment of which is provided below and in the Note on Methodology;
- for each material aspect, a brief description of the **main risks** generated and/or incurred that are linked to the undertaking's operations, its products or services and its business relationships, including the supply chain;
- a brief description of the **policies** adopted by the company in relation to the topic of reference;
- a description of the **business model and organisational arrangements** adopted by the Mondadori Group to manage material topics;
- a description of the key **performance indicators** for understanding the outcomes delivered through the application of those policies.

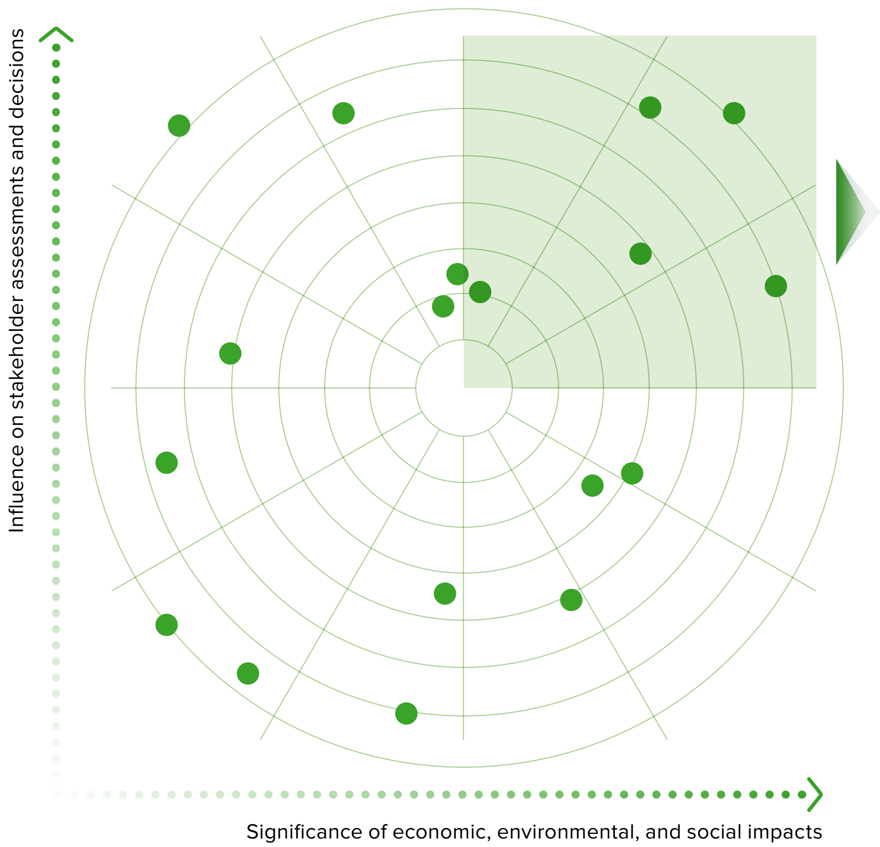
THE PROCESS FOR IDENTIFYING MATERIAL TOPICS

As in the past, to identify the most relevant non-financial topics, the Mondadori Group updated its materiality analysis in line with the principles set out by the GRI Sustainability Reporting Standards (GRI Standards), published in 2016 by the Global Reporting Initiative (GRI).
The list of non-financial topics of interest for the Group were updated on the basis of several preliminary analyses (benchmarking and media analysis), a survey of the contributions received from the directors of Mondadori business areas (Trade Books, Educational, Retail, Magazines Italy, and Mondadori France), and a map of

the information requirements of significant stakeholders and the topics highlighted by the GRI Standards and the "G4 Sector Disclosures – Media" sector supplement.

Then, in order to identify the material issues for the Company and its stakeholders from these topics, a workshop was held with the Sustainability Committee, during which its members prioritised the topics on the basis of their relevance for the Group.
The materiality of each topic for the Company was determined considering the perception of the members of the Sustainability Committee as well as an assessment of:
• the commitment and the policies adopted by the Group regarding each issue;
• the impact of each issue on the Company's ability to deliver its long-term objectives;
• the risks connected with the non-financial matters analysed.

To determine the materiality of the sustainability topics for stakeholders, the outcomes of the preliminary analyses conducted were taken into consideration, i.e.:
• the **media analysis**, aimed at examining the importance of each sustainability issue in the media and for public opinion;
• **benchmarking** with other, Italian only, companies in the media sector, to understand the sustainability issues they address most and which are therefore of greatest relevance at the industry level;
• analysis of the main papers published by associations, NGOs and industry organisations, in order to identify the most recurrent topics linked to the sustainability issues for the **sector** in which the Group operates;
• the **mapping of the main sustainability issues** addressed by policy makers, major world stock markets and the most important and influential non-governmental organisations in their papers and reports.



• Freedom of expression
• Capitalisation of skills and brands
• Human capital management
• Business integrity and combating corruption
• Climate Change
• Energy consumption
• Use of raw materials
• Market abuse
• Commitment to the quality and independence of editorial content
• Widespread reach of the sales network and product accessibility
• Media literacy
• Privacy and data protection
• Promotion of culture and reading

The combined outcomes of these analyses led to the identification of the material non-financial matters necessary to facilitate comprehension of the Company's operations, its performance, results and impact, and hence subject to reporting in the non-financial statement of the Mondadori Group.
The material topics, as identified through the analysis, are shown in the materiality matrix on page 82.

Alongside the non-financial matters, business topics of greatest importance for the Company and its stakeholders were identified: **focus on core business, defence of the digital strategy and synergies between strategic business lines**. These topics are addressed in further detail in the Report on Operations.

OUR BUSINESS MODEL

The operational and organisational framework adopted by the Mondadori Group has been extensively transformed in recent years to help ensure the economic sustainability of the undertaking in an era of rapid and irreversible change in the markets where it operates, driven by the general economic recession, on the one hand, and by technological developments in the media sector, on the other.
Nevertheless, the mission and values guiding the day-to-day management of the Group's operations have not changed, or in some cases have been strengthened. This is witnessed by the Group's endorsement of the external codes and regulations that shape its governance and control system, such as, to name just one, the Corporate Governance Code for Listed Companies.
In preparing an Organisation, Management and Control Framework, the Mondadori Group set itself the objective of adopting a set of protocols which, together with the system for assigning powers and responsibilities, other organisational tools and internal controlling, form an adequate system able to prevent criminal and administrative offences and raise awareness among employees and contractors of the rules of conduct to be followed when carrying out their duties. The Framework and the rules of conduct set out in the Framework are constantly updated and considered appropriate given the various needs of the companies belonging to the Group.

Both of these documents make reference to a set of ethical standards, identified by legislation, regulations and codes of conduct, which the Company incorporated into its own regulations in 2012 with the adoption of a new Code of Ethics that extends to all Group companies. Organised by category of stakeholder, the Mondadori Code of Ethics sets out general ethical principles (respect for human rights and law, transparency, protection of industrial property and the independence of information) and specific principles in relation to the different stakeholders, including customers, suppliers, employees, investors, the community, institutions and the environment.

The Code of Ethics therefore outlines the set of principles and rules of conduct to be followed by the directors, employees and contractors of Group companies within the scope of their respective roles and duties.

The principles of the Code of Ethics are practical expressions of the general obligations of diligence, fairness and loyalty that are required to be shown in the performance of work duties and in all conduct in workplaces connected with the Mondadori Group.

The Code of Ethics and its provisions are incorporated into the contractual obligations undertaken by counterparties. Any infringement of the Code of Ethics therefore constitutes breach of contract, entailing the legal consequences, including the termination of the contract or engagement and claims for damages.
Compliance with the principles set out in the Code of Ethics is required not only of employees and contractors, but is also incorporated into supply agreements, together with the obligation to comply with Community legislation and minimum working age laws.

As a sign of its growing commitment to sustainability, the Group has officially endorsed the more specific policies sponsored by industry associations, such as Confindustria's Charter for Equal Opportunities and the Valore D Manifesto, undertaking a commitment to promote talent regardless of gender differences.

Other steps have been taken over the years, such as the creation and constant updating of operational rules and procedures governing specific company operations, to make compliance with a changing legal framework part of daily work practices and to respond effectively to the new needs that have emerged from changes in business.
In other cases, such as, for example, the issue of privacy in journalism, the Mondadori Group makes reference to external regulations and standards, in this specific case the *Code of Ethics for the Processing of Personal Data in the Practice of Journalism*, envisaged by Italian Legislative Decree 196/2003 and incorporated into the *Charter of Duties of Journalists*.

With regard to environmental sustainability, in 2012 the Group adopted an environmental policy designed to reduce the impact associated with its operations. That policy has delivered important outcomes in terms of major reductions in greenhouse gas emissions and, above all, the growing use of certified paper for our products. Specific operating rules have also been adopted for other issues of lesser or non-material relevance, such as waste management.

In 2017, guidelines for the publication of content and material on Group websites were set out and officially released in February 2018. The guidelines, together with the training provided to journalists on copyright on the Web and on privacy in journalism, organised by the Legal and Corporate Affairs Department, address issues connected with the handling of sensitive editorial content in newspapers and on online news channels, websites and social media accounts belonging to the Mondadori Group.

MAIN NON-FINANCIAL RISKS

As required by Italian Legislative Decree 254/2016, and as part of our commitment to continuously improve how the impacts of our operations are managed, the Mondadori Group identified the main risks, generated or incurred, concerning the five areas identified by the law (environment, society, employees, human rights and anti-corruption and bribery) and linked to the undertaking's operations, its products or services and its business relationships, including, where relevant, the supply chain.

Those risks were the subject of a Group risk assessment process by management, which found, however, that non-financial risks were not judged to be critical or of priority. For this reason, the risks have not been included in the section *Internal Control and Risk Management System* (pp. 64-68).

Risks connected with environmental matters

Climate change is a major issue for all industries, and no less so for publishing. In the publishing sector, greenhouse gas emissions are mainly connected with energy consumption, transportation (for distribution and logistics operations, for instance, or for business travel) and the production cycle of paper products. Growing concern on the part of stakeholders and institutions over climate change could lead to reforms, in the future, to current legislative provisions governing emissions.
Alongside the risks connected with climate-changing emissions are the risks connected with energy efficiency, which if low could adversely affect economic benefits, and the risks connected with potential interruptions in paper supply.

Main risks	Mitigation measures
Growing pressure from stakeholders and national and international institutions with regard to climate change.	Constant oversight of the issue through the continuous monitoring of overall greenhouse gas emissions produced by the various operations of the Group (such as product distribution and logistics and business travel) and the identification of useful actions to reduce them.
Loss of opportunities for economic benefits due to a reduced effectiveness of energy efficiency measures.	Constant oversight of the issue through the continuous monitoring of overall energy consumption, strong focus on the upgrading of IT equipment and the identification of energy efficiency measures in workplaces.
Interruptions in the production process due to the scarcity of paper as a raw material.	Progressive extension across the Group of the use of FSC and PEFC certified paper.

Risks connected with social matters and respect for human rights

The publishing business inevitably involves risks connected with human rights (freedom of expression and privacy protection) and with social matters (media literacy, product accessibility), especially given the role that media companies play in promoting and spreading culture. Such risks can arise due to actions taken within the Group, but also action taken by entities outside the Group.

Main risks	Mitigation measures
Critical situations tied to potential restrictions on the freedom of expression of authors.	Continuous monitoring of the variety of titles published.
Critical situations tied to the publication of editorial content considered sensitive, the loss of customer data and recent reforms to privacy laws (GDPR).	Constant monitoring of sensitive data management practices and continuous improvement through the development of specific initiatives across the various company functions (training for journalists, updating of security standards, fact-checking before publication, work group for the implementation of the GDPR).
Critical situations tied to changes in society, where readership numbers are constantly falling.	Continuous improvement in cultural promotion initiatives through the involvement and engagement of the public on issues for which the Group chooses to be a spokesperson (also in conjunction with franchisees).
Growing pressure from the public to distribute publications of quality, which are impartial and which respect diversity.	Continuous improvement in editorial content and product quality.
Changing demands of the readership with regard to tools for accessing editorial content.	Monitoring of the accessibility demands of the readership and the ability of the company to respond to those needs.
Critical situations connected with the inability of readers to distinguish the value of products sold, where suitable instruments are not provided to facilitate a fair understanding of mass media.	Continuous improvement in initiatives to raise awareness and educate the public as to the need to critically assess and analyse mass media.
Critical situations connected with a potential increase in competitive pressures in reference markets, which could lead to unfair competition by competitors.	Constant oversight of the issue through specific training for internal personnel and networking activities with trade associations.

Risks connected with anti-corruption and bribery matters

National and international institutions and organisations are leading the battle against corruption and bribery. As the phenomenon remains widespread, it represents a major hurdle to development, with an enormous impact on economic growth, both in the private and public sectors.

In this context, even for the Mondadori Group, the risks connected with the infringement of internal rules and relevant laws in force are of priority concern.

Main risks	Mitigation measures
Critical situations tied to behaviours that do not comply with the regulations by people who act in the name or on account of the Group.	Constant oversight of the issue through organisational measures and controls to help ensure and spread proper conduct (training for personnel, selection of products tied to the sale of publications, monitoring of the legal framework, networking with other companies in the sector).

Risks connected with employee-related matters

The success of the Mondadori Group is built squarely on the shoulders of the people who act in its name or on its account. Their skills and motivation are fundamental factors in the development of innovative solutions able to correctly interpret changes in reference markets and in society, which are necessary to guarantee the financial performance of the Group and its competitive standing.

That is why the Mondadori Group is committed to establishing real dialogue with its people, to encourage a greater understanding of our respective needs and to find solutions to any issues that may exist.

Main risks	Mitigation measures
Risk that technological development, changes in the competitive playing field and low turnover rates may lead to a progressive skills gap in personnel.	Creation and implementation of engagement and training plans able to provide the skills needed to develop innovative solutions able to correctly interpret changes in the market and in society.
Risk that a more dynamic jobs market may make it harder to retain people and attract new talent.	Continuous improvement in human resources management practices, in terms of negotiation, career management support, training, retention and job rotation policies, and employees survey.

CORPORATE SOCIAL RESPONSIBILITY OF MEDIA COMPANIES

Offering quality content to an extensive range of different audiences, providing space for original voices representing various realities, with respect for diversity and the needs of the general public: the role and duties of a responsible media company in the third millennium are not very different from those of a traditional publisher. However, they also need to take into consideration new requirements springing forth from changes in civil society, from new technologies and from the breaking down of the linguistic and regional barriers which used to be so meaningful.

The desires and expectations of the customer play a decisive role in every sector, but particularly so in the publishing sector: the participatory dimension of consumption and the instant interaction with the end user have revolutionised the way we create and distribute products.
Even when it comes to content creation, the user can contribute at various levels to enriching and improving the product with their own contributions or through the exchange of ideas and observations within the community and directly with the author of a text, article or post.
It is essential to listen and take heed, for better or worse, of suggestions, criticism and requests that come from the most diverse of audiences that come into contact with Mondadori.
As such, respect for the laws, rules and codes of conduct that regulate the daily activities of the company are not enough: close and constant attention must also be paid to the quality of products and services and the ability to renew them on the basis of the indications that come from users.

Editorial independence

The parent company Arnoldo Mondadori Editore S.p.A. is a listed company on the Milan stock exchange. The share capital at 31 December 2017, fully paid up and subscribed, amounted to 67,979,168.40 euro, divided into 261,458,340 ordinary shares with a par value of 0.26 euro each.
The majority shareholder is the holding company Fininvest S.p.A., owned by the Berlusconi family.

Significant shareholdings

Shareholder	% interest of share capital
Fininvest S.p.A.	53.3%
Silchester International Investors Llp	12.4%

In 2017, the Group received 2,420,121 euro in grants from the Italian and French governments, Italian and foreign organisations and private individuals, including: 739,890 euro from the owners of the Segrate head office (Generali Immobiliare Italia Sgr S.p.A. and Generali Real Estate Sgr S.p.A.) for system renovation work on the complex; 138,845 in training subsidies (47,701 euro in Italy and 91,144 euro in France); 446,300 euro in grants for the publication of books or the organisation of events and exhibitions (in Italy); 1,095,085 euro in tax credits under French tax law (CICE – Crédit d'impôt pour la compétitivité et l'emploi).

The Group did not receive any other contributions from entities or organisations connected with governments, or from other entities, associations, NGOs, non-profit organisations or private individuals.

Grants received (Euro)	**2017**	**2016**
Italy	1,233,892	496,400
France	1,186,229	1,124,964
Total	**2,420,121**	**1,621,364**

Finally, the Mondadori Group did not make donations of any kind to political parties or politicians during the year.

Freedom of expression

As Italy's leading publisher of books, the Mondadori Group is committed to covering the widest possible spectrum of content, guaranteeing the freedom of expression of all its authors and protecting the intellectual property of the works and services it produces and distributes. The very nature of the publisher suggests that it supports the individuality of its workers and this can only be put into action by giving writers the utmost freedom and independence. The variety of content produced, together with its quality, represents the cornerstone of the Group's editorial policy: it is our duty to offer the public a multi-dimensional perspective that allows each reader to form their own subjective opinion.

To quantify this commitment and its effects in practice, a small sample was taken into consideration of the new titles published by the various imprints of the Group. Within the sample, each title was associated to one or more sustainability topics – environmental sustainability, human rights or social sustainability – for a total of 68 new titles (out of a total of 2,471 for 2017). The outcome, shown in the following table, illustrates the range of issues presented to the public, considering only a sample selection which does not cover the full range of new titles in 2017 that could be classified by this criterion.

Author	Title	Publisher	Topic
Carlo Ratti	*Architettura Open Source*	Einaudi	Sustainable architecture
Salvatore Settis	*Architettura e democrazia*	Einaudi	Sustainable architecture
Marco Bobbio	*Troppa medicina*	Einaudi	Right to health
Corrado Augias	*Questa nostra Italia*	Einaudi	Defence of the territory
Leonardo Caffo	*Fragile umanità*	Einaudi	Ecology
Matteo Bussola	*Sono puri i loro sogni*	Einaudi	Right to education
Christian Raimo	*Tutti i banchi sono uguali*	Einaudi	Right to education
Francesca Borri	*Ma quale paradiso?*	Einaudi	Religious extremism
Donatella Di Cesare	*Terrore e modernità*	Einaudi	Religious extremism
Anna Migotto - Stefania Miretti	*Non aspettarmi vivo*	Einaudi	Religious extremism
Luigi Zoja	*Nella mente di un terrorista*	Einaudi	Religious extremism
Marco Aime - Luca Borzani	*Invecchiano solo gli altri*	Einaudi	Inclusion
Eugenio Borgna	*Le parole che ci salvano*	Einaudi	Inclusion
Federico Varese	*Vita di mafia*	Einaudi	Rule of law
Massimo Recalcati	*I tabù del mondo*	Einaudi	Freedom of expression
Mohsin Hamid	*Exit West*	Einaudi	Migration
Chimamanda Ngozi Adichi	*Dear Ijeawele*	Einaudi	Gender equality
Pascale Hédelin - Gaëlle Duhazé	*Cité Babel*	ElectaKids	Inclusion
Maïa Brami - Karine Daisay	*Le monde est ma maison*	ElectaKids	Equality
Francesco Cognetti - Mauro Boldrini	*Insieme contro il cancro*	Mondadori	Right to health
Lisa Casali	*Quanto basta*	Mondadori	Responsible consumption
Tristan Gooley	*How to Read Water*	Mondadori	Ecology
Andrea Segré	*Il gusto per le cose giuste*	Mondadori	Quality education
Dave Eggers	*Heroes of the Frontier*	Mondadori	Marginalisation
Nadia Murad	*The Last Girl*	Mondadori	Religious extremism
Chantal Borgonovo	*Una vita in gioco*	Mondadori	Inclusion
Raffaele Cantone - Francesco Caringella	*La corruzione spuzza*	Mondadori	Rule of law
Antonio Dikele Distefano	*Chi sta male non lo dice*	Mondadori	Migration
Filippo Grandi	*Case, rifugi e ritorni*	Mondadori	Migration
Shi Yang Shi	*Cuore di seta*	Mondadori	Migration
Jean Tirole	*Économie du bien commune*	Mondadori	Sustainable development
Valentina Bartolucci Giorgio Gallo	*Capire il conflitto, costruire la pace*	Mondadori Università	International conflicts
Ernesto Apa Tommaso Edoardo Frosini Oreste Pollicino Marco Bassini (a cura di)	*Diritti e libertà in Internet*	Mondadori Università	Human rights / freedom of expression
Fulvio Maria Palombino	*Il diritto dell'acqua* *Una prospettiva internazionalistica*	Mondadori Università	International law / ecology
Maurizio Guandalini Victor Uckmar (a cura di)	*Future Energy, Future Green*	Mondadori Università	Ecology / sustainable development
Mario Martinelli	*Collaborare nelle diversità* *Cooperative learning e persone con disabilità, difficoltà svantaggi*	Mondadori Università	Social integration

Author	Title	Publisher	Topic
Milena Santerini	*Da stranieri a cittadini Educazione interculturale e mondo globale*	Mondadori Università	Migration / social integration
Daniel Pittet	*La perdono padre*	Piemme	Protection of children
Barbara Garlaschelli	*Non volevo morire vergine*	Piemme	Disability
Vladimir Luxuria	*Il coraggio di essere una farfalla*	Piemme	Diversity
Luigi Celeste - Sara Loffredi	*Non sarà sempre così*	Piemme	Marginalisation
Giovanni Impastato	*Oltre i cento passi*	Piemme	Rule of law
Luong Ung	*First They Killed My Father*	Piemme	Persecution (political/ racial/religious)
Nello Scavo	*Perseguitati*	Piemme	Persecution (political/ racial/religious)
Jean-Baptiste Malet	*L'Empire de l'or rouge*	Piemme	Food safety
Antoine Vayer (a cura di)	*Je suis le cycliste masqué*	Piemme	Sport and doping
Cece Bell	*El Deafo*	Piemme Ragazzi	Disability
Alberto Melis	*Da che parte stare*	Piemme Ragazzi	Rule of law
Miriam Dubini	*Il viaggio di Sama e Timo*	Piemme Ragazzi	Migration
Nadia Hashimi	*The Sky at Our Feet*	Piemme Ragazzi	Gender equality
Daniela Palumbo	*Noi, ragazze senza paura*	Piemme Ragazzi	Gender equality
Fabrizio Altieri	*L'uomo del treno*	Piemme Ragazzi	Persecution (political/ racial/religious)
Simona Ercolani	*I ragazzi del "Bambin Gesù"*	Rizzoli	Right to health
Severino Cesari	*Con molta cura*	Rizzoli	Right to health
Progetto Giovani Mammaiuto Lab	*Loop Indietro non si torna*	Rizzoli	Right to health
Emanuele Severino	*Il tramonto della politica*	Rizzoli	Conflicts
Rina Mae Acosta Michele Hutchison	*The Happiest Kids in the World*	Rizzoli	Rights of children – education
Tim Flach	*Endangered*	Rizzoli	Ecology
Benjamin Grant	*Overview. A New Perspective of Earth*	Rizzoli	Ecology
Cristiano Seganfreddo (a cura di)	*The Italian Book of Innovation*	Rizzoli	Innovation
Elia Minari	*Guardare la mafia negli occhi*	Rizzoli	Rule of law
Raffaele Guariniello	*La giustizia non è un sogno*	Rizzoli	Rule of law – right to health
Matteo Grandi	*Far Web*	Rizzoli	Rule of law / freedom of expression
Francesca Melandri	*Sangue giusto*	Rizzoli	Migration / inclusion
Loretta Napoleoni	*Mercanti di uomini*	Rizzoli	Migration / rule of law
Joshua Hammer	*The Bad-Ass Librarians of Timbuktu*	Rizzoli	Persecution (political/ racial/religious)
Francesco Riva	*Il pesce che scese dall'albero*	Sperling	Disability
Eva Mozes Kor	*Die Macht des Vergebens*	Sperling	Persecution (political/ racial/religious)

As a media company, Mondadori deals on a daily basis with a special topic – creativity – and it feels a responsibility to cultivate it, disseminate it and reward it in a sustainable manner for the benefit of all. In this sense, the integration of paper and digital, not just in terms of "media" but, more importantly, with regard to tools and languages, is of crucial importance in the development of the Company's publishing activities.

Since 2012, Mondadori France has focused closely on integrating the paper channel with the digital channel. As part of this process, key importance has been placed on the creation of a single platform to simultaneously produce the print and web versions of each publication, with the latter also available for tablets and smartphones (iOS and Android) thanks to specially created mobile apps. Digital content can be accessed on leading platforms, from videos that can be viewed on YouTube or DailyMotion to articles on Apple news, Google Play and Google AMP. Forums, blogs and comments posted by users relating to Mondadori France's online publications are monitored by a third-party company that specialises in moderating digital content: the operators verify, in real time and 24 hours a day, that external contributions adhere to the principles of honesty and legitimacy (i.e. that they do not promote violence and are not insulting or libellous).

In 2017, a project was started up in partnership with an IT company to produce a software programme (in English) for the automatic extraction and indexing of texts from the Web. Employing artificial intelligence and neurolinguistic programming, one of the purposes of the software is to "validate" citations of public figures to avoid the spread of fake news. A partnership with Mondadori France is now underway to create a French-language version of the software.

The responsibility of the editorial product

Mondadori is fully aware that it has a great responsibility towards its readers and customers. For this reason, the Company is committed to providing accurate, meticulous and truthful information in its editorial products, including books, magazines, websites and digital products, while respecting the attitudes and sensitivity of the general public.

Our responsibility to create and distribute content to our public can also be seen in our media literacy activities, initiatives designed to get users more closely acquainted with communication media.

Among our Italian magazines, the various initiatives of the monthly kid's magazine *Focus Junior* are an example. Now in its third run (due to end in 2018), the *Diventa giornalista* competition run by *Focus Junior* magazine is designed to introduce children and teenagers to the world of journalism in a fun and innovative yet accurate and exhaustive way. The project offers teachers a simple free handbook that guides pupils through the creation of their own school newspaper, with the help of digital instruments. Using the journalist kit, the kids have the chance to explore their interests and develop critical writing skills, supported, at all stages, by the guidelines provided. Once they have finished, all the little reporters then need to do is send the digital format to the magazine's email address.

Over 700 schools took part in the first run (2015–16 school year) and over 1,000 took part in the second (2016–17 school year), the topic of which was nature. The competition for the 2017–18 school year instead focuses on journalism in the digital age. Finally, since the January issue of the magazine for children aged 8–13, *Focus Junior* has published the section *Junior Reporter News*, a four-page "newspaper" presented in typical newspaper style, produced in collaboration with readers of the magazine. Young reporters are invited to write articles and reviews on topics connected with science, history, geography, travel, video games and movies, famous people, and personal experiences, complete with photos and drawings.

Although it has no media literacy programmes of its own, Mondadori France participates in educational initiatives for students, such as *Semaine de la presse à l'école* (press week at school), organised by CLEMI (*Centre pour L'Education aux Media et à l'Information*, an organisation linked to the French Ministry of Education), for which it provides teachers and classes with copies of its magazines. In addition, its popular science magazines are partners of the *Fête de la science* (festival of science) organised by the Ministry of Higher Education, Research and Innovation. As media partner of the initiative, the magazine *Science & Vie* reports on festival events and its journalists take part in selected events.

Making products and services accessible

Mondadori Education encourages facilitated, inclusive and collaborative learning in all the titles in its catalogue through the select use of graphic layouts and specific methods to help students develop effective study methods and build their skills. To promote inclusive learning, eight training seminars were organised in 2017 for teachers, exploring the topic of *Choosing inclusiveness as the vanguard of new schooling*. Events like these are motivated by the firm belief that all pupils have their own special learning needs – be it for physical, biological or physiological reasons or psychological or social reasons – for which schools need to offer suitable, personalised solutions. Professor Gabriele Zanardi, psychologist, therapist, neuropsychologist, and editorial consultant for Mondadori Education, organised a modular training programme, which each group of teachers could personalize by choosing from the four training modules: *Specific learning disorders and special learning needs*, *Metacognitive empowerment and strategies*, *Facilitation, simplification and testing* and *Flip, divergent thinking and cognitive styles*. Each topic involved three levels of depth: a first level of front-line lessons; a second level involving focus groups, working groups, and classroom simulations (to directly test the application methods); and a third level involving simulations and single case reports.

Finally, the digital offerings of the two educational arms of the Mondadori Group were combined to create HUB Scuola, a digital learning platform launched in September 2017, which brings together into the one environment the products and tools of the two publishers. Easy to use, free-of-charge and innovative, HUB Scuola is designed to meet the need for more collaborative, digital and inclusive learning in schools. It is the richest digital learning platform in Italy, featuring authored content, innovative services, and next-generation features to expand teaching programmes and encourage a more stimulating, multimedia learning experience. A single password is all it takes to unlock the digital offering of the two publishers: users can enter either their Mondadori Education credentials or their Rizzoli Education credentials to login and access all their books and digital content.

HUB Scuola brings together the most advanced digital tools and the best of the educational offering of the two publishers in a single digital environment, which has been optimized as a whole for use on any device. HUB Scuola integrates and facilitates traditional learning, supporting and empowering innovation in schools. HUB Scuola offers free-of-charge digital features and services designed to be adapted to the needs of students and teachers, from the more *analogical* minded to the boldest *experimenters*.

HUB Scuola enables digital objects to be shared and multimedia content on the Web to be aggregated. Countless resources and lots of tools, all in the one place: videos, audio recordings, media galleries, conceptual maps, interactive and self-corrected tests, a complete virtual map which can be shared, and certified interdisciplinary content. All the tools are designed to encourage inclusive learning and build personalised subject-based programmes.

HUB Libro is the digital book from Mondadori Education and Rizzoli Education: a paperback filled with videos, animation and interactive, self-corrected exercises; a tool that can be personalised with notes, audio recordings and drawings, to facilitate learning for all pupils, including those with special learning needs thanks to the accessible version; a means to encourage discussion and interaction between the class and teacher, thanks to its social media features. The virtual classroom is a fundamental tool for collaborative learning, giving teachers the ability to assign different interactive exercises to students or groups of students, and receive them back automatically corrected by the system, and to check the progress made by the class by setting objectives and monitoring results. With HUB Libro, lesson plans, Web resources, documents, presentations, voice notes, conceptual maps, and multimedia content can be shared with the entire class or with select groups only.

Relations with users

The Mondadori Group interacts constantly with its end customers through all of its communication channels: books, magazines, stores and book clubs, the internet (corporate website, product sites, service and e-commerce websites, social networks), and relationship marketing activities (Inthera).

In particular, interaction through social networks has continued to develop quite significantly in terms of numbers of contacts and the infinite possibilities for creating events, often wide-reaching and collaborative.

In 2017 the Mondadori Group was present on major social media platforms with corporate accounts designed to communicate its editorial spirit, events, and the content created for its users more effectively and to a wider audience. The number of followers on the corporate Twitter account reached 12,056 in 2017 (+16.9% compared 2016), those on LinkedIn reached 57,909 (+27.8%), while the number of fans on Facebook rose to 8,659 (+109.9%). The Instagram account, created in 2016 for the #NoiDellaMondadori project to present the new extended company family incorporating colleagues from Rizzoli Libri and Banzai, reached a total of 2,162 followers at the end of December 2017, almost twice the number at the end of 2016 (1,110).

Mondadori Education also organises roadshows involving events across the country. One example was the *Dentro l'arte* cycle of 12 seminars (February 2016–May 2017), organised to coincide with the publication of the art history textbook *Dentro l'arte. Contesto, metodo, confronti* by Irene Baldriga (Electa Scuola). The seminars were targeted at high school art history teachers and explored the dissemination of Italy's artistic heritage, with a view to encouraging debate and strengthening dialogue between schools and museums.
The topics of the seminars, explored in different ways over the two years, focused on "Teaching heritage across schools and museums: art history as a driver for sustainable development and active citizenship" and "Art history and cultural heritage professions. Plans for alternating school and work". Each seminar was organised as a conversation between Professor Irene Baldriga and heritage experts, historians and art critics, each dedicated to specific aspects evoking the host venue. In 2016, the roadshow stopped in Palermo, Perugia, Padua, Naples, Milan, and Rome, hosted by the prestigious venues of the Palazzo Abatellis, Umbria National Gallery, Musei Civici agli Eremitani, Vatican Museums, National Archaeological Museum of Naples, Museo del Novecento, and MAXXI. At the end of each seminar, teachers were taken on a guided tour of the host museum, designed specifically for them to expand on the issues addressed during the seminar itself. Building on the success of the roadshow in 2016, *Dentro l'arte* stepped up its programme in 2017 to cover other provincial centres, including: the Pinacoteca Nazionale di Ferrara, the Fondazione Pino Pascali di Polignano a Mare, the Gallerie dell'Accademia in Venice, as well as museums in Lucca and Salerno.

To present the new edition of the historic Italian dictionary *Nuovo Devoto-Oli*, an integrated project was organised in 2017 for the recovery and development of the use of the Italian language. For Mondadori Education, the publication of the *Nuovo Devoto-Oli* represents not just an important publishing initiative, but above all a cultural responsibility. The *Devoto-Oli* dictionary belongs to the linguistic heritage of Italy and all Italians, and it is the duty of the publisher to make sure it continues to do so. Mondadori Education is a guarantor for the protection of that heritage. As such, it is committed to ensuring that the dictionary remains the basis of the linguistic knowledge and skills of Italians today and tomorrow. This important task is undertaken by everyone at the publisher, first and foremost by its authors, whose works educate and shape students at all levels of schooling into aware citizens and competent professionals. This is the power of the word – the most precious asset for a publishing company.
In the belief that the words we use and the lexicon we choose define who we are, the campaign #leparolechesono was launched, together with the competition *Ritratti di parole*. The underlying idea was to give a portrait of ourselves using words, rather than images, as usually happens on the Internet and social media. Language is the most important asset we have. Our knowledge of language is essential for presenting ourselves to the world.
At the same, two large-scale events were organised, entitled *#LE PAROLE CHE SIAMO. Il Nuovo Devoto-Oli e la lingua italiana*, at Mondadori bookshops in

Rome and Rizzoli bookshops in Milan. The events involved discussion panels, conducted by the linguist Giuseppe Antonelli and supported by the writers Luca Serianni and Maurizio Trifone, on the issue of linguistic and lexical skills and on the need to regain our knowledge of the Italian language through suitable tools.

The success of the events has led Mondadori Education and *Il Nuovo Devoto-Oli* to reach out to schools with a new project for 2018. The initiative #leparolechesiamo #icittadinichediventiamo is a project targeted at all middle schools and high schools, which invites students to write essays on the topics "the words we are" and "the citizens we become", convinced as we are that by reflecting on the meaning of these words, we can build a community of active citizens and develop civic conscience.

Privacy protection

The protection of privacy and personal data is a material topic for the Group and a matter of constant focus in company processes and in updating internal policies. In pursuing its business, the Mondadori Group as a whole has adopted a series of tools and internal procedures to ensure full compliance with data protection legislation currently in force (Legislative Decree 196/03 or "Data Protection Code") and the instructions of the Data Protection Authority. Recently, the Group initiated a major process for the reorganisation and updating of all internal procedures to comply, by 25 May 2018, with the requirements of European Regulation No. 679/2016 – the General Data Protection Regulation (GDPR).

Privacy is a priority for all of the Mondadori Group and is ensured through the adoption of specific procedures for the processing of personal data that comply with applicable laws and are constantly monitored and updated. Mondadori publishes, and constantly updates, its privacy, personal data processing, and cookies policies on all Group websites.

At the end of 2010, a Customer Relationship Management (CRM) department was established with the objective of developing an integrated customer relationship management system able to guarantee greater personal data protection for customers and greater data quality. CRM is a single organisational unit that collects the personal data of the customers of all business units and develops IT processes to reconcile customer data across the different Group companies. The building of the Mondadori customer database was completed in October 2012.
The CRM database has enabled the identification and reconciliation of the data of every single customer registered by the Group, including magazine subscribers and readers of books published by the Mondadori Group, purchasers of products through the e-commerce platforms of the Mondadori Group, customers signed up to loyalty programmes promoted by Mondadori Retail as a Payback partner, customers registered on Mondadori Group e-learning platforms, and members of on-line communities. By bringing together and organising all this wealth of information, the Group has been able to develop targeted marketing campaigns and special initiatives, while guaranteeing every single customer the right to modify or withdraw the consent originally given for the processing of their data upon initial registration.

The year 2017 marked an important moment in the ongoing process of updating the Mondadori Group's privacy documentation, with the study, analysis and planning of the Group's future data protection framework to comply with the new statutory provisions introduced by European Regulation No. 679/2016. Over 2017, an in-depth gap analysis was completed, together with the preliminary planning of remediation and implementation activities, which were started up in the last quarter of 2017.

Two Group companies have already implemented tools in recent years to monitor privacy complaints from customers and control bodies: Mondolibri, a Mondadori Retail business unit engaged in the sale of books through a book club formula; and Inthera, a Group company specialized in strategy and the design and development of marketing solutions based on data and content management.

For Mondolibri, the management of the member database is a key function. For this reason, it monitors and keeps constant track of the total number of claims associated with privacy violations. Mondolibri has developed a rigorous system of contact management, which is regularly checked and updated. The system is developed and maintained in compliance with applicable laws in force.
In the period from 2015 to 2017, no complaints were received from external parties (customers) or from control bodies, and no cases of data loss occurred.
Inthera carries out its business operations using both proprietary databases and third-party databases (customers and suppliers). The protection of personal data is managed in compliance with applicable laws and, in particular, the provisions of the Data Protection Code, thus fulfilling all legal obligations. To this end, Inthera always provides data subjects with a suitable privacy notice containing all the information required by law and, in particular, the contact persons to which each data subject can refer to request the modification or cancellation of their personal data. Such requests may be made in different ways (email, telephone, and letter).
Where requests are made by data subjects for the cancellation of their personal data from databases, Inthera removes the personal data of the requesting party from its databases, thus preventing any subsequent use.
In line with the changes adopted at Group level in relation to the protection of personal data, and considering their relevance for the execution of Inthera's specific activities, the company provides the Mondadori Group's general management with its ongoing support in order to consolidate its compliance with data protection laws and in particular new Regulation (EU) No. 679/2016.

In France, where public opinion is more sensitive to privacy issues and the legislative and oversight framework is different to Italy's, Mondadori France receives a much higher number of complaints from high-profile public figures and show business celebrities alleging infringement of their privacy and image rights by its magazine. The table below shows the number of complaints filed in the period 2015–2017.

Source of complaints	**2017**	**2016**	**2015**
Control bodies	-	-	-
External persons	81	92	82
Total	**81**	**92**	**82**

Specifically, in 2017 two cases involved the magazine *TéléStar*, one case involved *Grazia*, and 78 cases involved *Closer*. No instances of data loss occurred over the three years.

Penalties

The total amount of penalties paid in 2017 fell compared with the previous year: in relation to tax fines, a total of 26,385 euro was paid under a VAT notice of assessment in Italy, while in France no tax fines were imposed on Mondadori France over the three-year period; economic penalties consisted of out-of-court settlements with counterparties and damages rulings.

Fines

Euro/million	2017	2016	2015
Italian tax fines	0.03	0.08	1.32
French tax fines	-	-	-
Italian economic penalties	0.73	0.97	0.65
French economic penalties	0.63	0.91	-
Total	**1.39**	**1.96**	**1.97**

In order to provide greater transparency to stakeholders, Mondadori developed an archive relating to non-monetary penalties at the beginning of 2012. Examples of non-monetary penalties include the publication of rulings.

In 2017 there were 2 cases in Italy; although it declined in 2017, the phenomenon is more relevant in France, where the publication of rulings largely regards magazines about celebrities.

Non-monetary penalties

Number of cases	2017	2016	2015
Non-monetary penalties Italy	2	3	2
Mondadori France: publications of rulings	4	12	18
Total	**6**	**15**	**20**

Combating corruption and bribery

As stated on pages 83–84, the Organisation, Management and Control Framework and the rules of conduct of the Framework – in the various versions prepared for the different companies, all of which are constantly updated – together represent a reasonably effective system of defence in the fight against corruption in all the businesses and sectors of the Group.

Regarding 2017, and generally over the period 2015–2017, no cases of corruption or bribery involving employees or suppliers in Italy were found to have occurred, and no legal action was initiated or pending against the Group or its employees for alleged corruption in Italy. In relation to Mondadori France, only one case was reported in 2017, which was promptly intercepted and the employee involved was given a warning.

Similarly, no legal action was initiated or pending over the period 2015–2017 against the Mondadori Group for alleged collusive practices or infringements of antitrust and anti-monopoly law.

Alongside the constant updating of the Organisation, Management and Control Framework to include new offences of relevance for the Company's business model and work to adapt the Framework in the light of legislative reforms and to each individual company belonging to the Group, employees are provided training to ensure they effectively understand the Company's rules and regulations.

In 2017, following updates to the Frameworks of Mondadori Electa and Rizzoli Libri, training was provided to 130 employees (including parent company personnel). Delivered in e-learning format, the course was successfully completed by 70% of the staff involved.

Updates to the Framework in 2018 will include the preparation of a whistleblowing policy, in compliance with Italian Law 179/2017 (Provisions for the protection of persons reporting crimes or irregularities learned in the course of their public or private employment).

HUMAN RESOURCES

Transformations in the sectors in which the Mondadori Group operates, together with changes within the Company, in both organisational and business terms, see us focus close attention on our human resources with the aim of developing the skills and expertise of both individuals and the Group, also through ongoing training that takes account of the new requirements of the business.

Workforces

As at 31 December 2017, the Group employed a total of 3,026 people (-7.2% on 2016 mainly due to the disposal of the book logistics business unit). Of that figure, 74% was employed by consolidated Italian companies (2,228 employees), while the remaining 26% was employed by consolidated foreign companies (Mondadori France and, since 2016 only, Rizzoli International Publications, headquartered in New York, which entered the consolidation perimeter in April 2016: headcount figures for the company are shown in the table on p. 104).

Headcounts	**2017**	**2016**	**2015**
Italy	2,228	2,411	2,200
International	798	850	851
Total	**3,026**	**3,261**	**3,051**

The tables below show the headcounts for consolidated Italian companies (Italy) and Mondadori France (France). Figures for Rizzoli International Publications are not included, except where specifically indicated.

In addition to the employee headcount, figures are also provided, for the Italy perimeter, of the average number of temporary workers for the year, divided by business area (temporary worker numbers show seasonal trends, in particular regarding retail and the Christmas season); and for Mondadori France, of the average number of freelance workers (or *pigistes*, the majority of whom journalists):

Italy	2017	2016	2015	France	2017	2016	2015
Temps				**Pigistes**			
Headquarters	18	15	18				
Books	38	47	44				
Magazines	39	46	61				
Retail	82	84	75				
Total	**177**	**192**	**198**	**Total**	**386**	**378**	**367**

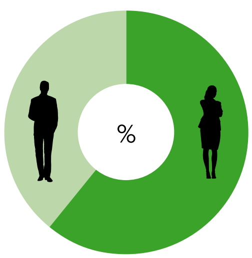
Hirings and terminations Italy		2017		2016		2015	
Gender	**Age**	**Number**	**%**	**Number**	**%**	**Number**	**%**
		HIRINGS					
	< 30 years	19	17%	14	18%	22	10%
Women	30-50 years	50	46%	37	49%	110	51%
	> 50 years	2	2%	1	1%	14	7%
Total women		**71**	**65%**	**52**	**68%**	**146**	**68%**
	< 30 years	9	8%	8	11%	4	2%
Men	30-50 years	26	24%	15	20%	51	24%
	> 50 years	3	3%	1	1%	13	6%
Total men		**38**	**35%**	**24**	**32%**	**68**	**32%**
Total hirings		**109**	**100%**	**76**	**100%**	**214**	**100%**
Turnover rate (new employees)			**4.89%**		**3.15%**		**9.73%**
		TERMINATIONS					
	< 30 years	15	5%	14	5%	12	6%
Women	30-50 years	87	30%	117	45%	65	33%
	> 50 years	48	16%	44	17%	27	14%
Total women		**150**	**51%**	**175**	**67%**	**104**	**53%**
	< 30 years	2	1%	3	1%	2	1%
Men	30-50 years	76	26%	64	25%	55	28%
	> 50 years	64	22%	19	7%	36	18%
Total men		**142**	**49%**	**86**	**33%**	**93**	**47%**
Total terminations		**292**	**100%**	**261**	**100%**	**197**	**100%**
Turnover rate (leaving employees)			**13.11%**		**10.83%**		**8.95%**

Hirings and terminations France*		2017		2016		2015	
Gender	**Age**	**Number**	**%**	**Number**	**%**	**Number**	**%**
		HIRINGS					
	< 30 years	5	16%	6	22%	1	5%
Women	30-50 years	7	23%	13	48%	11	50%
	> 50 years	5	16%	1	4%	0	0%
Total women		**17**	**55%**	**20**	**74%**	**12**	**55%**
	< 30 years	4	13%	4	15%	4	18%
Men	30-50 years	8	26%	3	11%	3	14%
	> 50 years	2	6%	-	-	3	14%
Total men		**14**	**45%**	**27**	**6%**	**10**	**45%**
Total hirings		**31**	**100%**	**27**	**100%**	**22**	**100%**
Turnover rate (new employees)			**4.13%**		**3.37%**		**2.59%**
		TERMINATIONS					
	< 30 years	3	5%	1	1%	3	4%
Women	30-50 years	21	32%	30	45%	27	39%
	> 50 years	18	28%	18	27%	20	29%
Total women		**42**	**65%**	**49**	**73%**	**50**	**72%**
	< 30 anni	1	2%	3	4%	1	1%
Men	30-50 anni	16	25%	8	12%	13	19%
	> 50 anni	6	9%	7	10%	5	7%
Total men		**23**	**35%**	**18**	**27%**	**19**	**28%**
Total terminations		**65**	**100%**	**67**	**100%**	**69**	**100%**
Turnover rate (leaving employees)			**8.66%**		**8.35%**		**8.11%**

* Hirings and terminations by Mondadori France do not include fixed-term employment contracts (CDD); nevertheless, turnover rates have been calculated considering all employees at the end of each year for consistency with the other tables.
Hirings and terminations under fixed-term employment contracts (CDD) are high as this kind of contract is widely envisaged under French labour law.

The following tables show the percentage breakdown of the workforce by gender, age, area of activity, and qualification in 2017 and 2016 for Italy and France.

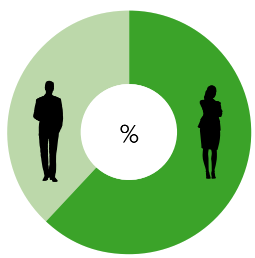
ITALY



2017
Women **61%**
Men **39%**

2016
Women **60%**
Men **40%**

FRANCE



2017
Women **62%**
Men **38%**

2016
Women **62%**
Men **38%**

Workforce by age

Italy								France							
2017				2016				2017				2016			
	Total	Women	Men		Total	Women	Men		Total	Women	Men		Total	Women	Men
<30	2%	68%	32%	<30	2%	64%	36%	<30	3%	72%	28%	<30	7%	66%	34%
30-50	66%	62%	38%	30-50	68%	61%	39%	30-50	56%	63%	37%	30-50	65%	62%	38%
>50	32%	59%	41%	>50	30%	58%	42%	>50	40%	61%	39%	>50	28%	63%	37%

Workforce by business area

Italy								France							
2017				2016				2017				2016			
	Total	Women	Men		Total	Women	Men		Total	Women	Men		Total	Women	Men
Corporate	21%	52%	48%	Corporate	15%	51%	49%	Corporate	25%	58%	42%	Corporate	25%	59%	41%
Books	27%	70%	30%	Books	31%	64%	36%	Magazine	57%	61%	39%	Magazine	57%	62%	38%
Retail	18%	59%	41%	Retail	20%	58%	42%	Digital	4%	60%	40%	Digital	5%	50%	50%
Magazine	34%	62%	38%	Magazine	25%	67%	33%	Advertising	14%	76%	24%	Advertising	13%	75%	25%
Digital					9%	48%	52%								

As of 2017, Digital Italy personnel have been redistributed to Magazines, for the most part, and to Corporate (shared services and CRM).

Workforce by employment level

Italy							France						
	2017			2016				2017			2016		
	Total	Women	Men	Total	Women	Men		Total	Women	Men	Total	Women	Men
Executives	5%	23%	77%	4%	25%	75%	Cadres	39%	66%	34%	38%	64%	36%
Middle managers	13%	53%	47%	13%	53%	47%	Employés	11%	77%	23%	12%	76%	24%
Office workers	69%	64%	36%	66%	64%	36%	Journalistes	50%	57%	43%	50%	58%	42%
Journalists	13%	71%	29%	13%	70%	30%							
Workers	0.01%	21%	79%	4%	28%	72%							

All employees in Italy and in France are covered by collective bargaining agreements.

Italy	2017			2016		
	Total	Women	Men	Total	Women	Men
Graphics publishing staff[1]	68%	61%	39%	64%	61%	39%
Journalists	13%	71%	29%	12%	70%	30%
Sales[2]	20%	56%	44%	24%	52%	48%

[1] including Industry executives
[2] including Sales executives

France	2017			2016			
	Total	Women	Men		Total	Women	Men
Employés et cadres des Editeurs de presse Magazine	50%	68%	32%	Employés des Editeurs de presse Magazine	12%	78%	22%
				Cadres des Editeurs de presse Magazine	37%	65%	35%
Journalistes	50%	57%	43%	Journalistes	50%	58%	42%
				Nationale Syntec	1%	20%	80%

In 2017, the two labour agreements covering newspaper office workers and middle managers were merged into one agreement, whereas, due to the disposal of NaturaBuy, no employees are covered by the Nationale Syntec agreement.

Permanent employment contracts cover 98.5% of employees in Italy and around 97% of employees in France (CDI). The percentage of fixed-term contracts is slightly higher in France, at 2.9%: CDD (Contract à Durée Determinée) are temporary 18-month contracts that can be extended up to a maximum of 36 months.

	Italy						France						
	2017			2016				2017			2016		
	Total	Women	Men	Total	Women	Men		Total	Women	Men	Total	Women	Men
Permanent[1]	98.5%	61%	39%	98.5%	60%	40%	CDI	97.1%	62%	38%	95.9%	62%	38%
Fixed-term	1.5%	76%	24%	1.5%	75%	25%	CDD	2.9%	86%	14%	4.1%	79%	21%

[1] including apprentice contracts

More common in Italy, part-time contracts are in any case more prevalent among women both in Italy and France.

	Italy						France						
	2017			2016				2017			2016		
	Total	Women	Men	Total	Women	Men		Total	Women	Men	Total	Women	Men
Full-time	88%	58%	42%	88%	57%	43%	Full-time	95%	61%	39%	94%	61%	39%
Part-time	12%	86%	14%	12%	84%	16%	Part-time	5%	82%	18%	6%	83%	17%

All employees, regardless of their employment contract, are entitled to parental leave. In Italy, almost 4% of employees took parental leave (mostly women, at 96%), while in France almost 2% took parental leave (mostly men, 61%).

Italy	2017			2016		
	Women	Men	Total	Women	Men	Total
Employees entitled to parental leave[1]	1,369	859	2,228	1,449	962	2,411
Employees who took parental leave	93	4	97	106	4	110
Employees returning to work after parental leave	93	4	97	99	3	102
% returning after parental leave	100%	100%	100%	93%	75%	93%

[1] For consistency with other workforce tables, figures are shown as at 31 December; it should be underlined that, with regard to the employees that took parental leave, the total number includes those not covered by the end-of-year headcounts because of terminations/resignations

France	2017			2016		
	Women	Men	Total	Women	Men	Total
Employees entitled to parental leave[1]	469	282	751	500	302	802
Employees who took parental leave	7	11	18	25	4	29
Employees returning to work after parental leave	7	9	16	24	4	28
% returning after parental leave	100%	82%	89%	96%	100%	97%

[1] For consistency with other workforce tables, figures are shown as at 31 December; it should be underlined that, with regard to the employees that took parental leave, the total number includes those not covered by the end-of-year headcounts because of terminations/resignations

The following table shows figures for the workforce employed in New York (at the publisher's offices and the book store) for 2016-17.

Employees at Rizzoli International Publications	2017			2016		
	Total	Women	Men	Total	Women	Men
Age	**47**	**25**	**22**	**48**	**27**	**21**
<30 years	6	5	1	6	6	-
30-50 years	23	12	11	24	13	11
>50 years	18	8	10	18	8	10
Employment level						
Executives	13	4	9	13	4	9
Office workers	34	21	13	35	23	12
Full-time	40	20	20	42	22	20
Part-time	7	5	2	6	5	1
Business area						
Publishing	36	19	17	36	19	17
Book store	11	7	4	12	8	4
Permanent	47	25	22	48	27	21
Fixed-term	-	-	-	-	-	-
Total	**47**	**25**	**22**	**48**	**27**	**21**

Organisational developments

In line with plans in place in recent years to focus more on core business areas, and with a view to achieving greater flexibility in logistics management and reduce operating costs as of 2018, in May 2017 the warehouses and logistics and distribution operations for the Group's Trade Books and Educational areas and the Retail business unit were outsourced to CEVA Logistics S.p.A. through the transfer of the logistics business units of Mondadori Libri and Mondadori Retail. As part of the reorganisation of those activities, a Group Logistics department has been created, organised by business areas, with the objective of ensuring the proper management of the logistics services provided by the outsourcer, constant alignment with business requirements, and the adoption of market best practices.
For Books, regarding both the Trade and Educational segments, work has continued on the integration of organisational structures, operating processes, and IT systems to support the company Rizzoli Libri.
Specifically in relation to Trade Books, the framework for copyright operations has been rationalised by integrating the Rizzoli Copyright department into Trade general management, and organisational and process studies have been conducted on the Copyright departments and editorial areas of each of the publishing companies to identify opportunities for improvement through the comparison made of the various frameworks in place.
In an effort to expand publishing operations further and strengthen their capacity for market action, editorial responsibility for the Rizzoli and Fabbri Kids sector, along with their marketing units, has been brought under the Kids business unit.
Finally, corporate transactions to facilitate the integration process further included the sale and transfer of the Trade business unit belonging to Rizzoli Libri S.p.A. to Mondadori Libri S.p.A. and the

merger by acquisition of the companies Sperling & Kupfer Editori S.p.A. and Edizioni Piemme S.p.A. into Mondadori Libri S.p.A., both effective as of 31 December 2017. In relation to the Educational area, a Digital Operations unit and an Event Marketing unit have been set up for the coordinated management of the digital operations and event marketing processes of Mondadori Education and Rizzoli Education. In addition, the migration of the latter onto the Group's IT systems has been completed.

With regard to the Retail business unit, in view of the major development plan to expand the franchise network of bookshops and the need to maximise the integration and efficiency of service levels in the channel, the Sales department was reorganised to create a Direct Stores Sales department and Franchise Stores Sales department, both of which report directly to the CEO.

Turning to the corporate departments of the parent company, to support integration and transformation processes more effectively, the organisational framework of the central Human Resources and Organisation Department was overhauled through the adoption of a matrix structure. Under the new framework, HR Business Partners have been appointed for each Group business unit and Centres of Expertise (CoE) created to manage HR processes across all business units, including talent management, remuneration policies, benefits, labour cost, payroll, HR IT systems and organisational development.

Finally, we report two organisational changes in Mondadori France Group: the entry of new top management at the advertising agency Mondadori Publicité, which consequently changed its name to Mondadori MediaConnect, and the assumption of responsibility for digital operations by the executive director of the motoring, infotainment and nature division.

Industrial relations

All of the Group's companies and employees are covered by union representatives: their relations with the Company are characterised by constant and open dialogue that takes place through frequent meetings on specific issues and annual corporate commitments, such as the European Works Council (EWC), which involves Italian and French representatives.

Regarding the Books area, dealings with trade unions in 2017 focused on the transfer of the logistics business units of Mondadori Libri and Mondadori Retail to CEVA Logistics Italia S.r.l. (April 2017), the mergers by acquisition of Sperling & Kupfer and Edizioni Piemme into Mondadori Libri S.p.A. and the transfer to the latter of the Trade business unit of Rizzoli Libri S.p.A. (December 2017, effective as of 31 December 2017).

In the Magazines area, the two-year state of crisis declared in July 2015 was brought to a close in June 2017. For Mondadori Scienza, the individual incentive plan and redundancy scheme agreed at the end of 2016 will continue until September 2018.

In the Retail area, the closure of the Palermo megastore has had no impact on personnel, as a part of the staff was taken on by OVS, which bought the physical premises of the store, while the remaining employees were transferred to a new store, of smaller size, opened in Palermo.

The minimum notice periods required by the applicable collective bargaining agreements (30 days for graphics-publishing and 70 days for sales) were respected in all cases of the transfer of business units and/or organisational change, with negotiations launched several months in advance.

With regard to Mondadori France, efficiency measures continued in 2017, with the headcount cut by around 40 people (10 through the disposal of the NaturaBuy business unit).

Also in France, the minimum notice periods required by collective bargaining agreements for the introduction of operational changes (one to two months depending on whether length of service is more or less than two years for journalists and office workers, and up to three months for middle managers) were respected, as were legal terms for the involvement of trade union representatives.

During the year, dealings with trade unions focused on mandatory annual negotiations (*Négociation annuelle obligatoire* – NAO) for the updating of the remuneration and gender equality plan and on negotiations on trade union rights and the right to switch off. Negotiations on copyright (started in 2016) and on professional ethics in journalism (started in 2017) will continue in 2018.

Training and development

The table shows the number of training hours delivered and the number of participants over the three years at Group level (excluding employees of Rizzoli International Publications, for whom training has not been organised since the company's entry into the Group in April 2016).

Hours delivered	2017	2016	2015	Participants	2017	2016	2015
Total	14,550	20,160	16,731	Total	1,026	1,570	1,457

A dynamic training programme, focused on quality and that can be tweaked to bridge any gaps between expertise acquired and the skills necessary to meet the Company's development requirements, underpinned the courses provided to Mondadori Group employees in Italy in 2017.
The programme involves the regular updating of content with an increasingly business-oriented focus.
Applied in 2017 to the Magazine and Retail areas, the Mondadori Academy is a versatile model that identifies the key figures in each business unit and, through permanent skills monitoring, aims to provide the necessary knowledge to plug any training gaps identified. The skills mapping system, originally adopted for journalists, will progressively replace the former assessment system in place for performance management. During this transition phase, no assessments were conducted for Italy employees.
The range of courses available is constantly expanded and rendered compatible with the preferences of employees and emerging issues in our sector with digital training courses offered alongside language and development courses for managerial and technical skills.
The Journalists Academy was run for a second time in 2017, designed to keep abreast of changes in the profession and in the publishing sector through a tailor-made programme of business-oriented training courses to support the professional growth of journalists.

The renewed training programme included 14 courses from the previous year and an additional 12 new courses, thereby expanding the range of training opportunities while ensuring continuity in skills development plans.
New Journalist Academy features introduced in 2017 included an earlier start to the calendar of courses, a more streamlined approval cycle, and the implementation of a new online platform for the training offer, registrations, and course management.
Academy courses attracted a higher number of registrations in 2017 compared to the previous year, with 79% of staff signing up (76% in 2016). A total of 53 courses, amounting to 4,893 hours of training, were delivered to a total of 185 journalists.

The constant monitoring and review process carried out by the Academy Board makes it possible to systematically reformulate the content of the training courses.
Organisational initiatives pursued by Mondadori Retail saw the successful completion of the second Master in Book Retail Management project, run in partnership once again with the University of Parma. The objective of the project is to promote the development of managerial and process management skills in the Mondadori Retail sector, broadening knowledge held in the sector and providing management tools to develop professional expertise.

In 2017, a Retail Academy was launched to support the development of the franchising network, with two pilot courses run in September 2017.
Other initiatives for the Retail area included *Welcome Day@Mondadori*, an event dedicated to 50 new franchisees to help fast-track their integration into the network.

In September, the first ever Talent Day Mondadori was held, a career guidance initiative designed to help the children and family members aged 18 to 28 years of Mondadori employees find their way in the world of work. A total of 65 young people took part in the initiative, which saw them meet with 20 human resources professionals, all experts in recruitment, from various industry sectors (Mondadori France, Mediaset, Ferrero, Iper, Europ Assistance, and IBM). The participants were given the opportunity to learn useful job-search tools and techniques to help them find work more effectively.

Alongside the Academy training plan, other courses focused on language training and workplace safety, delivered both in classroom and e-learning format (see p. 111).

Italy

Hours delivered	**2017**	**2016**	**2015**	**Participants**	**2017**	**2016**	**2015**
Ad hoc training	**5,057**	**7,858**	**7,500**	**Ad hoc training**	**226**	**409**	**385**
Executives	4	271	764	Executives	1	63	55
Middle managers	-	495	1,458	Middle managers	-	90	49
Office workers	160	732	3,287	Office workers	40	80	220
Journalists	4,893	6,360	1,991	Journalists	185	176	61
% women	76%	72%	60%	% women	78%	73%	57%
% men	24%	28%	40%	% men	22%	27%	43%
Language courses	**600**	**2,380**	**1,320**	**Language courses**	**20**	**62**	**44**
Executives	450	930	1,110	Executives	15	31	37
Middle managers	120	90	150	Middle managers	4	3	5
Office workers	30	60	60	Office workers	1	2	2
Journalists	-	1,300	-	Journalists	-	26	-
% women	35%	60%	41%	% women	35%	56%	41%
% men	65%	40%	59%	% men	65%	44%	59%
Safety training	**2,361**	**2,118**	**1,971**	**Safety training**	**375**	**379**	**404**
Executives	72	20	24	Executives	7	n.a.	n.a.
Middle managers	148	98	56	Middle managers	19	n.a.	n.a.
Office workers	2,141	1,484	1,546	Office workers	349	n.a.	n.a.
Journalists	-	4	29	Journalists	-	n.a.	n.a.
Workers	-	512	316	Workers	-	n.a.	n.a.
% women	59%	47%	51%	% women	58%	50%	46%
% men	41%	53%	49%	% men	42%	50%	54%
Total hours of training delivered	**8,018**	**12,356**	**10,791**	**Total hours of training delivered**	**621**	**850**	**833**
Executives	526	1,221	1,898	Executives	23	n.a.	n.a.
Middle managers	268	683	1,664	Middle managers	23	n.a.	n.a.
Office workers	2,331	2,276	4,893	Office workers	390	n.a.	n.a.
Journalists	4,893	7,664	2,020	Journalists	185	n.a.	n.a.
Workers	-	512	316	Workers	-	n.a.	n.a.
% women	68%	n.d.	n.d.	% women	65%	n.a.	n.a.
% men	32%	n.d.	n.d.	% men	35%	n.a.	n.a.

Average No. of training hours per capita	2017	2016	2015
Total	**3.60**	**5.12**	**4.91**
Women	3.99	n.a.	n.a.
Men	2.98	n.a.	n.a.
Executives	5.21	n.a.	n.a.
Middle managers	0.90	n.a.	n.a.
Office workers	1.52	n.a.	n.a.
Journalists	17.48	n.a.	n.a.

Alongside the Academy programmes – introduced in 2013 for journalists and in 2016 for Mondadori Retail employees, training programmes for career development, the improvement of skills, and to help cope with transition as the business changes, included the “Inspiring People” series, launched in 2016 to provide opportunities to meet and talk to professionals from a variety of sectors. In 2017, the initiative was opened to all employees interested, to encourage greater engagement and exchange among the various business areas and, above all, to build more effectively on the potential in the Group.

Finally, in 2017 the skills mapping project for the Group Human Resources and Organisation Department was completed. The project involved the identification of a common framework for mapping skills, job descriptions, abilities (with relative behavioural descriptors), and professional knowledge (with relative indicators); the outlining of an ideal HR Business Partner profile and a training programme for the position, to encourage greater focus on management by skills. Building on the skills mapping process followed for HR Business Partners, a new mapping process was commenced to map the skills of all company people, starting, in 2017, with key positions. The project involves the participation of a team of consultants, who supported the HR Business Partners in the first stage of identifying the skills involved in a range of key positions in each business unit.

Regarding the formal assessment of employees, no assessments were conducted of personnel in 2017 since the Performance Management tool used in the past is no longer considered suitable.

Training programmes at Mondadori France are organised into three groups (ad hoc professional, language, and workplace safety), with plans lasting two or three years. Specifically, ad hoc professional training focused on topics such as team work in marketing (end 2016–2017), digital advertising space sales techniques (for agency employees, 2015–2017), SEO strategies (for editorial board staff, digital marketing and developers, 2016–2017), optimising the use of social networks (for editorial board staff, editorial marketing and publishers, 2016–2017), and techniques for creating and editing videos by smartphone (for editorial board staff, 2017). An English and Italian language training programme was launched at the end of 2016.

France

Hours delivered	2017	2016	2015	Participants	2017	2016	2015
Ad hoc training	**4,934**	**6,644**	**5,669**	**Ad hoc training**	**328**	**568**	**610**
Cadres	2,691	4,572	3,099	*Cadres*	146	257	321
Employés	204	605	607	*Employés*	14	62	49
Journalistes	2,039	1,467	1,963	*Journalistes*	168	249	240
% hours delivered to women	67%	71%	70%	% women	66%	69%	70%
% hours delivered to men	33%	29%	30%	% men	31%	34%	31%
Language courses	**1,283**	**246**	**96**	**Language courses**	**47**	**17**	**3**
Cadres	865	165	51	*Cadres*	34	12	2
Employés	205	65	-	*Employés*	4	2	-
Journalistes	214	16	45	*Journalistes*	9	3	1
% hours delivered to women	79%	59%	6%	% women	74%	71%	33%
% hours delivered to men	21%	41%	94%	% men	26%	29%	67%
Safety training	**315**	**914**	**175**	**Safety training**	**30**	**135**	**11**
Cadres	124	319	140	*Cadres*	14	56	8
Employés	55	222	-	*Employés*	4	33	-
Journalistes	136	373	35	*Journalistes*	12	46	3
% hours delivered to women	54%	64%	48%	% women	60%	62%	64%
% hours delivered to men	46%	36%	52%	% men	40%	38%	36%
Total hours of training delivered	**6,532**	**7,804**	**5,940**	**Total hours of training delivered**	**405**	**720**	**624**
Cadres	3,679	5,056	3,290	*Cadres*	194	325	331
Employés	464	892	607	*Employés*	22	97	49
Journalistes	2,389	1,856	2,043	*Journalistes*	189	298	244
% hours delivered to women	69%	69%	68%	% women	66%	68%	70%
% hours delivered to men	31%	31%	32%	% men	34%	33%	30%

Average No. of training hours per capita	2017	2016	2015
Total	**8.70**	**9.73**	**6.98**
Women	9.56	10.83	7.59
Men	7.27	7.91	5.96
Cadres	12.69	16.63	10.19
Employés	5.59	9.20	6.19
Journalistes	6.32	4.63	4.75

Faced with a general contraction in the Magazines market (in terms of both readership and advertising revenues), in 2014 Mondadori France was compelled to introduce a number of restructuring plans to adapt to the decline in the sector, while at the same time guaranteeing job protection for its people. Following negotiations with the Business Committee of the Economic and Social Unit of Mondadori Magazines France (UES MMF), various measures were launched to facilitate internal transfers and terminations on a voluntary basis.
To begin with, it proved indispensable to update the skills of company employees to match developments in the sector. This was pursued through training courses on digital skills, such as for social network management and online advertising. In this sense, part of the transition towards the new business model took place by expanding editorial functions from a multimedia perspective.
With regard to job mobility opportunities, strictly voluntary, a space was developed for the management of expertise-mobility. Overseen by the Human Resources Department and special external consultants, its aim is to support employees in the transfer process, whether within or outside the company: interviews to assess skills and professional prospects, the drafting of personalised career plans, first refusal on vacancies at Mondadori, and certificates attesting to the skills acquired are all tools designed to assist the worker until they take up their new role.
Programmes for human resources development, both in relation to skills updating and to the restructuring plans, are based on the performance assessment system. The following table reports figures for 2015–2017 in relation to the Annual Appraisal Assessment (AAA) which involves the participation of both the employee and the relevant manager.

Besides this tool, in 2014 mandatory professional assessments (PA) were introduced every two years. In 2015, Mondadori France complied with this legal obligation by subjecting its entire workforce to assessment. In 2016, 44% of employees were subject to professional assessment (PA). Subsequently, it become the practice to time the annual appraisal assessment with the mandatory professional assessment, for which in 2017, 30% of Mondadori France employees were assessed on both the AAA and the PA.

Annual Appraisal Assessment (AAA)	**2017**		**2016**		**2015**	
	number	**%**	**number**	**%**	**number**	**%**
Cadres	157	54%	175	58%	283	88%
Employés	35	42%	40	41%	84	86%
Journalistes	33	9%	95	24%	357	83%
Total	**225**	**30%**	**310**	**39%**	**724**	**85%**

Workplace safety and prevention

In order to ensure that statutory workplace safety requirements are fulfilled in the best and most efficient way, in 2017 the Group prevention and protection service was restructured. While the centralised coordination of the service was maintained, its structure was reviewed to prioritise a local site supervision approach, with references grouped according to geographical distribution. The list of employers and all the officers, whether designated or elected, involved in protecting occupational health and safety in the Mondadori Group is updated on a regular basis. The list can be viewed on the Company intranet portal "Network" under the Prevention and Safety" section, where Group personnel can keep up to date on procedures and learn more about how to protect health and safety in the workplace.

Although not required by law, a Group safety coordination unit has been established to oversee and coordinate all the people involved in protecting the health and safety of workers, provide guidelines for implementing statutory requirements, monitor planning, and conduct the following activities:

- regular meetings: 7 safety meetings were held on a regular basis, concerning 24 sites and involving, along with the employers or their delegates for the companies, 4 health and safety managers and 6 health and safety officers, 22 workers' safety representatives, and 7 occupational medicine practitioners;
- on-site workplace inspections: jointly with the occupational medicine practitioners, in 2017 inspections were conducted of the workplaces of 24 Group sites;
- evacuation drills: in addition to the testing of emergency plans in 31 directly managed stores, the safety officers of each Mondadori Group site coordinated annual evacuation drills involving all personnel on site. Feedback received on the drills was then used to identify and formalise the actions needed to improve emergency procedures.

In 2017, around one thousand hours of classroom training was delivered to fire safety and first aid officers belonging to emergency teams, while mandatory safety training, introduced in 2013 for all workers, continued to be provided to new employees joining the Company.
Mandatory training was delivered in e-learning format, through a special project presented and approved by the local health service agency. Thanks to the programme, in 2017 around 1,500 hours of e-learning courses, covering both general and specific safety modules, were delivered not just to new hires, but also office workers and store personnel and managers, involved in specific refresher sessions. For details on safety training in Italy and in France, see the tables on pp. 107 and 109.

Since 2017, the occupational medicine service has been outsourced to the medical centre H San Raffaele Resnati, which has delivered both major savings as well as the key benefits of an organised professional service, connected to a leading company in the sector. The occupational medicine practitioners (451 workers checked up over the year) are monitored in their work with the help of the workplace health and safety IT system adopted by the Mondadori Group. The platform enables the identification of the workers due for a health check-up, the planning of regular medical visits, and the management of medical records on a fully computerised and encrypted basis. The system is also used for the digital archiving of medical reports and documents, to fulfil statutory requirements under laws and regulation in force, and to plan training initiatives and enables the internal supervisory body to constantly monitor Company compliance with occupational health and safety regulations.

Welfare and benefit

The Group's commitment to the well-being of its people is also expressed through the facilitations, services and initiatives it promotes, which have an impact on both work life and private life. The main ones are listed hereafter; with the sole exception of supplementary healthcare benefits, they can be accessed by all employees, regardless of the type of contract on which they are employed. In an effort to harmonise the employment conditions and benefits offered to all employees of the companies belonging to the Group, an integration plan is currently being studied to standardise and optimise all second-level contracts.

Flexible working hours

Flexitime offers flexibility in starting and finishing hours and the opportunity to work part-time. In 2017, part-time workers totalled 277 in Italy, 39 in France and 7 in the United States. Mondadori France staff can also take advantage of an agreement for the reduction of working hours (equal to 22 days a year, only for full-time staff), and additional days of leave according to seniority (including part-time staff).

Supplementary health insurance coverage

Supplementary health insurance coverage is an optional benefit offered to employees (of Arnoldo Mondadori Editore S.p.A. and Mondadori Pubblicità, with the exclusion of executive managers), who have completed their trial period and choose to pay the monthly contribution fee. The supplementary health and social fund (FISS) partially covers some expenses and also makes other contributions in particular situations. Coverage can also be extended to family members. As at 31 December 2017, 729 employees had joined FISS.

The Mondadori France supplementary health insurance plan covers the children of employees free of charge. With the payment of a voluntary contribution fee, coverage can also be extended to spouses (for full-time and part-time employees).

Health service

Personnel operating in the Milan area can make use of a health service provided in the Company offices, including blood tests, medical check-ups, pap tests, and medical visits. In partnership with Avis, Mondadori has organised two blood donor days every year since 2006, at an Avis station at the Segrate head office.

Employees and contract workers at the Mondadori France head office also have a nursing and social welfare service. In 2016 a “well-being campaign” was launched with the activation of numerous workshops.

Shuttle service

The shuttle service connects the Segrate head office with strategic locations in Milan, which can easily be reached by the large number of passengers arriving from the various city districts and suburban areas around Milan by public transport (buses and trains).

Thanks to agreements in place with the bus operator ATM and the rail service provider Trenord, employees and contract workers can purchase annual bus or train passes at a discount, valid for the entire urban and suburban public transport network in the SITAM (Milan) area and the regional railway network (suburban and regional lines).

Company buses are reserved for employees, contract workers, suppliers, and guests of the company. Every ticket has a symbolic cost of 0.03 euro for employees and contract workers, while occasional visitors travel free of charge.

Tax assistance

In the last few years, a tax assistance service has been made available to employees for the filling out of their annual tax returns.

Subsidised products and commercial agreements

As well as the company bookshop at the Segrate head office, where it is possible to buy books and DVDs at a discount of between 30% and 50%, Mondadori employees can also take advantage of discounts in Group bookshops, on the e-commerce site, and on magazine subscriptions.

An outlet is also up and running at the Segrate head office, which sells basic food items as well as various other goods at discount prices, while offering s series of services.

A large number of other discount agreements have also been negotiated with other companies: the updated list is published on the company intranet.

Employees of Mondadori France similarly enjoy discounts and facilitations on subscriptions to magazines and on products sold on the Company’s various marketplace and e-commerce websites.

Summer camps for the children of employees

Mondadori offers the possibility of organising two-week summer camps for children aged 5-13 years at camps in Castione della Presolana at discount rates. Packages include sports activities with instructors (tennis, horse-riding and rock climbing).

Company social club

Cral Mondadori is a non-profit association set up by the parent company in accordance with Article 18 of the Italian Constitution, Article 36, 37, and 38 of the Italian Civil Code and Article 11 of the Charter of Workers' Rights.
All employees, former employees and their families can be members of Cral Mondadori. As at 31 December 2017, the club had 600 members, as certified by FITeL (the Italian Leisure Time Federation).
As established by the articles of association (regularly registered at the Milan Inland Revenue Agency), the association is democratically managed by a Management Board.
As well as its traditional activities, in 2017 Cral Mondadori supported a number of social initiatives, such as: the purchase of products for Christmas hampers from companies based in areas hit by earthquakes and donations to the National Cancer Institute for International Women's Day 2017.

Mondadori France instead subsidises the work of the company committee for the organisation of cultural and social activities.

Internal communications

Among other things, the Communications and Media Relations Department is responsible for internal communications. Aside from purely operational factors, the involvement of Group personnel helps to provide an overview of the Company and its development, as well as strengthen our people's sense of belonging.
The main instrument used is the Company Intranet, "Network", through which employees can find out about internal developments and access Company information and services.
At least once a week (except in January, July, August and December, when the service is less frequent or suspended), a newsletter is sent to all staff, containing links to new items posted on the Intranet or on relative product websites. The newsletter makes it possible to get instant feedback on the preferences of users in terms of the most clicked news, providing information that can be used for the greater engagement of employees: in 2017, 42 newsletters were sent, with a click rate of 46.6%.
The Intranet, e-mails to all employees in Italy and around the world, and video messages are the main tools used by the Chief Executive Officer to share the Group's performance and financial results with all employees and contract workers.

THE INFORMED USE OF NATURAL RESOURCES

The Mondadori Group places great importance on environmental issues, especially regarding the life cycle of paper products, energy efficiency, and reducing climate-changing emissions (see *The Process for Identifying Material Topics*, pp. 81–83). The importance of these issues for the Group is tied above all to the main environmental impacts of its operations, mainly in relation to the consumption of paper and energy and the distribution of products.
The firm commitment to managing these aspects is underpinned by a will to anticipate future developments connected with these issues and the need to respond effectively to the information demands of the many stakeholders with whom the Group engages.

In general, sustainability matters, and hence issues connected with environmental impacts, are referred to the Sustainability Committee (see *Governance System*, pp. 130–131), which as early as 2012 prepared a Company environmental policy, published on the Mondadori Group corporate website (www.mondadori.com/sustainability/environmental-protection). The policy outlines the Group's commitment and targets for reducing its environmental footprint and provides the framework for the setting of Group strategy and target areas for environmental action.

The guidelines identified in the environmental policy steer the operational decisions and practices of the Group, from the purchase of paper to the management of retail outlets, with each company unit responsible for applying the guidelines in its day-to-day operations.

Responsible management of paper products

As a publishing group, paper consumption and the management of the life cycle of paper products are major factors in the assessment of environmental impacts for Mondadori, especially considering the strategic focus placed in recent years on the Company's Books and Magazines businesses.
This section looks at the environmental impacts connected with the life cycle of paper products, from the use of paper as a raw material to the management of unsold copies of editorial products published and their pulping, including their logistical management and distribution.

The life cycle of paper products begins in paper mills, where paper is manufactured and then sent to the printing company that prints the products. Printed paper products are stored in warehouses and dispatched, through a logistics network, for delivery to distributors and end consumers.
Once a book or magazine is in the hands of a reader, the life cycle of the paper product can take one of three turns:

- the book or magazine remains in the reader's home and may be re-used (e.g., re-read, given as a gift, donated to schools and/or libraries);
- the book or magazine is collected as waste paper for recycling, thus becoming valuable raw material that can be reused as pulp by paper mills;
- the book or magazine is collected as general waste.

The raw material: the paper used to print editorial products

In 2017, over 120,000 tons of paper was consumed at Group level (-6% compared to 2016).

In Italy, paper is purchased directly by Mondadori under a procurement policy introduced in 2014. This has enabled the Company to consolidate its commitment to rationalising the amount of paper used to print its products and to exert greater control over the supplier selection process in order to ensure that supplier practices are consistent with the Group's sustainability principles. Supplier selection criteria requires that paper is certified by the FSC or PEFC, the two main certification schemes adopted worldwide, in order to progressively raise the percentage of certified paper used over time.

In 2017, paper consumption for the printing of Mondadori and Rizzoli publications amounted to over 75,000 tons, down by 5% compared to previous year. The breakdown by type of paper used (certified, recycled and traditional) instead remained stable over the three-year period, with certified paper by far the most predominantly used (98%). With regard to Inthera, all of the paper it consumes is FSC-certified.

The table shows paper consumption by type of paper (certified, traditional and recycled) for the 2015–2017 period.

Total printing paper – Italy

	2017		2016		2015[1]	
Type	**ton**	**%**	**ton**	**%**	**ton**	**%**
Certified paper	73,573	97.9%	76,485	96.8%	67,055	97.6%
Recycled paper	37	0.0%	46	0.1%	63	0.1%
Traditional paper	1,578	2.1%	2,516	3.2%	1,554	2.3%
Total	**75,188**		**79,047**		**68,673**	

[1] Figures for 2015 do not include Rizzoli, as the company was first consolidated in 2016

In France, the *Eco-contribution* tax on entities that release at least five tons of paper on the market per year, designed to encourage the sustainable use of the resource, is an additional incentive for the collection and recycling of waste paper. The proportional basis of the tax has led publishers such as Mondadori France to purchase more paper from paper mills located near printing operations, to use paper containing at least 25% recycled fibre, and to implement strategies to promote recycling.

As a practical expression of its commitment to reducing the environmental impacts associated with paper consumption, Mondadori France has developed closer relations with PEFC-, FSC- and ISO 14001-certified printers and PEFC- and FSC-certified paper mills in Europe (mainly in Sweden, Norway, Finland, Germany, Austria, Italy, and France). Moreover, in 2011 Mondadori France itself attained PEFC certification, for which it is audited annually by an external body to assure compliance with the relative standards.

Total printing paper – France

	2017		2016		2015	
Type	**ton**	**%**	**ton**	**%**	**ton**	**%**
Recycled certified paper[1]	6,532	16%	14,158	31%	18,374	38%
Traditional certified paper	35,444	84%	31,681	69%	29,976	62%
Total	**41,976**		**45,839**		**48,350**	

[1] This category includes all certified paper that is not traditional paper and contains a percentage of recycled paper

Continuing the trend witnessed in recent years, paper consumption at Mondadori France in 2017 fell compared to 2016 (-8.4%), thanks to measures taken in the three-year period to reduce paper consumption for printing purposes.

Rizzoli International Publications purchases its raw materials indirectly through printers, based primarily in China and, to a lesser degree, in Italy. Given the type of products it publishes and the international markets on which it operates, to date the company has placed only limited focus on the use of certified paper. Future projects, however, will progressively focus more on the use of certified paper, to align the company's standards to those of the Group.

Nevertheless, based on estimates of the number of copies printed and average weight per copy, the Group has produced an initial estimate of the paper consumption of the recently acquired company. Accordingly, paper consumption estimates for 2016–17 are reported below; the increase in consumption shown was due to the higher number of copies printed.

Total printing paper – RIP[1]

	2017	2016
tons	2,849	2,777

[1] Paper consumption for Rizzoli International Publications for 2016 and 2017 has been estimated on the basis of copies printed and average weight per copy, as the documentation provided by suppliers does not provide detailed figures on the effective consumption of paper for printing purposes, while the cost of the paper alone cannot be traced from the figures reported in purchase invoices

Logistics and the end of life of editorial products

The Mondadori Group's distribution logistics take the form of a series of overlapping networks that cover all of Italy and France and differ in terms of the type of product managed and transported.
These can be divided into the following channels: magazines (newsstands, subscriptions, daily newspapers), books (trade and educational), book clubs (Mondolibri products) and e-commerce.

Many logistics processes include both direct shipping to the destination points of the reference channel and the return shipping of unsold products. According to the channel, unsold products may go into storage, be re-processed for paper recycling or pulping (in the case of paper products), or be destroyed or disposed of.

The various distribution processes are described below for each channel, with details provided of the main environmental impacts connected with them.
Specifically, in 2017 a total of 3,919 tons of renewable packaging materials (wood and cardboard) was consumed (-1% compared to 2016), while non-renewable packaging materials (polyethylene, polypropylene and expanded polystyrene foam) amounted to 657 tons (-6% compared to 2016).

Magazines - Italy

Logistics for the Magazines Italy business is managed by Press-di Distribuzione Stampa e Multimedia S.r.l., a wholly-owned subsidiary of Mondadori, which manages the distribution of Mondadori magazines and the magazines and newspapers of other publishers for the news-stand channel only. All Press-di operating processes, including transport management, are outsourced to a network of expert suppliers.
In 2017, around 65,000 tons of product were transported, entirely by road transport (with the additional use of naval transport for distribution to islands, involving the roll-on/roll-off of vehicles onto ships).

The magazines logistics process in Italy involves four steps:

- film wrapping and shipment preparation: in 2017 this process was applied to approximately 61 million copies, for which approx. 249 tons of cellophane wrapping, approx. 114,000 pallets (equivalent to 799 tons of wood), and 46 tons of film was used.
- primary transport: from distribution logistics centres (Melzo and Verona) to local distributors (approx. 69 private businesses in 2017);
- last mile (delivery to the point of sale): local distributors deliver copies to newsstands and carry out the "last mile" transport service to the point of sale. Local distributors are responsible for

collecting unsold products at newsstands every day and processing returned products for return delivery to the Press-di national returns centre or for local pulping;
- transportation of returned products: unsold products subject to return to the publisher are transported to the national returns centre of San Pietro Mosezzo (Novara) through the Press-di primary transport network.

The table below reports consumption figures for materials used for the transportation of magazines to newsstands.

Raw material (tons)	Detail	Press-di		
		2017	2016	2015
Wood	Pallets	799	866	902
Cardboard	Cardboard boxes and packaging materials	-	-	-
Polyethylene	Film	295	332	384
	Package filling	-	-	-
	Pallet covers	n.a.	n.a.	n.a.
Polypropylene	Tape	n.a.	n.a.	n.a.
	Strapping	n.a.	n.a.	n.a.
Expanded polystyrene foam	Filling of packages with polystyrene	-	-	-

The daily newspapers produced by third-party publishers (including *il Giornale*, *Libero*, and *Avvenire*) are distributed by a different logistics network to the one used for magazines. This network includes a number of printing centres located throughout Italy, delivering to local distributors. This network, designed to ensure fast delivery times, is shared with other distributors to guarantee greater efficiency.

The lower operating costs (deriving from the progressive reduction in transported weights) correspond to a proportional reduction in emissions due to transportation. Added to this is the effect of the certified returns process, by which unsold copies of publications are sent for pulping by local distributors, ensuring the processing of returns for statistical and accounting purposes for the publishers, without the need for the unsold copies to return physically to the warehouse, thereby reducing both costs and emissions.

The following table reports the estimated CO_{2eq} emissions deriving from the transport of magazines from the distribution logistics centres of Verona and Melzo to local distributors in the three-year period 2015–2017. In 2017 these emissions fell by 10.6% compared with 2015, from 6,428 tons to 5,806 tons of CO_{2eq}.

CO_{2eq} emissions from primary transport

Unit of measurement	2017	2016	2015
t CO_{2eq}	5,806	6,235	6,428

Primary transport emissions have been calculated taking into consideration the greenhouse gases CO_2, CH_4, N_2O

With regard to the management of returns, Mondadori has a particularly high local pulping rate, thanks to the incentives pushed by Press-di (in agreement with the Group and third-party publishers distributed) to encourage the widespread take-up of certified returns processes by local distributors. At the same time, however, the ongoing decline in newspaper and magazine readership, which has led to a general reduction in returns, has also affected the number of intermediaries – local distributors and newsstands – over the years, lowering both their total number and those that guarantee certified returns.

In 2017, a total of 21,056 tons of magazines (+0.3% on 2016) and 9,702 tons of newspapers (-4% on 2016) were recycled through local pulping. Currently, out of the 69 local distributors used by Press-di, 62 guarantee certified returns (as opposed to 65 out of 74 last year).

Magazines - Mondadori France

Printing, binding and distribution operations connected with the magazines published by Mondadori France (around 190 million copies in 2017) are outsourced to external suppliers located in Europe (70% of volumes are outsourced to French companies, 20% to Italian companies, and the rest to European companies).

Unlike in Italy, the sale of magazines via subscriptions represents a significant share of the business: in fact, regarding 2017, alongside the 120 million copies distributed through newsstands, another 70 million copies were distributed by post.

The distribution of magazines to newsstands is outsourced to two companies and is mainly carried out by road transport.

The logistics process comprises four main phases:

- the companies that print and bind the magazines send the packaged copies to the main distribution centres;
- the copies are transported from the main distribution centres to the 69 local warehouses distributed across the country;
- from the warehouses the copies are delivered to around 25,000 points of sale (around 120 million copies were distributed to newsstands in 2017);
- local distributors collect unsold copies from the newsstands, which are taken to the warehouses and then resold to companies that recover and collect waste so they can finally be reused as raw materials at paper mills for the production of recycled paper.

The majority of the wooden pallets used for distribution activities are recovered from warehouses at the end of the distribution chain and returned to the printers and binders. On average, pallets can be reused 3-5 times before having to be repaired or replaced.

The distribution of subscription copies is outsourced to France's main postal system operator, *La Poste*, which distributes the products directly to the homes of subscribers. Before arriving at *La Poste*'s main distribution centres, the copies are readied for delivery by three post consolidator companies: here, each copy is covered with a film indicating the address of the consignee and placed in reusable plastic boxes that are delivered to *La Poste*. Once emptied of their content, the plastic boxes, supplied by *La Poste*, are recovered from the main collection centres in the Paris area. Finally, the delivery of the magazines to subscribers is guaranteed by a network of around 70,000 couriers.

The following table reports consumption figures for materials used for the transportation of magazines to newsstands and for subscriptions. On a conservative approach, these materials are considered as direct consumption also in the case of outsourcing.

Raw material (tons)	Detail	Mondadori France		
		2017	2016	2015
Wood	Pallets	1,058	1,159	1,223
Cardboard	Cardboard boxes and packaging materials	20[1]	20	23
Polyethylene	Film	201	207	215
	Package filling	-	-	-
	Pallet covers	-	-	-
Polypropylene	Tape	-	-	-
	Strapping	42	40	44
Expanded polystyrene foam	Filling of packages with polystyrene	-	-	-

[1] The consumption figure for cardboard boxes in 2017 is an estimate

In line with the requirements of the *Eco-Contribution* scheme, over the years Mondadori France has pledged to:

- reduce the number of handovers between printing, binding and distribution suppliers;
- contain the amount of waste generated along the production line;
- concentrate, where possible, all operations at a single site in order to reduce or eliminate the use of packaging materials (such as pallets, stretch film, retractable film) and intermediate transport phases. These measures have made it possible to optimise the use of pallets and boxes for copies destined for retail sales and subscriptions, resulting in a reduction in the use of these materials in the 2015–17 period of approx. 13% for both materials;
- optimise the use of pallets and boxes in distribution operations to reduce consumption of packaging materials and transport to industries and distributors;
- use biodegradable film for wrapping copies sent to subscribers, instead of standard polyethylene film.

Moreover, over the last two years, Mondadori France has participated actively in the Sustainable Development Committee of the SEPM (Syndicat des Editeurs de la Presse Magazine). In 2017, the Committee pushed ahead with a number of initiatives to reduce the environmental footprint of the sector, including:

- the identification of alternatives to the plastic film used for wrapping copies sent to subscribers (elimination of plastic film, use of biodegradable film and the use of paper wrapping)
- the identification of glues to enable the optimal recycling of paper products
- the identification of ecological vegetable-based inks to replace mineral-oil inks

Trade books

Logistics operations for Trade Books (for the Mondadori, Einaudi, Sperling & Kupfer, Frassinelli, Piemme, and Electa brands, managed until April 2017 by Mondadori Libri S.p.A. through the Verona logistics hub) were sold as a business unit to CEVA Logistics S.p.A. in May 2017. The supplier has progressively transferred restocking, counting, and returns selection operations to its City of Books logistics hub in Stradella (in the province of Pavia), where it already managed operations for Rizzoli Libri. Operations for the launch of new books are also managed by CEVA Logistics, but performed by an external provider located in the Verona area.

In this context, the returns process (see the corresponding table for data relating to shipping volumes, pallets and copies handled) is worthy of attention: returns are registered, classified based on quality, recorded, and stocked. The owner of such stock, i.e. the publisher, pays for the storage and decides when to pulp the product.

Trade Book returns	Unit of measurement	2017[1]	2016[1]	2015[1]
Copies	No.	10,391,000	10,163,000	11,900,000
Packages	No.	332,000	325,000	380,000
Shipments	No.	35,700	35,000	40,900

[1] The figures contain estimates as the final consumption figures are not available

All boxes used to distribute Trade Books are made of corrugated cardboard consisting of 90% recycled paper; this packaging is 100% recyclable and the recycled material comes from national pulp companies.

Schoolbook publishing

In 2017 Mondadori Education distributed around 6.7 million textbooks and teachers' guidebooks.
In 2017, distribution operations for all Mondadori Education publications were performed at the Verona logistics hub, managed by Mondadori until April and by CEVA Logistics as of May.
The logistics for Mondadori Education publications is connected with specific school education activities (promotion, adoption, and sale of books):

- through a network of promoters, school texts are presented to teachers from January to May in order to promote their adoption. Logistics is in charge of shipping the books from the central warehouse to the promoters, just under 130 destinations; finally, the promoters are in charge of delivering or shipping the sample books to teachers. To this end, it is important to highlight the introduction of digital sample books (connected with the development of multi-device digital school books), which may lead to a reduction in the production and shipment of paper trial books;
- starting in May and, with varying intensity, up until the end of October, Mondadori Education restocks the retail distribution points for the sales campaign, reaching approximately 20 destinations. In addition, starting in September, when the school year starts, the promoters are supplied with books and guides to deliver to teachers for classroom trials;
- as well as making shipments to decentralised distribution centres, the central warehouse in Verona directly supplies some top accounts and approximately 800 bookshops with university texts and L2 books (Italian as a foreign language).

Although returns are less frequent for school texts, total returns in this segment came to approximately 603,500 copies in 2017.

Distribution processes for Rizzoli Education are similar, but run through different logistics hubs, involving a central warehouse (City of Books hub in Stradella) and one regional distributor (Bologna).
As for the number of copies transported, around 7,830,000 copies were distributed in 2017, while returns amounted to 1,800,000 (both figures refer both to sale copies and classroom trial copies).

Bookclub

For products distributed through the bookclub channel, logistics (warehousing and preparation of orders) and all business support processes are managed at the Verona logistics hub. Orders are shipped by mail.
The cardboard boxes used for shipments are the same type used for Trade Books. Materials returned by post are subject to recycling.

E-commerce

With regard to products sold on the website www.mondadoristore.it, B2C logistics activities include product management (for both Mondadori books and third-party publishers) at the Verona logistics centre (now CEVA Logistics). Products are prepared according to customer orders and shipments are made by express courier directly to the final customer address. In this channel there are practically no returns.

The table below reports consumption figures for materials used for the transportation of Trade Books and school books.

Materials consumption for Trade Books and school books		Verona logistics hub + Stradella logistics hub		Verona logistics hub
Raw material (tons)	**Detail**	**2017**	**2016**	**2015**
Wood	Pallets	921	776	505
Cardboard	Cardboard boxes and packaging materials	1,121	1,136	813
Polyethylene	Film	73	75	103
	Package filling[1]	13	13	10
	Pallet covers[1]	3	3	3
Polypropylene	Tape	6	5	2
	Strapping	9	10	3
Expanded polystyrene foam	Filling of packages with polystyrene	15	16	-

[1] The figures relating to package filling materials, pallet covers and strapping only refer to Trade Books; the figures for Mondolibri are not available

Reducing energy consumption and combating climate change

The emission measurement process implemented in recent years by the Group has enabled the consolidation of calculation methods and was used as a baseline for raising internal awareness about possible policies for the reduction of the greenhouse gases generated by its operations. In this regard the Group has already launched a number of projects to mitigate its emissions, both in 2017 and in the past. These include, for instance, the implementation of energy efficiency measures in buildings, the reduction of printing paper consumption, and the replacement of the car fleet with lower emission models (see *Initiatives to reduce environmental impact*, pp. 126–129).

This section looks at the environmental impact of the Mondadori Group's operations on global warming. It reports and explains the direct and indirect greenhouse gas emissions produced by the Group along its entire value chain.

Total greenhouse gas emissions at Group level in 2017 amounted to approximately 60,520 tons of CO_{2eq} (-6% on 2016). Total electricity consumption in 2017 amounted to over 18,950 MWh (over 68,240 GJ, -9% on 2016), while natural gas consumption amounted to over 515,580 m^3 (18,115 GJ, -5% on 2016). The Group does not purchase energy from renewable sources.

Italy

Greenhouse gas emissions connected with Group operations in Italy and considered within the reporting scope of the GHG survey are classified as either direct (Scope 1) GHG emissions, energy indirect (Scope 2) GHG emissions or other indirect (Scope 3) GHG emissions.

Greenhouse gas emissions (tons)	2017	2016	2015
Direct (Scope 1) emissions[1] – CO_{2eq}	1,013	1,064	1,002
Energy indirect (Scope 2) emissions[2] – CO_2 – location-based	5,870	6,527	6,555
Other indirect (Scope 3) emissions[3] – CO_2	33,678	35,392	30,748
- Emissions related to paper production	32,331	33,990	29,529
- Emissions related to business trips	1,360	1,402	1,219
Total GHG emissions	**40,574**	**42,983**	**38,305**

All emissions shown in the table are calculated using emission factors stated in CO_2, except for Scope 1 emissions deriving from refrigerant gas leaks of air conditioning units. The total emissions are expressed in CO_2 as the share attributable to the other gases (CH_4 and N_2O) is not significant. Emissions of Scope 2, expressed in CO_{2eq} and calculated according to the market based method, are equal to 7,373.5 tons

[1] Direct (Scope 1) emissions for 2016 have been restated on the basis of information available only after the publication of the 2016 Sustainability Report

[2] Energy indirect (Scope 2) emissions for 2015 and 2016 have been restated with respect to the 2016 Sustainability Report, on the basis of updated emission factors available

[3] Other indirect (Scope 3) emissions for 2016 have been restated with respect to the 2016 Sustainability Report, on the basis of updated emission factors available

Direct (Scope 1) GHG emissions are connected with the consumption of natural gas for the heating of offices, stores, and warehouses and refrigerant gas leaks of air conditioning units. Most of the natural gas consumption figures were accurately measured; where such measurement was not possible, conservatives estimates have been provided.

Natural gas – Italy Detail	Unit of measurement	2017[1]	2016[1]	2015[1]
Natural gas consumption	m^3	515,584	544,121	512,530
	GJ	18,115	19,151	17,946

[1] The figures contain estimates as the final consumption figures are not available

In Italy, Group gas consumption fell by 5% compared to 2016, from around 544,000 m^3 to some 516,000 m^3 in 2017, mainly due to the closure of some sites and energy efficiency measures introduced during the year (see *Initiatives to Reduce Environmental Impact*, pp. 126–129).

Energy indirect (Scope 2) GHG emissions are connected with electricity consumption, which is sourced from the national electricity grid for the purposes of:

- lighting, air conditioning (heat pumps), and equipment (e.g. PCs, printers) in offices and stores;
- lighting and equipment in warehouses;
- recharging electrical vehicles (Segrate) and forklift trucks (warehouses).

Electricity – Italy Detail	**Unit of measurement**	**2017**	**2016**	**2015**
Total electricity purchased from national grid[1]	MWh	15,655	17,405	17,480
	GJ	56,358	62,658	62,928

[1] The figures contain estimates as the final consumption figures are not available

In Italy, electricity consumption declined constantly over the three-year period. The 10% drop in consumption between 2015 and 2017 was in part due to the closure of some Group sites, and in part to energy saving initiatives implemented over the year (see *Initiatives to Reduce Environmental Impact*, pp. 126–129).

Other indirect (Scope 3) emissions consist of emissions connected with paper production operations (see *The Raw Material: the Paper used to Print Editorial Products*, pp. 114–116) and business travel by employees.

Emissions connected with the paper production cycle totalled around 32,300 tons of CO_2 in 2017, showing a drop compared to the previous year due to the declining consumption of paper (-5%).

Alongside emissions connected with paper consumption, emissions are associated with business travel by company personnel, mainly for the purposes of: meeting clients, travel for editorial features, meetings with suppliers, meetings at other company sites, and participation in events.

The following table shows the breakdown of business travel-related emissions by transport means.

Emissions by means of transport	**2017**
Train	17.7%
Company car	33.3%
Car rental	3.8%
Plane	45.2%

As in previous years, company cars and air travel accounted for the biggest share of CO_2 emissions connected with business travel. However, when compared to 2016, emissions connected with train travel and car rental increased, while those connected with company cars and air travel declined.

Other significant Scope 3 emissions were found to be connected with the logistics of transporting raw material (paper) and finished goods. Due to the difficulty of collecting reliable data on these flows, currently these emissions are only partially recorded (see table on p. 117) and may be explored more thoroughly in upcoming years.

France

Regarding Mondadori Group operations in France, the greenhouse gas emissions considered within the reporting scope of the GHG survey are shown in the table below.

Greenhouse gas emissions (tons)	2017	2016	2015
Direct (Scope 1) emissions[1] – CO_{2eq}	112	246	-
Energy indirect (Scope 2) emissions[2] –CO_2 – location-based	120	125	127
Other indirect (Scope 3) emissions[3] – CO_2	18,256	19,894	21,010
- Emissions related to paper production	18,050	19,711	20,790
- Emissions related to business travel[2]	206	183	220
Total GHG emissions	**18,488**	**20,257**	**21,128**

All emissions shown in the table are calculated using emission factors stated in CO_2, except for Scope 1 emissions from refrigerant gas leaks of air conditioning units. The total emissions are expressed in CO_2 as the share attributable to the other gases (CH_4 and N_2O) is not significant. Emissions of Scope 2, expressed in CO_{2eq} and calculated according to the market based method, are equal to 136.9 tons

[1] Energy indirect (Scope 2) emissions for 2015 and 2016 have been restated with respect to the 2016 Sustainability Report, on the basis of updated emission factors available

[2] For the year 2015, the CO2 emissions connected with business travel by plane were estimated as being the same as those calculated for 2016, the only year in which data is available

The direct (Scope 1) GHG emissions reported in the table consist exclusively of refrigerant gas leaks of air conditioning units, which in 2017 amounted to around 82 kg, equivalent to 112 tons of CO_{2eq}.

Regarding energy indirect (Scope 2) GHG emissions, for Mondadori France such emissions are connected with electricity consumption for the heating and lighting of offices.

Although less sharply than in Italy, Mondadori France also recorded a decline in electricity consumption in 2017, which dropped from 2,917 MWh in 2016 to 2,794 MWh (-4%). The drop in consumption was largely driven by measures introduced as of 2015 to reduce electricity consumption.

Finally, with regard to other indirect (scope 3) GHG emissions, the downward trend registered in recent years was mainly due to the lower consumption of printing paper, which fell from around 48,350 tons in 2015 to around 41,976 tons 2017, corresponding to a 13% reduction in CO_2 emissions (from 20,790 in 2015 to 18,050 tons of CO_2 in 2017). The reduction in CO_2 emissions over the three years for Mondadori France was 12.5%.

Electricity consumption - France Detail	Unit of measurement	2017[1]	2016	2015
Total electricity purchased	MWh	2,794	2,917	2,962
from national grid	GJ	10,058	10,500	10,665

[1] Electricity consumption for 2017 relating to the Mondadori France warehouse has been estimated

Rizzoli International Publications

Greenhouse gas emissions from operations run by Rizzoli International Publications consist of energy indirect (Scope 2) emissions and other indirect (Scope 3) emissions.

Greenhouse gas emissions[1] (tons)	2017	2016
Energy indirect (Scope 2) emissions – CO_2 - location-based	231	244
Other indirect emissions (scope 3) - CO_2	1,225	1,194
Total emissions	**1,456**	**1,438**

[1] Updated figures are currently not available for refrigerant gas leaks of air conditioning units to be able to measure direct (Scope 1) GHG emissions, nor for emissions connected with business travel

In 2017, total emissions for Rizzoli International Publication fell by 5.1% on 2016, thanks to lower energy indirect (Scope 2) GHG emissions connected with electricity consumption for the lighting and air conditioning of bookstores and offices. The drop in electricity consumption over the two-year period came to around 5%.

Electricity consumption - Rizzoli International Publications[1] Detail	Unit of measurement	2017	2016
Total electricity purchased from national grid	MWh	508	536
	GJ	1,830	1,929

[1] Electricity consumption for Rizzoli International Publications has been estimated on the basis of the spending incurred, as more detailed consumption data are not available

The other indirect (Scope 3) emissions reported in the table refer exclusively to tons of CO_2 emitted by paper production processes, which rose slightly in 2017 due to the higher number of copies printed.

INITIATIVES TO REDUCE ENVIRONMENTAL IMPACT

Paper and sustainability

In response to the requirements of the *Eco-contribution* scheme, in recent years Mondadori France has undertaken a number of actions to alter the format and weight of its magazine paper. In the last three years, these measures have enabled it to reduce the average amount of paper consumed per copy by 3.5%, from 229 grams in 2016 to 221 grams in 2017.

Mondadori France	Unit of measurement	2017	2016	2015
Total circulation	copies	190,000,000	200,000,000	211,000,000
Paper consumed	tons	41,977	45,839	48,350
Average paper consumption per copy produced	g	221	229	229

Measures to reduce environmental impact

Energy saving initiatives in 2017 - Italy

As in 2015 and 2016, major efforts were focused on energy saving in 2017, especially with regard to the Segrate head office and retail outlets.

Reported below are the initiatives planned in 2016 and implemented over the course of 2017, the benefits of which will be delivered in full in 2018. Other initiatives are currently in the pipeline or under implementation.

Segrate head office

- as part of projects for the re-use of former bank and news-stand premises, involving the creation of a multi-purpose hall, obsolete air ventilation units were replaced with a new, independent VRV system based on inverter technology. The remote-controlled system recovers heat from external air, which will deliver energy savings proportional to the extent to which the hall is used;
- sanitization work continued on air ducts, with all ducts cleaned on the fifth floor, together with the 70 switch boxes for the distribution of treated air, on which extraordinary maintenance was performed at the same time. The work fixed faults and malfunctions in mechanical parts, thereby improving air quality on the premises and delivering energy savings estimated at around 5,000 m^3 of gas and 7,000 kWh_{el};
- an automatic management system was installed for the switch boxes connected to the air conditioning system on the fifth floor of the building. The remote control of the system, and its ability to adapt to external conditions, will improve the management of internal air conditioning, delivering energy savings per year estimated at around 8,000 m^3 of gas and 7,000 kWh_{el};
- a new prestige lighting system was installed in the Niemeyer building, involving the installation of 230 lamps of varying wattage along the base of the building and on arches, benches, and stairs. The lamps use dimmable LED lights controlled by an electronic dimmer, enabling the brightness of the lamps to be adjusted by controlling power input;

- a system was introduced for monitoring energy consumption by purpose in the Niemeyer building and the Cascina Tregarezzo complex, which will enable new energy saving measures to be implemented.

Megastore Milano Marghera

- As part of the first stage of renovation work on the entrance area to the store, which has different opening hours to the rest of the retail outlet, a new fourth-generation VRV air conditioning system based on inverter technology was installed to replace the existing centralised system and the energy intensive electric heaters on the entrance doors. Besides improving temperature comfort significantly within the store, with benefits for both business and flexibility of use, the new system has delivered energy savings per year of around 10,000 kWh_{el} of electricity.

Rizzoli Galleria Book Store

- A centralised management system was installed for the remote control of air conditioning units, which is connected to energy saving software. The new system reduces annual power consumption for air conditioning by around 10%, while improving temperature comfort in the store.

Roma via Ferri (Romanina) Megastore

- The remote control system for managing air conditioning units was upgraded to receive readings of external air temperature. The measure delivers annual energy savings of around 5% in energy consumption for air conditioning.

Measures planned or in the pipeline for 2018 – Italy

All sites

Alongside the measures implemented or in the planning stage to reduce the environmental footprint of Group offices and stores, efforts have been made in recent years to raise awareness of the use of toner and paper for printing in offices. Over the last three years in particular, the Group has managed to reduce the consumption of printing paper by around 12%.

In 2018, all printers in Italian offices and directly managed stores will be replaced by new, high performance all-in-one devices for printing, scanning and photocopying. The new devices will ensure the quality of print-outs and the ability to print on any device in the network, while delivering major reductions in the consumption of energy and consumables (paper and toner).

Toner and paper consumption for printing (offices) – Italy Raw material (tons)	**2017**	**2016**	**2015**
Paper for printouts	90	95	102
Toner for printouts	3	3	3

Segrate head office

- The project to split the induction system of the main building through the sectioning of hydraulic distribution into four macro areas per floor, managed by temperature sets, and the installation of inverters on the hot and cold inductor pumps, is currently at the request for quotations stage. The goal of the project is to deliver energy savings and boost the flexibility of the air conditioning system to enable its diversified use on different floors;
- a system for the management of CAV boxes in offices on the "Foglia" floor is currently at the request for quotations stage. The system will add to and complete the project rolled out a few years ago on the "Sottofoglia" floor, with the objective of delivering energy savings, greater flexibility of use, and automated control;
- planning work continued for the installation of well pump inverters to reduce water and electricity consumption at night and in the winter;
- a project is currently in the planning stage for the progressive replacement of external lamps (in the car park and along walkways) with new LED lamps.

Bookstores

The following bookstore projects are currently in the quotation or planning stage:

- the installation of a new main Air Treatment System, the upgrading of the temperature control system, and the replacement of the boiler with a condensation heat system at the Milan Marghera Megastore;
- the replacement of heat pumps in stores in Milan and Florence;
- the replacement of the roof top at the Varese store;
- the installation of a new management and control system for the air conditioning units at the Casalecchio and Milan Duomo stores.

Measures to reduce environmental impact – France

Measures to reduce environmental impacts introduced in previous years continued in 2017 with the support of an external service provider, tasked with monitoring the Company's key objectives to reduce electricity consumption and improve waste management. Focus was placed on developing energy efficiency initiatives for the warehouse and offices and on promoting recycling in offices, both at work stations and in recycling areas in common areas.

Reducing the impact of business travel – Italy

For several years now, the Mondadori Group has been committed to reducing the emissions associated with business travel in connection with its Italian operations. In 2017, a general reduction was achieved in kilometres travelled and progress was made in the renewal of the company fleet, a process initiated in 2014 through amendments to the Group's car policy.

Last year the Group sold the last eight company cars owned, thus completing the progressive replacement of the proprietary fleet with long-term rentals, bringing to an end the process begun in 2008.

Along with the number of cars, the quality of the Group's fleet in Italy has also improved in relation to the emission classes of the vehicles, as determined by the ADEME eco-label (Agence de l'Environnement et de la Maîtrise de l'Energie, a French agency specialised in the identification and spread of energy, environmental protection, and sustainable development information). In 2017, the number of class A cars in the fleet increased, while the number of lower emission-class vehicles

Mondadori Fleet – Italy Type (No.)	**2017**	**2016**	**2015**
Owned vehicles	-	8	8
Leased vehicles	130	142	109
Total	**130**	**150**	**117**

(classes D, E and F) were reduced significantly. In particular, compared to the previous years, no class F cars were held and the number of class E vehicles dropped by 11.

Type (No.)	2017	2016	2015
Class A – less than or equal to 100 g CO_2/km	19	16	17
Class B – from 101 to 120 g CO_2/km	44	44	29
Class C – from 121 to 140 g CO_2/km	37	40	38
Class D – from 141 to 160 g CO_2/km	12	19	13
Class E – from 161 to 200 g CO_2/km	18	29	18
Class F – from 201 to 250 g CO_2/km	0	2	2
Class G – more than 250 g CO_2/km	0	0	0
Total	**130**	**150**	**117**

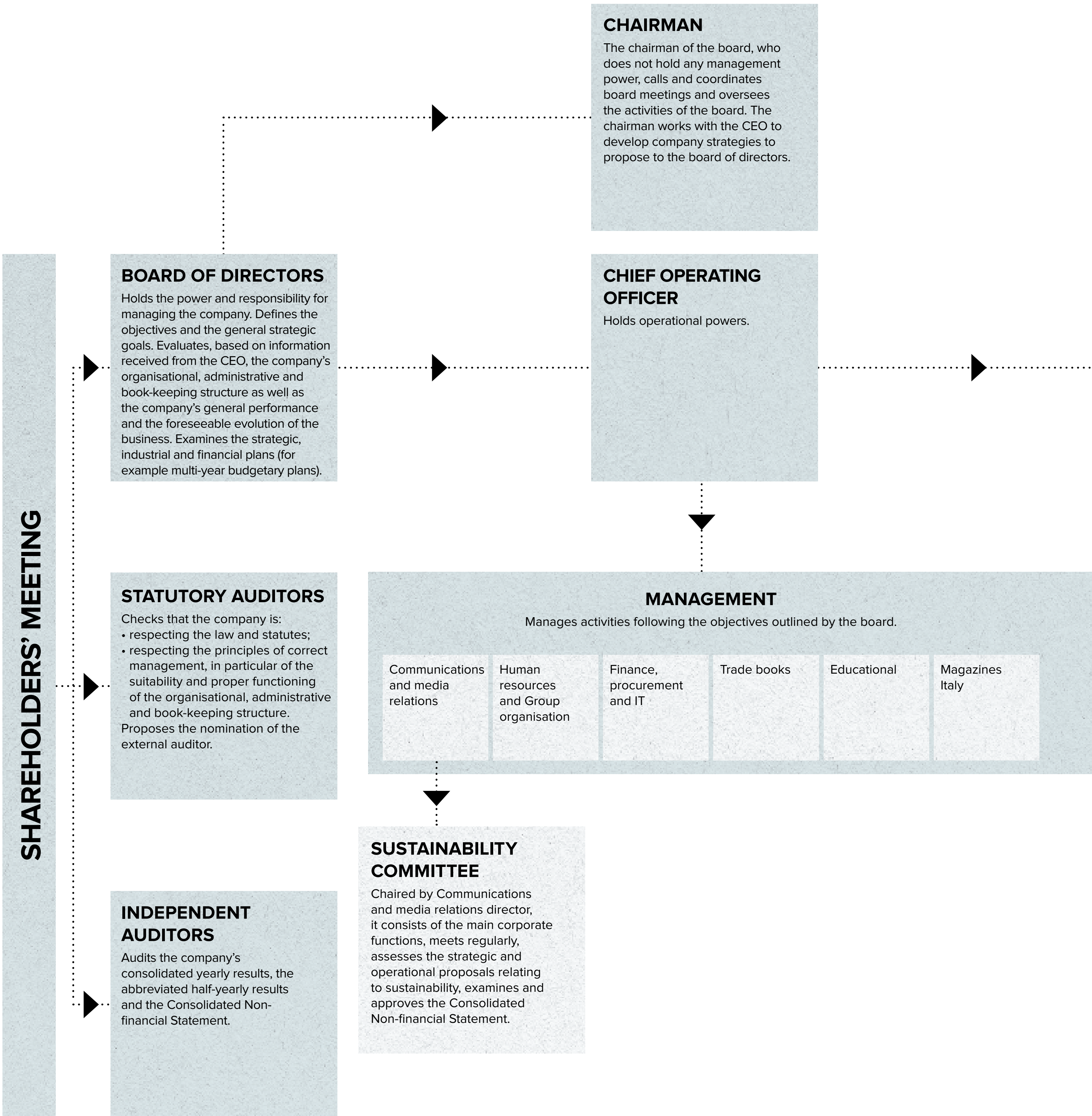
The renewal of the fleet has reduced average emissions per kilometre considerably, with the figure dropping from 132 g CO_2/km in 2016 to 126 g CO_2/km in 2017.

Average CO_2 emissions per km (grams of CO_2 equivalent)

2017	**126**	**C**
2016	132	C
2015	131	C

GOVERNANCE SYSTEM

The report on corporate governance and ownership structure containing information on the adoption by Arnoldo Mondadori Editore S.p.A. of the Corporate Governance Code for Listed Companies established by Borsa Italiana S.p.A., as well as further information pursuant to art. 123 *bis*, par. 1 and 2 of the Italian Legislative Decree 58 of 24 February 1998 is available – together with this Directors' Report on Operations on the www.mondadori.it website under the Governance section, and through the storage mechanism www.1info.it.



Mondadori France

Mondadori Retail

Digital Innovation

Mediamond

Remuneration and appointments committee

Makes proposals to the board regarding:

- remuneration of board members with special appointments;
- main guidelines to follow regarding plans to retain and incentivise;
- management of stock option plan.

Control and risks committee

Consults and makes proposals regarding the general terms of reference and the suitability of the internal control system. Coordinates with the Board of Statutory Auditors, the managers in charge of internal control and financial reporting and the executive director.
In particular, it:

- evaluates plans for internal and external audits;
- evaluates with the executive in charge of internal control and the auditors the correct application of book-keeping principles;
- reports periodically to the board of directors
- carries out specific jobs delegated to it by the board of directors.

Lead Independent Director and the Independent Directors Committee

The Lead Independent Director (LID) is the liaison and coordinator for petitions and contributions from independent directors and non-executive directors.
The Lead Independent Director:

- collaborates with the Chairman of the Board of Directors to ensure the good operation of the Board of Directors and to ensure that the board members receive complete information in a timely manner;
- may call meetings for independent directors only on issues regarding the operation of the Board of Directors or the corporate governance system, with the possibility of inviting members of Group management to report.

Related parties committee

Provides advice on the Board resolutions regarding the adoption and modifications in procedures for transactions with related parties; gives opinions on transactions of minor and of major importance with related parties.

Director in charge of the system of internal control and risk management

Proposes to the board, after having consulted with the Internal Control Committee, the nominations of those who will be charge of internal control.
Identifies risks the company faces.
Executes the general terms of reference regarding internal controls as defined by the board.

Manager in charge of financial reporting

Arranges adequate administrative and book-keeping procedures for the preparation of the consolidated earnings report and half-yearly abbreviated report.
Grants the certification of ex art. 154 *bis* of the Finance Consolidation Act (TUF).

Head of Internal Auditing

Checks the suitability and functioning of the internal control system.
Plans the overseeing of activities and internal audits of the company and its subsidiaries.
Ensures that the company activities respect laws and company praxis regarding preventing risks and fraud that damage the company.

Supervision and oversight body

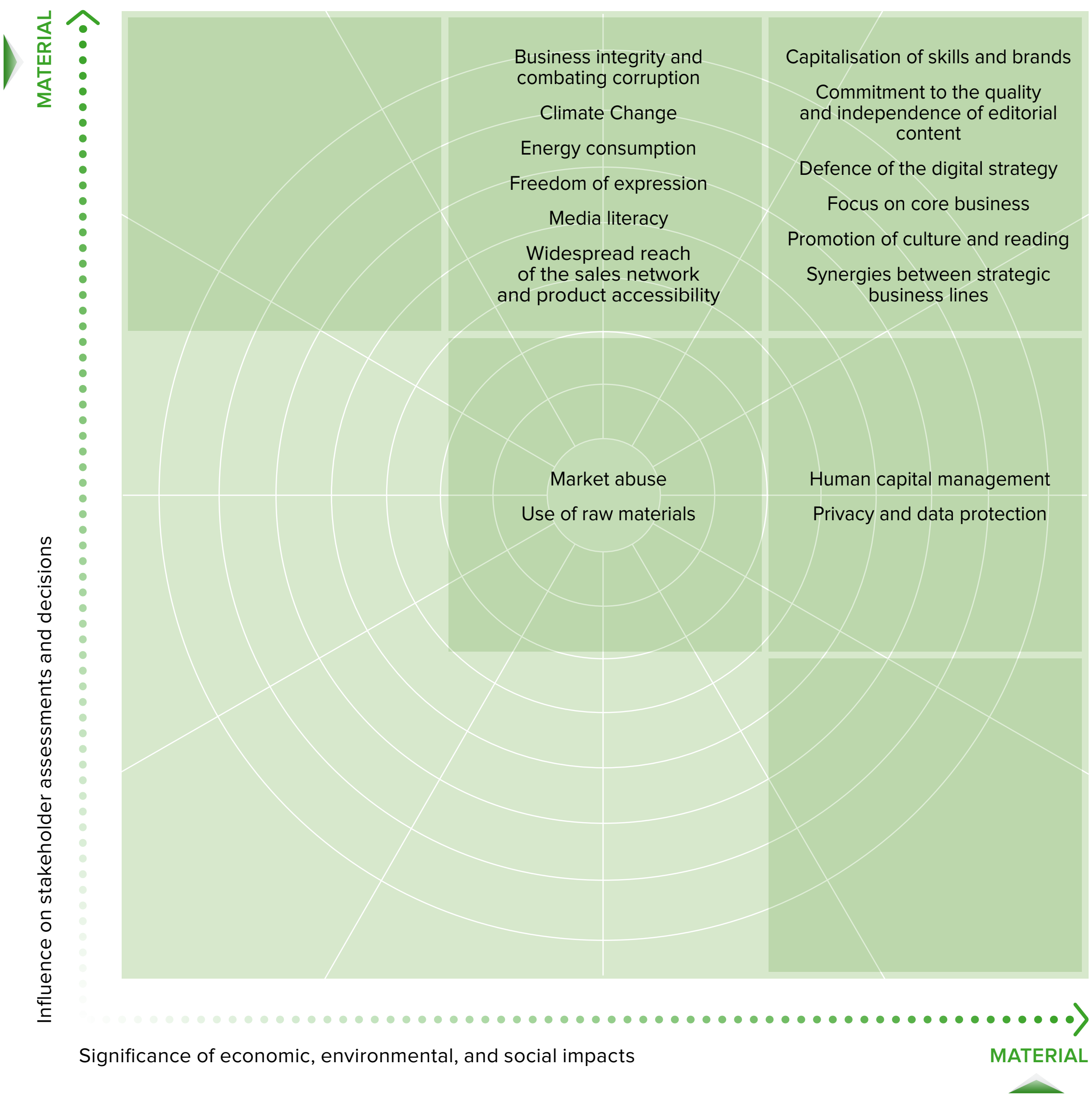
Ensures the correct application of the Organisational and Management Model adopted to conform with the requirements of Decree 231/2001.
Proposes updates for the organisational model to the board.
This comittee is made up of an independent non-executive director, the head of the internal audit function and the chairman of the Board of Statutory Auditors.

NOTE ON METHODOLOGY

This Non-Financial Statement (NFS) of the Mondadori Group meets the requirements of Italian Legislative Decree 254/2016 concerning the obligation of large public-interest entities to report non-financial information. The objective of the NFS is to facilitate comprehension of the organisational framework, policies, main risks, and performance indicators of the Group in relation to environmental, social and employee matters, respect for human rights, and anti-corruption and bribery matters that are material to it, considering the business and characteristics of the company (as per Articles 3 and 4 of Italian Legislative Decree 254/2016).

In accordance with the two options provided by Article 5 of Italian Legislative Decree 254/16, this NFS has been incorporated into the Board of Directors' Report on Operations of the Mondadori Group for 2017. This Non-Financial Statement, prepared on an annual basis, is also published on the Group website, www.mondadori.it, as part of the 2017 Annual Financial Report.

2017 materiality analysis



Material topics

Reported below are the outcomes of the materiality analysis carried out by the Group over the course of 2017 to identify the material topics for the Mondadori Group (see *The Process for Identifying Material Topics*, pp. 81–83), in the light of company needs and the expectations of the Group's stakeholders.

Of particular note are the following results:

- the most important issues in terms of their materiality for Mondadori and its stakeholders are: *capitalisation of skills and brands; promotion of culture and reading; and commitment to the quality and independence of editorial content*. Alongside these sustainability issues, priorities also include the business topics: *focus on core business; defence of the digital strategy;* and *synergies between strategic business lines*.
- The majority of the issues related to the specific business of Mondadori were judged to be material (*widespread reach of the sales network and product accessibility; media literacy; freedom of expression; privacy and data protection; promotion of culture and reading;* and *commitment to the quality and independence of editorial content*.
- With regard to environmental impacts, the aspects that are most significant for Mondadori and its stakeholders are those linked to: *energy consumption; climate change;* and *use of raw materials*. These aspects concern the impacts generated by all company operations and not just those related to the production cycle of paper products, which was identified as a separate material topic in the Sustainability Report published by the Mondadori group in 2016.
- Issues relating to water consumption, health and safety, and diversity were not found to be material by the materiality analysis described in the section *The Process of Identifying Material Topics*. Nevertheless, given the measures put in place by the Group, no risks connected with these topics were found. Specifically, with regard to health and safety, the Company has adopted various procedures and organisational measures to manage and monitor compliance with laws and regulations in force.

In accordance with the GRI-Guidelines, when prioritising the sustainability issues, consideration was given to the relevance of the impact of each issue both within and outside the reporting scope, i.e. along the Mondadori value creation chain.
For greater clarity and to facilitate comparison, the aspects identified by the GRI standards, material topics, and the areas targeted by the Decree have been matched and the relative aspect boundary, and any scope limitations applied, have been stated.

Law 254 areas	Material topic	GRI topic
Human rights	Freedom of expression	Freedom of expression (M)
	Privacy and data protection	Protection of privacy (M)
	Freedom of expression Commitment to the quality and independence of editorial content	Representation of human rights (M)
	Commitment to the quality and independence of editorial content	Cultural rights (M)
Employee-related matters	Human capital management	Employment
	Human capital management	Industrial relations
	Capitalisation of skills and brands	Training and education
Anti-corruption and bribery	Business integrity and combating corruption	Anti-corruption
Environment	Climate change	Emissions
	Energy consumption	Energy
	Use of raw materials	Materials
Social impacts	Market abuse	Anti-competitive behaviour
	Commitment to the quality and independence of editorial content	Political relations
	Business integrity and combating corruption	Socio-economic compliance
	Commitment to the quality and independence of editorial content	Economic performance
	Privacy and data protection	Customer privacy
	Commitment to the quality and independence of editorial content	Content creation (M)
	Widespread reach of the sales network and product accessibility	Disclosure of content (M)
	Media literacy	Media literacy (M)
	Promotion of culture and reading	Interaction with the public (M)

(M) Material topics under G4 Sector Disclosures – Media
*Rizzoli International Publications

Aspect boundary		Scope limitations	
Internal	External	Internal	External
Group	-	-	-
Group	-	-	-
Group	-	-	-
Group			
Group	-	Reporting scope partially extended to RIP*	-
Group	-	Reporting scope not extended to RIP*	-
Group	Franchisees	Reporting scope partially extended to RIP*	Reporting scope partially extended to franchisees
Group	-	-	-
Group	Paper suppliers, distributors, printers and franchisees	Reporting scope partially extended to RIP*	Reporting scope partially extended to distributors and not extended to printers and franchisees
Group	Paper suppliers, distributors, printers and franchisees	-	Reporting scope not extended to paper suppliers, distributors, printers and franchisees
Group	Paper suppliers and printers	Reporting scope partially extended to RIP*	Reporting scope not extended to paper suppliers and printers
Group	-	-	-
Group	-	-	-
Group	-	-	-
Group	-	-	-
Group	-	Reporting scope partially extended to RIP*	-
Group	-	-	-
Group	-	-	-
Group	-	-	-
Group	-	-	-

Reporting scope and standard

In accordance with the requirements of the Decree, the **reporting scope** coincides with the scope of the consolidated financial statements, including all companies consolidated on a line-by-line basis in financial reporting. Any limitations to the reporting scope are reported in the section *Material Topics*, however they were not considered relevant for the comprehension of the company's business, performance, its results and the impacts it generates. The **reporting period** for the information and data provided in this Non-Financial Statement is the year 2017.

The **reporting standard** adopted by the Group for the preparation of the Non-Financial Statement is the GRI Sustainability Reporting Standards, published in 2016 by the Global Reporting Initiative (GRI). In particular, as required by GRI 101: Foundation, section 3, this report is GRI-referenced to the Disclosures listed in the following table.

GRI Standards	GRI Disclosure	Description
GRI 102 - General disclosure	102-8	Information on employees and other workers
	102-15	Key impacts, risks, and opportunities
	102-18	Governance structure
	102-41	Collective bargaining agreements
	102-46	Defining report content and topic Boundaries
	102-47	List of material topics
	102-55	GRI content index
GRI 103 - Management Approach	103-1	Explanation of the material topic and its Boundary
	103-2	The management approach and its components
GRI 201 - Economic Performance	201-4	Financial assistance received from government
GRI 205 - Anti-corruption	205-3	Confirmed incidents of corruption and actions taken
GRI 206 - Anti-competitive Behavior	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices
GRI 301 - Materials	301-1	Materials used by weight or volume
	301-2	Recycled input materials used
GRI 302 - Energy	302-1	Energy consumption within the organization
GRI 305 - Emissions	305-1	Direct (Scope 1) GHG emissions
	305-2	Energy indirect (Scope 2) GHG emissions
	305-3	Other indirect (Scope 3) GHG emissions
GRI 401 - Employment	401-1	New employee hires and employee turnover
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees
GRI 402 - Labor/Management	402-1	Minimum notice periods regarding operational changes
GRI 404 - Training and Education	404-1	Average hours of training per year per employee
	404-2	Programs for upgrading employee skills and transition assistance programs
	404-3	Percentage of employees receiving regular performance and career development reviews

GRI Standards	GRI Disclosure	Description
GRI 415 - Public Policy	415-1	Political contributions
GRI 418 - Customer privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data
GRI 419 - Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area
GRI G4 - Media Sector Disclosures	M2	Methodology for assessing and monitoring adherence to content creation values
	M4	Actions taken to improve performance in relation to content dissemination issues (accessibility and protection of vulnerable audiences and informed decision making) and results obtained
	M6	Methods to interact with audiences and results
	M7	Actions taken to empower audiences through media literacy skills development and results obtained
	GRI 103 - Management Approach 103-1 103-2	Freedom of Expression
	GRI 103 - Management Approach 103-1 103-2	Cultural Rights
	GRI 103 - Management Approach 103-1 103-2	Portrayal of Human RIghts
	GRI 103 - Management Approach 103-1 103-2	Protection of Privacy

Reporting process and calculation criteria

The identification of the qualitative information and quantitative data contained in this Non-Financial Statement for 2017 involved all relevant company functions, which acted together with the coordination of the CSR officers.
Specifically, the data reported was selected on the basis of the materiality analysis (see *The Process of Identifying Material Topics,* pp. 81-83) and collected through a collection, aggregation, and transmission process applied to data and information at Group level.

For the preparation of the Consolidated Non-Financial Statement for 2017, Mondadori drew on the support of the Ernst & Young's Climate Change and Sustainability Services Italian team.

Reported below are the main **calculation methods and assumptions** used to measure the non-financial performance indicators reported in this NFS, in addition to the information provided in the various sections:

- the data on penalties refer to cash outlays in the year and are not calculated on an accrual basis;
- in the breakdown of staff by level, "executives" include chief editors and deputy editors of magazines; members of the Board of Directors are not included;
- where environmental data was not available, conservative estimates were used, resulting in the underestimation of the company's environmental performance;
- greenhouse gas emissions were calculated by applying the principles indicated in international standard ISO 14064-1. Specifically, only carbon dioxide (CO_2) was considered for the calculation of emissions, except for direct (Scope 1) emissions, which include refrigerant gas leaks of air conditioning units, and primary transport emissions, which include CH_4 and N_2O.
- the emission factors used to calculate the CO_{2eq} emissions disclosed in this report were as follows:
  - **Direct (Scope 1) GHG emissions**: for the heating of offices, stores, and warehouses with natural gas, the emission factor in the table of national standard parameters published by the Italian Ministry of the Environment was used; for refrigerant gas leaks of air conditioning units the GWP from IPCC, 2013: Climate Change 2013: The Physical Science Basis was used;
  - **Energy indirect (Scope 2) GHG emissions:** for electricity purchased from the national grid, the emission factor used was taken from International Comparisons prepared by Terna and based on 2015 Enerdata figures;
  - **Indirect (Scope 3) GHG emissions:** for emissions connected with air travel by employees for business purposes, the emission factor used was taken from 2017 Defra databases; for train travel, the emission factor used was taken from the 2016 Sustainability Report of Ferrovie dello Stato Italiane; for company cars, the specific emission factors for each car model were used (where possible); and for rental cars, the emission factor associated with the emission classes shown on the eco-label developed by ADEME - Agence de l'Environnement et de la Maîtrise de l'Energie was used. For emissions connected with paper production, the emission factor used was taken from the Confederation of European Paper Industries [CEPI] *Key Statistics 2016* report.

Data for the years 2015 and 2016 may differ slightly to the data reported in the sustainability reports published by the Group in previous years (prepared in accordance with the Sustainability Reporting Guidelines – version G4, published in May 2013 by the GRI) due to the consolidation of data available only after the publication of those reports. For the same reason, the data for 2017 represents the best possible estimates based on the data available at the time this report was prepared.

This NFS was approved by the Board of Directors of Arnoldo Mondadori Editore S.p.A. on 13 March 2018.

This NFS has been externally assured by an independent assurance provider. Its conclusions regarding the compliance of the information provided with Article 3 (10) of Italian Legislative Decree 254/2016 are set out in a separate external assurance report. The procedures followed for the assurance of the NFS are disclosed in the *Independent Auditors' Report* annexed to this report (pp. 144-147).

GRI CONTENT INDEX

GRI Standard	Disclosure	Page reference	Omission
GRI 102: General Disclosures			
Organizational Profile			
	102-8 Information on employees and other workers	pp. 98-99; 100-103; 104	
Strategy			
	102-15 Key impacts, risks, and opportunities	pp. 85-87	
Governance			
	102-18 Governance structure	pp. 130-131	
Stakeholder engagement			
	102-41 Collective bargaining agreements	pp. 105-106	
Reporting practice			
	102-46 Defining report content and topic Boundaries	pp. 81-83; 132-135	
	102-47 List of material topics	pp. 81-83; 133-135	
	102-55 GRI content index	pp. 140-143	

Material Topics			
GRI 200 Economic Standard Series			
Economic performance			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 88-89	
GRI 201 - Economic Performance	201-4 Financial assistance received from government	pp. 88-89	
Anti-corruption			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 98	
GRI 205: Anti-corruption	205-3 Confirmed incidents of corruption and actions taken	p. 98	
Anti-competitive Behavior			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 98	
GRI 206: Anti-competitive Behavior	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	p. 98	

GRI Standard	Disclosure	Page reference	Omission
GRI 300 Environmental Standards Series			
Materials			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 114-116; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 114-116; 116-121; 126-129	
GRI 301: Materials 2016	301-1 Materials used by weight or volume	pp. 114-116; 116-121	
	301-2 Recycled input materials used	pp. 114-116	
Energy			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 121-125; 126-129	
GRI 302: Energy	302-1 Energy consumption within the organization	pp. 121-125	
Emissions			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 81-84; 85-87; 117; 121-125; 126-129	
GRI 305: Emissions	305-1 Direct (Scope 1) GHG emissions	pp. 121-122; 124; 138	
	305-2 Energy indirect (Scope 2) GHG emissions	pp. 121-123; 124; 125; 138	
	305-3 Other indirect (Scope 3) GHG emissions	pp. 117; 121-123; 124-125; 138	Quantification of the significant impacts linked to transport is currently extended only to magazine distributors with regard to CO_2 emissions
GRI 400 Social Standards Series			
Employment			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 98-104; 104-105; 111-113	
GRI 401: Employment	401-1 New employee hires and employee turnover	pp. 99-100	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	p. 112	

GRI Standard	Disclosure	Page reference	Omission
Labor/Management Relations			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 105-106	
GRI 402: Labor/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	pp. 105-106	
Training and Education			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 106-110	
GRI 404: Training and Education	404-1 Average hours of training per year per employee	pp. 108-109	
	404-2 Programs for upgrading employee skills and transition assistance programs	pp. 108; 110	
	404-3 Percentage of employees receiving regular performance and career development reviews	pp. 108; 110	
Public Policy			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 88-89	
GRI 415: Public Policy	415-1 Political contributions	p. 89	
Customer Privacy			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 95-96	
GRI 418: Customer Privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	p. 96	
Socioeconomic Compliance			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 97	
GRI 419: Socioeconomic Compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	p. 97	
Content Creation*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 88-89; 89-92	
M2	Methodology for assessing and monitoring adherence to content creation values	pp. 83-84; 88-89; 89-92	

GRI Standard	Disclosure	Page reference	Omission
Content Dissemination*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 89-92; 93-94	
M4	Actions taken to improve performance in relation to content dissemination issues (accessibility and protection of vulnerable audiences and informed decision making) and results obtained	pp. 89-92; 93-94	
Audience Interaction*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 94-95	
M6	Methods to interact with audiences and results	pp. 94-95	
Media Literacy*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 92-93	
M7	Actions taken to empower audiences through media literacy skills development and results obtained	pp. 92-93	
Freedom of espression*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 89-92	
Portrayal of Human Rights*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 89-92	
Cultural rights*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 89-92	
Protection of privacy*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 81-83; 85-87; 133-135	
	103-2 The management approach and its components	pp. 83-84; 85-87; 95-96	

*GRI G4 Media Sector Disclosure

For the Board of Directors
The Chairman
Marina Berlusconi

INDEPENDENT AUDITOR’S REPORT

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INDEPENDENT AUDITOR'S REPORT
ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND ART. 5 OF CONSOB REGULATION N. 20267

To the Board of Directors of
Arnoldo Mondadori Editore S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter the "Decree") and to article 5 of the CONSOB Regulation n. 20267, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Arnoldo Mondadori Editore S.p.A. and its subsidiaries (hereinafter the "Mondadori Group" or the "Group") as of December 31, 2017 prepared on the basis of article 4 of the Decree, presented in the specific section of the report on operations, and approved by the Board of Directors on March 13, 2018 (hereinafter the "NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "*Global Reporting Initiative Sustainability Reporting Standards*" established in 2016 by GRI – Global Reporting Initiative (hereinafter "GRI Standards"), with reference to the selection of GRI Standards, which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards, with reference to the selection of GRI Standards. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereinafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board* (IAASB) for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of article 3 of the Decree and taking into account the adopted reporting standard.

2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree.

3. Comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the Mondadori Group.

4. Understanding of the following matters:

   - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
   - policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
   - main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

   Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a).

5. Understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

   In particular, we carried out interviews and discussions with the management of Arnoldo Mondadori Editore S.p.A. and with the employees of the main legal entities of the Group and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

Deloitte.

In addition, for material information, taking into consideration the Group's activities and characteristics:

- at the parent company's and subsidiaries' level:

  a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
  b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.

- for the following companies, Arnoldo Mondadori S.p.A. and Mondadori France S.a.s., which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Mondadori Group as of December 31, 2017 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards, with reference to the selection of GRI Standards.

Other Matter

With reference to the year ended December 31, 2016, the Group prepared a Sustainability Report 2016, whose data were used for comparative purposes within the NFS. This Sustainability Report was voluntarily examined with a limited assurance engagement in accordance with ISAE 3000 Revised and we expressed an unmodified conclusion on April 7, 2017.

DELOITTE & TOUCHE S.p.A.

Signed by
Vittorio Camosci
Partner

Milan, Italy
March 29, 2018

This report has been translated into the English language solely for the convenience of international readers.

27 September 2017
Talent Days: first workshop on active job search techniques for 18 to 28 year olds who are children or family members of our staff.

Consolidated financial statements at 31 December 2017

CONSOLIDATED BALANCE SHEET

Assets (Euro/thousands)	Notes	31/12/2017	31/12/2016
Intangible assets	12	**593,004**	**612,147**
Investment property	13	**2,831**	**2,937**
Land and buildings		3,389	5,651
Plant and equipment		5,828	7,952
Other tangible assets		14,837	16,785
Property, plant and equipment	14	**24,054**	**30,388**
Investments booked at equity		37,139	42,538
Other investments		902	453
Total investments	15	**38,041**	**42,991**
Non-current financial assets	22	**1,772**	**267**
Pre-paid tax assets	16	**64,933**	**81,212**
Other non-current assets	17	**2,102**	**3,333**
Total non-current assets		**726,737**	**773,275**
Tax receivables	18	**29,373**	**30,436**
Other current assets	19	**86,945**	**93,181**
Inventory	20	**127,607**	**143,437**
Trade receivables	21	**298,012**	**298,737**
Other current financial assets	22	**1,683**	**3,382**
Cash and cash equivalents	23	**66,585**	**77,590**
Total current assets		**610,205**	**646,763**
Discontinued assets		**-**	**-**
Total assets		**1,336,942**	**1,420,038**

Liabilities (Euro/thousands)	**Notes**	**31/12/2017**	**31/12/2016**
Share capital		**67,979**	**67,979**
Share premium reserve		**-**	**-**
Treasury shares		**(1,654)**	**(73)**
Other reserves and profit/(loss) carried forward		**219,072**	**196,873**
Profit (loss) for the year		**30,417**	**22,544**
Group equity	24	**315,814**	**287,323**
Minority shareholders' equity and reserves	25	**29,500**	**30,475**
Total equity		**345,314**	**317,798**
Provisions	26	**73,110**	**68,591**
Post-employment benefits	27	**47,505**	**50,989**
Non-current financial liabilities	28	**232,736**	**307,434**
Deferred tax liabilities	16	**60,597**	**75,028**
Other non-current liabilities		**-**	**-**
Total non-current liabilities		**413,948**	**502,042**
Income tax payables	18	**5,750**	**1,788**
Other current liabilities	29	**221,844**	**228,660**
Trade payables	30	**323,538**	**332,362**
Payables to banks and other financial liabilities	28	**26,548**	**37,388**
Total current liabilities		**577,680**	**600,198**
Discontinued liabilities		**-**	**-**
Total liabilities		**1,336,942**	**1,420,038**

CONSOLIDATED INCOME STATEMENT

(Euro/thousands)	Notes	2017	2016
Revenue from sales and services	31	**1,268,268**	**1,263,347**
Decrease (increase) in inventory	20	17,446	11,787
Cost of raw and ancillary materials, consumables and goods	32	244,976	238,789
Cost of services	33	676,226	678,932
Cost of personnel	34	226,121	234,476
Other (income) costs	35	(1,574)	5,746
Income (costs) from investments booked at equity	36	(3,955)	421
EBITDA		**101,118**	**94,038**
Depreciation and impairment loss on property, plant and equipment	13-14	7,746	8,530
Amortization and impairment loss on intangible assets	12	27,296	23,495
Impairment loss on investments booked at equity and other business entities	15	4,600	2,000
EBIT		**61,476**	**60,013**
Financial income (costs)	37	(13,989)	(17,710)
Income (costs) from other investments		-	-
Result before tax		**47,487**	**42,303**
Income tax	38	14,547	17,992
Result from continuing operations		**32,940**	**24,311**
Result from discontinued operations	11	-	979
Net result		**32,940**	**25,290**
Attributable to:			
- Minority shareholders	25	**2,523**	**2,747**
- Parent Company's shareholders		**30,417**	**22,544**
Net earnings per share (in Euro units)	40	0.116	0.086
Diluted net earnings per share (in Euro units)	40	0.116	0.086

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

(Euro/thousands)	Notes	2017	2016
Net result		**32,940**	**25,290**
Items reclassifiable to income statement			
Profit (loss) deriving from the conversion of currency denominated financial statements of foreign companies	24	(2,792)	126
Other profit (loss) from companies measured at equity	24	(248)	198
Effective part of profit (loss) on cash flow hedge instruments (cash flow hedge)	22-28	(341)	(913)
Profit (loss) from available-for-sale assets (fair value)	22-28	-	-
Tax impact on other profit (loss) reclassifiable to income statement		82	462
Items reclassified to income statement			
Profit (loss) on cash flow hedge instruments		2,051	1,012
Profit (loss) from available-for-sale assets (fair value)		-	-
Tax impact on other profit (loss) reclassifiable to income statement		(492)	(278)
Items not reclassifiable to income statement			
Actuarial profit (loss)	27	625	(1,425)
Tax impact on other profit (loss) not reclassifiable to income statement		(246)	100
Total other profit (loss) net of tax effect		**(1,361)**	**(718)**
Comprehensive result for the period		**31,579**	**24,572**
Attributable to:			
- Minority shareholders		**2,536**	**2,746**
- Parent Company's shareholders		**29,043**	**21,826**

For the Board of Directors
The Chairman
Marina Berlusconi

CONSOLIDATED INCOME STATEMENT - FOURTH QUARTER

(Euro/thousands)	Fourth quarter 2017	Fourth quarter 2016
Revenue from sales and services	**343,531**	**328,096**
Decrease (increase) in inventory	19,406	5,245
Cost of raw and ancillary materials, consumables and goods	71,159	64,233
Cost of services	166,898	168,068
Cost of personnel	60,676	66,997
Other (income) costs	1,784	339
Income (costs) from investments booked at equity	(1,794)	567
EBITDA	**21,814**	**23,781**
Depreciation and impairment loss on property, plant and equipment	2,455	3,013
Amortization and impairment loss on intangible assets	8,409	6,748
Impairment loss on investments booked at equity and other business entities	4,600	2,000
EBIT	**6,350**	**12,020**
Financial income (costs)	(3,790)	(5,030)
Income (costs) from other investments	-	-
Result before tax	**2,560**	**6,990**
Income tax	2,735	1,751
Result from continuing operations	**(175)**	**5,239**
Result from discontinued operations	-	279
Net result	**(175)**	**5,518**
Attributable to:		
- Minority shareholders	**639**	**845**
- Parent Company's shareholders	**(814)**	**4,672**

For the Board of Directors
The Chairman
Marina Berlusconi

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT DECEMBER 31, 2016 AND 2017

(Euro/thousands)	Notes	Share capital	Share premium reserve	Treasury shares	Stock option reserve	Cash flow hedge reserve
Balance at January 1, 2016		**67,979**	**-**	**-**	**268**	**(2,523)**
Allocation of result					(268)	
Dividends paid						
Change in consolidation scope						
Capital increase						
Transactions on treasury shares				(73)		
Stock options						
Other changes						
Comprehensive profit (loss)						283
Balance at December 31, 2016	**24**	**67,979**	**0**	**(73)**	**0**	**(2,240)**

(Euro/thousands)	Notes	Share capital	Share premium reserve	Treasury shares	Stock option reserve	Cash flow hedge reserve
Balance at January 1, 2017		**67,979**	**-**	**(73)**	**-**	**(2,240)**
Allocation of result						
Dividends paid						
Change in consolidation scope						
Capital increase						
Transactions on treasury shares				(1,581)		
Stock options	34				850	
Other changes						
Comprehensive profit (loss)						1,300
Balance at December 31, 2017	**24**	**67,979**	**0**	**(1,654)**	**850**	**(940)**

Fair value reserve	Currency reserve	Post-employment discounting reserve	Other reserves	Profit (loss) for the period	Total Group equity	Minority shareholders' equity	Total
-	**(138)**	**482**	**191,554**	**6,365**	**263,987**	**31,522**	**295,509**
		(194)	6,827	(6,365)	-		-
					-	(3,758)	(3,758)
	1,656				1,656	13	1,669
					-		-
					(73)		(73)
					-		-
			(73)		(73)	(48)	(121)
	406	(1,325)	(82)	22,544	21,826	2,746	24,572
0	**1,924**	**(1,037)**	**198,22**	**22,544**	**287,323**	**30,475**	**317,798**

Fair value reserve	Currency reserve	Post-employment discounting reserve	Other reserves	Profit (loss) for the period	Total Group equity	Minority shareholders' equity	Total
-	**1,924**	**(1,037)**	**198,226**	**22,544**	**287,323**	**30,475**	**317,798**
			22,544	(22,544)	-		-
					-	(3,274)	(3,274)
					-		-
					-		-
					(1,581)		(1,581)
					850		850
		138	41		179	(237)	(58)
	(3,154)	366	114	30,417	29,043	2,536	31,579
0	**(1,230)**	**(533)**	**220,925**	**30,417**	**315,814**	**29,500**	**345,314**

For the Board of Directors
The Chairman
Marina Berlusconi

CONSOLIDATED
CASH FLOW STATEMENT

(Euro/thousands)	Notes	31/12/2017	31/12/2016
Net result for the period from continuing operations		30,417	22,544
Adjustments			
Amortization, depreciation and impairment	12-13-14	35,042	32,024
Income tax for the period	38	11,764	16,025
Performance Share		849	-
Provisions (utilization) and post-employment benefits		9,978	(11,233)
Capital loss (gain) from the disposal of intangible assets, property, plant and equipment, investments		(14,161)	(275)
Capital loss (gain) from the measurement of financial assets		-	-
(Income) costs of companies booked at equity	36	8,811	(519)
Net financial costs on loans and transactions with derivatives	37	11,855	14,278
Cash flow generation from operations		**94,555**	**72,844**
(Increase) decrease in trade receivables		5,394	10,127
(Increase) decrease in inventory		13,004	16,857
Increase (decrease) in trade payables		(9,880)	(11,073)
Income tax payments		(7,621)	(13,757)
Advances and post-employment benefits		(4,124)	(3,684)
Net difference for other assets/liabilities		(3,360)	24,044
Cash flow generated from (absorbed by) operations		**87,968**	**95,358**
Price collected (paid) net of cash transferred/acquired		13,787	(143,790)
(Purchase) disposal of intangible assets		(14,587)	448
(Purchase) disposal of property, plant and equipment		516	(3,621)
(Purchase) disposal of investments		(1,619)	7,609
(Purchase) disposal of financial assets		205	(643)
Cash flow generated from (absorbed by) investment activities		**(1,698)**	**(139,997)**
Net difference in financial liabilities		(84,613)	106,036
Payment of net financial costs on loans and transactions with derivatives		(11,081)	(14,418)
Capital increase		-	-
(Purchase) disposal of treasury shares		(1,581)	(73)
Dividends paid		-	-
Cash flow generated from (absorbed by) financing activities		**(97,275)**	**91,545**
Increase (decrease) in cash and cash equivalents		**(11,005)**	**46,906**
Cash and cash equivalents at the beginning of the period	23	**77,590**	**30,684**
Cash and cash equivalents at the end of the period	23	**66,585**	**77,590**

For the Board of Directors
The Chairman
Marina Berlusconi

CONSOLIDATED BALANCE SHEET PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

Assets (Euro/thousands)	**Notes**	**31/12/2017**	**Of which related parties (Note 43)**	**31/12/2016**	**Of which related parties (Note 43)**
Intangible assets	12	**593,004**	**-**	**612,147**	**-**
Investment property	13	**2,831**	**-**	**2,937**	**-**
Land and buildings		3,389	-	5,651	-
Plant and equipment		5,828	-	7,952	-
Other tangible assets		14,837	-	16,785	-
Property, plant and equipment	14	**24,054**	**0**	**30,388**	**0**
Investments booked at equity		37,139	-	42,538	-
Other investments		902	-	453	-
Total investments	15	**38,041**	**0**	**42,991**	**0**
Non-current financial assets	22	**1,772**	**500**	**267**	**-**
Pre-paid tax assets	16	**64,933**	**-**	**81,212**	**-**
Other non-current assets	17	**2,102**	**-**	**3,333**	**-**
Total non-current assets		**726,737**	**500**	**773,275**	**0**
Tax receivables	18	**29,373**	**199**	**30,436**	**10,058**
Other current assets	19	**86,945**	**56**	**93,181**	**199**
Inventory	20	**127,607**	**-**	**143,437**	**-**
Trade receivables	21	**298,012**	**50,413**	**298,737**	**54,842**
Other current financial assets	22	**1,683**	**25**	**3,382**	**692**
Cash and cash equivalents	23	**66,585**	**-**	**77,590**	**-**
Total current assets		**610,205**	**50,693**	**646,763**	**65,791**
Discontinued assets		**-**	**-**	**-**	**-**
Total assets		**1,336,942**	**51,193**	**1,420,038**	**65,791**

Liabilities (Euro/thousands)	Notes	31/12/2017	Of which related parties (Note 43)	31/12/2016	Of which related parties (Note 43)
Share capital		67,979	-	67,979	-
Share premium reserve		-	-	-	-
Treasury shares		(1,654)	-	(73)	-
Other reserves and profit/(loss) carried forward		219,072	-	196,873	-
Profit (loss) for the year		30,417	-	22,544	-
Group equity	24	**315,814**	**0**	**287,323**	**0**
Minority shareholders' equity and reserves	25	29,500	-	30,475	-
Total equity		**345,314**	**0**	**317,798**	**0**
Provisions	26	73,110	-	68,591	-
Post-employment benefits	27	47,505	-	50,989	-
Non-current financial liabilities	28	232,736	-	307,434	-
Deferred tax liabilities	16	60,597	-	75,028	-
Other non-current liabilities		-	-	-	-
Total non-current liabilities		**413,948**	**0**	**502,042**	**0**
Income tax payables	18	5,750	4,075	1,788	182
Other current liabilities	29	221,844	131	228,660	200
Trade payables	30	323,538	15,025	332,362	15,063
Payables to banks and other financial liabilities	28	26,548	-	37,388	26
Total current liabilities		**577,680**	**19,231**	**600,198**	**15,471**
Discontinued liabilities		-	-	-	-
Total liabilities		**1,336,942**	**19,231**	**1,420,038**	**15,471**

CONSOLIDATED INCOME STATEMENT PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

(Euro/thousands)	Notes	2017	Of which related parties (Note 43)	Of which non-recurring (income) costs (Note 42)	2016	Of which related parties (Note 43)	Of which non-recurring (income) costs (Note 42)
Revenue from sales and services	31	**1,268,268**	**91,822**	**-**	**1,263,347**	**99,873**	**-**
Decrease (increase) in inventory	20	17,446	-	-	11,787	-	-
Cost of raw and ancillary materials, consumables and goods	32	244,976	11,483	-	238,789	11,764	-
Cost of services	33	676,226	8,835	-	678,932	17,501	-
Cost of personnel	34	226,121	(225)	-	234,476	(341)	-
Other (income) costs	35	(1,574)	(27)	-	5,746	(132)	-
Income (costs) from investments booked at equity	36	(3,955)	-	-	421	-	-
EBITDA		**101,118**	**71,756**	**0**	**94,038**	**71,081**	**0**
Depreciation and impairment loss on property, plant and equipment	13-14	7,746	-	-	8,530	-	-
Amortization and impairment loss on intangible assets	12	27,296	-	-	23,495	-	-
Impairment loss on investments booked at equity and other business entities	15	4,600	-	-	2,000	-	-
EBIT		**61,476**	**71,756**	**0**	**60,013**	**71,081**	**0**
Financial income (costs)	37	(13,989)	71	-	(17,710)	23	-
Income (costs) from other investments		-	-	-	-	-	-
Result before tax		**47,487**	**71,827**	**0**	**42,303**	**71,104**	**0**
Income tax	38	14,547	-	-	17,992	-	-
Result from continuing operations		**32,940**	**71,827**	**0**	**24,311**	**71,104**	**0**
Result from discontinued operations	39	-	-	-	979	-	-
Net result		**32,940**	**71,827**	**0**	**25,290**	**71,104**	**0**
Attributable to:							
- **Minority shareholders**	25	**2,523**	**-**	**-**	**2,747**	**-**	**-**
- **Parent Company's shareholders**		**30,417**	**71,827**	**-**	**22,544**	**71,104**	**-**

EXPLANATORY NOTES

1. GENERAL INFORMATION

The core business of Arnoldo Mondadori Editore S.p.A. and of its directly and or indirectly owned companies (hereinafter jointly referred to as the "Mondadori Group" or the "Group") is the publishing of books and magazines.

The Group also carries out retailing activities through directly-owned and franchised stores located across Italy.

Mondadori's business areas offer products and services that harness cutting-edge technology, thus expanding the sales portfolio.

Arnoldo Mondadori Editore S.p.A., with registered office in Via Bianca di Savoia 12, Milan, and headquarters in Strada privata Mondadori, Segrate/Milan, is listed on the STAR segment of the Electronic Stock Market (MTA) of Borsa Italiana S.p.A..

The publication of the consolidated financial statements of the Mondadori Group for the year ended 31 December 2017 was authorized by the Board of Directors' resolution of 13 March 2018.

2. FORM AND CONTENT

The Group's consolidated financial statements at 31 December 2017 were drafted, based on the principle of business continuity; the Directors verified the Group's ability to fulfill future commitments and believe there is no significant uncertainty, as defined by IAS 1.25, concerning its ability to continue operating in the future.

The risks and uncertainties the Group is exposed to in relation to the business activities performed and the risk mitigation measures adopted are explained in the appropriate section of the Directors' Report on Operations.

These financial statements were drafted in compliance with the International Accounting Standards (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and endorsed by the EU, and in compliance with the International Financial Reporting Interpretations Committee (SIC/IFRIC).

These financial statements were drafted based on the cost principle, except for some financial instruments valued at fair value, and in compliance with the accounting standards adopted for the drafting of the financial statements at 31 December 2016, considering the amendments and the new standards effective as of 1 January 2017, as per Note 6.25.

The following criteria were adopted in the drafting of these financial statements:
- in the consolidated balance sheet, current and non-current assets and current and non-current liabilities are shown separately;
- in the separate consolidated income statement, the analysis of costs is carried out on the basis of the nature of the costs, since the Group decided that this method is more representative than an analysis by function;
- the consolidated comprehensive income statement contains revenue and cost items that are not recognized under income (loss) for the year as required or allowed by the IAS/IFRS accounting standards;
- the cash flow statement has been prepared using the indirect method.

Regarding the requirements of Consob Resolution no. 15519 of 27 July 2006, specific supplementary tables were prepared to highlight significant transactions with "Related parties" and "Non-recurring transactions".

The amounts shown in the tables and in these notes are expressed in Euro thousands unless otherwise stated.

3. CONSOLIDATION PRINCIPLES AND SCOPE

The financial statements of the consolidated companies are drafted on the same balance sheet date of Arnoldo Mondadori Editore S.p.A., according to the IAS/IFRS standards.

In cases where the balance sheet date is different from the Parent Company's, adjustments are made in order to recognize the effects of any significant transactions or events that have occurred between that date and the Parent Company's closing date.

The Mondadori Group consolidated financial statements include:
- the financial statements of the Parent Company and the financial statements of Italian and foreign companies directly or indirectly owned by Arnoldo Mondadori Editore S.p.A., according to the provisions set out in IAS 10. In these cases the financial statements are consolidated on a line-by-line basis;
- the financial statements of Italian and foreign companies in which Arnoldo Mondadori Editore S.p.A. has joint control, either directly or indirectly, pursuant to IFRS 11. In these cases investments are recognized in compliance with the equity method;
- the financial statements of Italian and foreign companies in which Arnoldo Mondadori Editore S.p.A. has a direct or indirect investment in an associate pursuant to IFRS 11. In these cases, in compliance with the same standard, investments are valued at equity.

The application of the abovementioned consolidation policies has led to the following adjustments:
- the book value of investments in companies included in the consolidation scope is cancelled out against the related net equity;

- the difference between the cost borne for the acquisition of the investment and the relevant share of net equity is recognized on the date of purchase and allocated to the specific asset and liability items at fair value. Any positive difference is recognized under goodwill; any negative difference is recognized under income statement;
- consolidated equity amounts, reserves and the financial result attributable to minority shareholders' interests are recognized under separate items in consolidated equity and income statement;
- in preparing the consolidated financial statements, receivables and payables, revenue and expenses resulting from transactions between companies included in the consolidation area are cancelled out as are any unrealized gains or losses on intercompany transactions.

Minority shareholders' equity and result for the period are recognized separately in the consolidated balance sheet and income statement.

In 2017 the consolidation scope changed as follows:
- on 2 May, Mondadori France completed the disposal of 100% of NaturaBuy S.a.s.;
- on 27 June, Rizzoli International Publications Inc. acquired 51% of Skira-Rizzoli Publications Inc., merged by incorporation on 30 June.

In 2017, the following mergers were completed, without changing the consolidation scope, as the merged companies were already part of the Mondadori Group at 31 December 2016:
- on January 1st, Librerie Rizzoli S.r.l. into Mondadori Retail S.p.A.;
- on January 15, Banzai Media S.r.l. into Arnoldo Mondadori Editore S.p.A.;
- on June 30, 2017, Rizzoli International Books S.r.l. into Rizzoli Libri S.p.A.;
- on December 31, 2017, Edizioni Piemme S.p.A. and Sperling & Kupfer Editori S.p.A. into Mondadori Libri S.p.A..

Consorzio Scuola Digitale and Gold 5 S.r.l. were wound up.

Companies in the scope of the Group consolidated financial statements and relating consolidation method:

Company name	Location	Business	Currency	Share capital expressed in local currency	Group interest held % 31/12/2017	Group interest held % 31/12/2016
Companies consolidated on a line-by-line basis						
Arnoldo Mondadori Editore S.p.A.	Milan	Publishing	Euro	67,979,168,40		
Italian subsidiaries						
Inthera S.p.A.	S. Mauro (TO)	Trade	Euro	3,835,000,00	100.00	100.00
Edizioni Piemme S.p.A.						100.00
Mondadori Education S.p.A.	Milan	Publishing	Euro	10,608,000,00	100.00	100.00
Mondadori Electa S.p.A.	Milan	Publishing	Euro	1,593,735,00	100.00	100.00
Mondadori Retail S.p.A.	Milan	Trade	Euro	2,700,000,00	100.00	100.00
Giulio Einaudi editore S.p.A.	Milan	Publishing	Euro	23,920,000,00	100.00	100.00
Mondadori Scienza S.p.A.	Milan	Publishing	Euro	2,600,000,00	100.00	100.00
Mondadori International Business S.r.l.	Milan	Publishing	Euro	1,800,000,00	100.00	100.00
Mondadori Libri S.p.A.	Milan	Publishing	Euro	30,050,000,00	100.00	100.00
Mondadori Pubblicità S.p.A.	Milan	Advert. agency	Euro	3,120,000,00	100.00	100.00
Press-di Distr. Stampa e Mult. S.r.l.	Milan	Services	Euro	1,095,000,00	100.00	100.00
Sperling & Kupfer Editori S.p.A.						100.00
Rizzoli Libri S.p.A.	Milan	Publishing	Euro	42,405,000,00	99.99	99.99
Librerie Rizzoli S.r.l.						99.99
Banzai Media S.r.l.						100.00
AdKaora S.r.l.	Milan	Trade	Euro	15,000,00	100.00	100.00
Foreign subsidiaries						
Gruppo Mondadori France	Paris	Publishing	Euro	50,000,000,00	100.00	100.00
Mondadori UK Ltd in liquidazione	London	Trade	Gbp	2,895,19	100.00	100.00
RCS International Books BV						99.99
Rizzoli International Publications Inc.	New York	Publishing	Usd	26,900,000,00	99.99	99.99
Rizzoli Bookstore Inc.	New York	Trade	Usd	3,498,900,00	99.99	99.99
Companies measured at equity						
Gruppo Attica Publications	Athens	Publishing	Euro	4,590,000,00	41.98	41.98
Campania Arte S.c.ar.l.	Rome	Services	Euro	100,000,00	22.00	22.00
Consorzio Scuola Digitale	Milan	Internet	Euro	40,000,00	50.00	50.00
Edizioni EL S.r.l.	Trieste	Publishing	Euro	620,000,00	50.00	50.00
Mach 2 Libri S.p.A.	Peschiera Borromeo (MI)	Trade	Euro	646,250,00	44.91	44.91
GD Media Service S.r.l.	Peschiera Borromeo (MI)	Trade	Euro	789,474,00	28.89	28.89
Mediamond S.p.A.	Milan	Advert. agency	Euro	2,400,000,00	50.00	50.00

Company name	Location	Business	Currency	Share capital expressed in local currency	Group interest held % 31/12/2017	Group interest held % 31/12/2016
Mondadori Seec Advertising Co. Ltd	Beijing	Publishing	Cny	40,000,000,00	50.00	50.00
Monradio S.r.l.	Milan	Radio	Euro	3,030,000,00	20.00	20.00
Società Europea di Edizioni S.p.A.	Milan	Publishing	Euro	2,528,875,00	36.89	36.89
Venezia Musei Società per i servizi museali S.c.ar.l. in liquidazione	Venice	Services	Euro	10,000,00	34.00	34.00
Venezia Accademia Società per i servizi museali S.c.ar.l.	Venice	Services	Euro	10,000,00	25.00	25.00
Skira Rizzoli Publications Inc.	New York	Publishing	Usd	1,000,00	49.00	49.00
Gold 5 S.r.l.	Milan	Services	Euro	250,000,00	30.00	30.00
Companies measured at fair value						
Consuledit S.r.l. in liquidazione	Milan	Services	Euro	20,000,00	9.56	9.56
Consorzio Edicola Italiana	Milan	Services	Euro	60,000,00	16.67	16.67
Cons. Sist. Informativi Editoriali Distributivi	Milan	Services	Euro	103,291,38	10.00	10.00
Immobiliare Editori Giornali S.r.l.	Rome	Real Estate	Euro	830,462,00	7.88	7.88
MDM Milano Distribuzione Media S.r.l.	Milan	Trade	Euro	611,765,00	17.00	17.00
Società Editrice Il Mulino S.p.A.	Bologna	Publishing	Euro	2,350,000,00	7.61	7.61

4. CONVERSION OF FINANCIAL STATEMENTS DENOMINATED IN FOREIGN CURRENCIES

All amounts in the Mondadori Group consolidated financial statements are in Euro, which is the Group's functional and presentation currency.
When the financial statements of companies are denominated in a different currency, they are converted into the entity's presentation currency as follows:
• assets and liabilities are converted at the exchange rate ruling at closing;
• income statement items are converted at the average exchange rate for the year.

Currency exchange rate differences that arise from these conversions are recognized in a specific reserve under equity.

5. SEGMENT REPORTING

The reporting required by IFRS 8 reflects the Group's organizational structure, which includes the following segments: Books, Magazines Italy and Magazines France, Retail, Corporate & Shared Services.

This structure gives a clear representation of the Group's differentiation in terms of products sold and services rendered and is used by the Top Management as the basis for corporate reporting in the definition of corporate strategies and plans as well as in the valuation of investment opportunities and allocation of resources.

6. ACCOUNTING STANDARDS AND VALUATION CRITERIA

6.1 Intangible assets

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

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

Internal costs for producing publishing trademarks and for the launch of newspapers and magazines are recognized in the income statement for the year in question.

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

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

Intangible assets with finite useful life

The cost of intangible assets with finite useful life is systematically amortized over the useful life of the asset from the moment that the asset is available for use. The amortization criteria depend on how the relating future economic benefits contribute to the Company's result.

The amortization rates reflecting the useful lives attributed to intangible assets with finite useful life are as follows:

Intangible assets with finite useful life	Useful life
Magazines	Duration of license/30 years
Goods under concession or license	Duration of the concession and license
Software	Straight line over 3 years
Patents and rights	Straight line over 3-5 years
Other intangible assets	Straight line over 3-5 years

Intangible assets with finite useful life are subject to an impairment test whenever there is an indication of a possible impairment. The period and method of amortization applied are 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 adjustments to accounting estimates.

Intangible assets with indefinite useful life

Intangible assets are considered to have 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 Mondadori Group.
The intangible assets identified by the Mondadori Group as having indefinite useful life are shown in the table below:

Intangible assets with indefinite useful life
Magazines
Series
Trademarks
Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's purchased share in the fair value of the assets, liabilities and contingent liabilities acquired, as identifiable at the time of purchase.

Goodwill and other intangible assets with indefinite useful life are not subject to amortization but to an impairment test of their book value. This test concerns the value of the individual assets or of 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, goodwill associated with the asset disposed of is reviewed in order to determine any capital gains or losses resulting from the transaction. In these circumstances, goodwill disposed of is measured on the basis of the value of the assets disposed of, compared with the asset still included in the cash generating unit in question.

6.2 Investment property

An investment property is recognized as an asset when it is held in order to earn income from its rental or to increase its invested capital value, on condition that the cost of the asset can be reliably measured and that future economic benefits will flow to the entity.

Investment property is valued at historical cost, which includes the purchase cost and all accessory charges directly connected to the purchase.

Costs which arise after the initial purchase are included in the increase of the cost of the property in direct relation to the extent 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 amortized over the useful life of the asset. Amortization criteria depend on how the relating future economic benefits accrue to the entity.

The amortization rates reflecting the useful lives attributed to Group's investment property are as follows:

Investment property	Amortization rate
Non-instrumental buildings	3%

Both the useful life and the depreciation criteria are periodically reviewed and, if any significant changes are found in the assumptions previously adopted, the amortization rate for the year in question and for successive years is adjusted.

Income and losses deriving from the disposal of investment property are recognized in the income statement pertaining to the year in which the transaction takes place.

Investment property is reclassified when there is a change in use following specific events.

6.3 Property, plant and equipment

Any costs attributable to the purchase of property, plant and equipment are recognized as assets, on condition that the relevant costs can be reliably calculated and any relating future economic benefits accrue to the entity.

Assets booked to property, plant and equipment are valued based on the purchase method, including any accessory charges, and are stated net of depreciation and any impairment.

Costs incurred after the initial purchase are recognized as an increase in cost in direct relation to the extent that these costs can improve the asset's yield.

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

Assets recognized as property, plant and equipment, with the exception of land, are depreciated on a straight line basis during the useful life of the asset from the moment the assets are available for use.

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

The depreciation rates that generally reflect the useful lives attributed to Group property, plant and equipment are shown in the table below:

Property, plant and equipment	Depreciation rate
Instrumental buildings	3%
Plant	10%-25%
Machinery	15.5%
Equipment	12.5%-25%
Electronic office equipment	30%
Office furniture, and machines	12%
Motor and transport vehicles	20%-30%
Other assets	20%

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

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

6.4 Finance lease assets

Assets acquired under finance leases, which transfer all the relevant risks and benefits to the Group, are recognised at current value or, if lower, at the value of the minimum lease payments, including the amount to be paid for exercising an eventual purchase option.

Liabilities arising from leasing contracts are recognized under financial liabilities.

These assets are classified in the relevant categories under property, plant and equipment and are depreciated over the lower of the contract term and the useful life of the asset in question.

Lease contracts in which the lessor substantially retains all the risks and benefits associated with asset ownership are classified as operating leases and the relevant costs are recognized in the income statement for the entire duration of contract term.

6.5. Financial costs

The financial costs resulting from asset purchase, development or production are capitalized. In case of failed identification of assets justifying capitalization, the costs are recognized under income statement in the year in which they are borne.

6.6 Impairment

The carrying value of intangible assets, investment property and property, plant and equipment 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 indefinite useful life and on other assets that are not available for use, and are performed by comparing the carrying value with whichever is higher between the fair value minus the sales cost and the value in use of the asset.

If no binding sales agreement or active market for an asset exist, the fair value is calculated on the basis of the best information available as to the amount the entity would obtain at closing from the disposal of an asset in a free transaction between informed and willing parties, having deducted the costs of disposal.

The value in use of an asset is determined by discounting the cash flows expected from its use, subjecting forecasts of the relevant financial income on reasonable and sustainable assumptions used by the management to best represent the economic conditions foreseen for the remainder of the life of the asset, giving more weight to external indicators.

Discounting rates reflect current market estimates of the time value of money and the specific risks connected to the asset.

The valuation is carried out by individual asset or by the smallest Cash Generating Unit that generates cash flows from asset use.

Should the value resulting from the impairment test be lower than cost, the loss is recognized as a reduction in the value of the asset and recognized as a cost item in income statement.

If during subsequent financial years, when the impairment test is repeated, the reasons for the impairment no longer exist, the value of the asset, excluding goodwill, is reinstated to take into account the new recoverable value, which should never exceed the value that would have been stated had no loss in value been recognized.

6.7 Investments

Investments in those companies in which the Group exercises control, pursuant to IFRS 10, are consolidated on a line-by-line basis.

The definition by IFRS 10 holds that an investor controls an investee if and only the investor has all of the following elements:
- power over the investee, that is to say, the investor has existing rights that give it the ability to direct the relevant activities;
- exposure, or rights, to variable returns from its involvement in the investee;
- the ability to use its power over the investee to affect the amount of the investor's variable returns.

Variations determined by acquisitions or disposals in the stakes held in a subsidiary, without this leading to a loss of control, are treated as transactions with shareholders. The difference between the fair value of the consideration paid or received for such transactions and the adjustment made to the minority interests is recognized directly in the parent company's equity.

Investments in companies in which strategic financial and managerial decisions on the economic activities require the unanimous consent of all of the parties that share control, pursuant to IFRS 11, are qualified as a joint operation or a joint venture, based on the evaluation of their own rights and of their own obligations.

Joint operations are valued based on the relevant share of assets and liabilities upon which the Group holds right to assets and obligations to liabilities, and the share of the relevant costs and revenue; joint ventures are consolidated at equity.
Investments in those companies in which the Group does not exercise control, but has a notable influence on the company's financial and strategic decisions, pursuant to IFRS 11, are consolidated using the equity method.

Investments in joint ventures and associates are initially recognized at cost and subsequently adjusted as a result of any changes in the interest the Group holds in the relevant equity.
The Group's share of any income and loss of such companies is recognized under income statement.
The book value of investments in joint operations, joint ventures and associates include any higher cost paid attributable to goodwill.

Investments in the companies in which the Group does not have control nor does it exercise a notable influence on the financial and strategic decisions of the company, pursuant to IAS 39, are booked at their fair value.

Information required by IFRS 12 is given on all the investments.

6.8. Inventory

Inventory is valued at the lower of the cost and the net realizable value. Inventory cost includes purchase costs, processing costs and other costs involved in bringing an item to its current location and condition, without taking financial charges into consideration.

The calculation of cost of inventory is based on the weighted average cost of raw materials, consumables and finished products purchased for sale. 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 direct costs incurred, taking into account the progress of the production process.

The presumed net value for raw and ancillary materials and consumables corresponds to the cost of their replacement, while for semi-finished and finished products it corresponds to the standard estimated sales price net of estimated cost to completion and sales cost, respectively.

6.9 Financial assets

Financial assets are recognized at fair value, increased by accessory purchase charges. Purchases and sales of financial assets are recognized as of the trading date, which corresponds to the date in which the Group agrees to purchase the assets in question. After initial recognition, financial assets are posted according to the relevant classification, as outlined below.

Financial assets at fair value with adjustments recognized under income statement
In accordance with IAS 39, this category includes:
- financial assets/liabilities which the Group posted at fair value through income and loss under income statement upon first recognition;

- financial assets/liabilities held for trading as:
  - classified as held for trading, i.e. purchased or committed for the purpose of gaining benefits from short-term price fluctuations;
  - part of a portfolio of specific financial instruments that are managed en bloc and for which there is recent, reliable evidence of short term benefits.

In an active market, the fair value of these instruments is calculated by making reference to the market value at closing, while financial evaluation techniques are used in case of no active market. Profit and losses deriving from fair value evaluation of assets held for trading are recognized in income statement.

Held-to-maturity investments
Assets that envisage fixed or determinable payments with a fixed maturity date, that the Group intends to hold in its portfolio, are classified as financial assets held to maturity.

Long-term financial investments that are held to their maturity, such as bonds, are valued, after their initial recognition by using the amortized cost method based on effective interest rates, i.e. the rates that will apply to future payments or returns estimated for the entire life of the financial instrument.
Calculation of amortized cost also considers any discounts or premiums that will be applied over the period of time to maturity.

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

Loans and receivables
IAS 39 defines these financial assets as having fixed or determinable payments that are not listed on an active market, with the exception of those designated as being held for trading or as being available for sale. These assets are recognized at amortized cost using the discounting method. Income and loss are recognized under income statement when loans and receivables are cancelled out or in case of impairment, as well as through amortization.

The Group includes trade receivables, both financial and other receivables into this category. These are due within 12 months and are therefore recognized at face value (net of any impairment loss). This category also includes item “Cash and other cash equivalents”.

Available-for-sale financial assets
Available-for-sale financial assets include all assets which do not fall into any of the categories mentioned above.

After being initially measured at cost, held-for-sale financial assets are measured at fair value. Income and loss from valuations are recognized in a separate item under equity for as long as the assets are held in the portfolio and for as long as no impairment loss is identified.

In the case of shares widely traded on regulated markets, fair value is determined by referring to the listing reached at the end of the trading day corresponding to the closing date.

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

Available-for-sale financial assets also include investments in other companies, which are valued at cost since the fair value cannot be reliably calculated.

6.10 Trade and other receivables

Trade receivables and other receivables are initially recognized at cost, i.e. at the fair value of the price collected upon completion of the relevant transaction. Receivables are recognized at current values when the relevant financial impact linked to the expected collection time span is significant and the collection date can be reliably estimated.
Receivables are recognized in the financial statements at their estimated realizable value.

6.11 Cash, liquidity and cash equivalents

The cash, liquidity and cash equivalents item includes cash on hand and financial investments falling due within three months and which entail only a minimal risk of variation in their face value. They are recognized at face value.

6.12 Financial liabilities

Financial liabilities include financial payables, derivative instruments, payables associated with finance leases and trade payables. All financial liabilities other than derivative financial instruments are initially recognized at fair value, increased by any transaction costs, and are subsequently valued at amortized cost using the interest rate method.

Financial liabilities hedged by derivative instruments against the risk of changes in value (fair value hedges), are measured at fair value, in accordance with IAS 39 - *Hedge accounting*. Income and loss resulting from subsequent variations in fair value are recognized under income statement. Any changes linked to the effective hedge portion are offset by adjusting the value of the relevant derivative instruments.

Financial liabilities hedged by derivative instruments against the risk of changes in cash flow (cash flow hedges), are valued at amortized cost in compliance with IAS 39 - *Hedge accounting*.

6.13 Derecognition of financial assets and liabilities

A financial asset or, where applicable, part of a financial asset or parts of a group of similar financial assets, is derecognized 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 promptly 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 liability is derecognized when the underlying obligation has been discharged, cancelled or expired.

6.14 Impairment of financial assets

At each balance sheet date, the Group carries out an impairment test in order to determine whether a financial asset or group of financial assets has suffered impairment.

Financial assets valued at amortized cost

If there is objective evidence of a reduction in the value of loans and receivables, the loss amount is recognized under income statement and is calculated as the difference between the asset's book value and the current value of the estimated cash flows discounted based on the interest rate used initially for the asset.

If, in a subsequent period, the value loss amount decreases and such reduction can be objectively attributed to an event that has occurred after recognition of impairment, the previously recognized loss of value is reversed up to the amount the asset would have had, taking amortization into account, at the date of the reversal.

Available-for-sale financial assets

When any financial asset available for sale is subject to impairment, the accumulated value loss is recognized under income statement.

Value reversals relating to equity instruments classified as available for sale are not recognized under income statement. Value reversals relating to debt instruments are recognized under income statement if the increase in the fair value of the instrument can be objectively attributed to an event that occurred after recognition of impairment in the income statement.

Financial assets valued at cost

If there is objective evidence of a reduction in the value of an unlisted equity instrument which was not recognized at fair value, because its fair value could not be reliably measured, or of a derivative instrument associated with and regulated by delivery of such unlisted equity instrument, the value loss amount is measured as the difference between the carrying value of the asset and the current value of the expected future cash flows discounted based on the current market performance rate for similar financial assets.

6.15 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value at the date they are stipulated. When a hedge operation is entered into, the Group designates and formally documents the hedge relationship for hedge accounting purposes and its objectives for risk and strategy management purposes. The documentation includes the identification of the hedging instrument, the object or transaction subject to hedge, the nature of the risk and the criteria adopted by the Group to evaluate hedging effectiveness in compensating exposure to fair value fluctuations of the object hedged or cash flows correlated to the risk hedged.

It is assumed that such hedges are highly effective to offset the exposure of the object hedged against fair value fluctuations or cash flows correlated to the risk hedged. The valuation of the effectiveness of such hedges is carried out on an ongoing basis over the years of application.

Transactions that satisfy hedge accounting criteria are accounted for as follows:

Fair value hedge

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

As for the fair value hedge of items recognized at amortized cost, the adjustment of the carrying value is amortized under income statement throughout the period before maturity. Any adjustments to the carrying value of any hedged financial instrument for which the interest rate method is applied, are amortized under income statement.

The amortization may begin as soon as an adjustment is identified but it may not be extended after the date in which the object hedged ceases to be subject to fair value adjustments attributable to the hedging risk. If the hedged object is cancelled, the fair value that has not been amortized is immediately recognized under income statement.

Cash flow hedge

If a derivative financial instrument is designated as a hedging instrument against exposure to cash flow variations of an asset or liability included in the financial statements or of a highly probable transaction, the effective portion of profit or loss deriving from fair value adjustment of the derivative instrument is recognized in a special reserve under equity. The accumulated income or loss is written off from the equity reserve and recognized under income statement, when the results of the transaction subject to hedge are recognized under income statement.

Income and loss associated with the ineffective part of a hedge are recognized under income statement. When a hedging instrument is terminated, but the transaction subject to hedge has not yet been carried out, the accumulated income and loss are kept in the reserve under equity and will be reclassified under income statement upon completion of the transaction. Should the transaction subject to hedge be considered as no longer probable, any unrealized income and loss posted under the relevant equity reserve is recognized under income statement.

When hedge accounting is not applicable, income and loss deriving from the fair value valuation of the derivative financial instrument are recognized under income statement.

6.16 Provisions

Provisions established to cover liabilities that have been clearly identified, are certain or probable but whose amount or date of occurrence cannot be foreseen at the reporting date, are recognized when a legal or implicit obligation can be assumed which refers to past events and when it is also assumed that such obligation implies expenses that can be reliably measured.

Provisions are measured at fair value based on each individual liability item. When the financial impact associated with the assumed time span for the outlay is relevant and the payment dates can be reliably foreseen, provisions include said financial component, which is recognized in financial income (expense) in the income statement.

6.17 Post-employment benefits

Benefits to employees upon termination of the relevant labour contract are broken down according to their economic nature as follows:
- defined contribution plans, represented by the sums accrued as of 1 January 2007 for Group companies with more than 50 employees;
- defined benefit plans, represented by the severance indemnity fund for companies with less than 50 employees and the severance indemnity fund accrued until 31 December 2006 for the other Group companies.

In the defined contribution plans, the entity's legal or implicit obligation is limited to the amount of contributions to pay; hence, the actuarial and investment risks fall upon the employee. In the defined benefit plans, the entity's obligation consists in granting and ensuring the agreed benefits to employees; hence, the actuarial and investment risks fall upon the entity.

Post-employment benefits for companies with more than 50 employees are calculated by applying actuarial criteria to the severance indemnity provision accrued until the date of the financial statements, taking into account both demographic assumptions, including mortality rates and employee turnover, and financial assumptions, relating to discounts reflecting the time value of money and the inflation rate.

Post-employment benefits for companies with less than 50 employees are calculated by applying the same actuarial criteria, taking into account current and future salary levels.

The amount recognized as a liability for defined benefit plans is represented by the current liability value at closing, net of the current value of plan assets, if any.

This liability item is listed in the income statement and includes the following components:
- social security costs relating to current labour, when fulfilling the relevant requirements;
- cost of interest.

The amounts accrued in favour of employees during the year are recognized under "Costs of personnel", while the relevant financial component, which represents the cost the company would have to incur if it were to seek a loan on the market for the same amount, is recognized under "Financial income (costs)".

Actuarial income and loss are recognized in a specific item under equity and in the comprehensive income statement.

The supplementary indemnity for agents is also determined on an actuarial basis. The amounts accrued in favour of agents during the year, which become payable upon termination of the labour contract only under certain conditions, are recognized under "Other costs (income)".

6.18 Equity compensation plans

The Company grants additional benefits to a number of board members and managers whose functions are strategically relevant for the attainment of the Company's results, through equity-settled compensation plans (Performance Share Plan).

In the case of share-based payments transactions settled with equity instruments of the Company, the fair value at the grant date, calculated according to the Monte Carlo method, is recorded under cost of personnel, with a corresponding increase in Equity under “Reserve for stock options/LTIs”, over the period during which the employees obtain the unconditional right to the incentives. All non-vesting conditions are taken into account when estimating the fair value of the equity instruments granted.

The benefits, directly attributed by the Parent Company Arnoldo Mondadori Editore S.p.A. to the executives/managers of subsidiaries, are recognized as an increase in the cost of the relevant investment with a balancing entry in “Reserve for stock options/LTI” under equity.
Subsequently, the amount recognized as a cost is adjusted to reflect the actual number of shares for which the service condition and the non-market condition have been met, so that the final amount recorded as a cost is based on the number of incentives that will definitely vest.

6.19 Recognition of revenue and costs

Revenue from the sale of goods is recognized net of agency and commercial discounts, allowances and returns when it is probable that the relevant economic benefits will flow to the Group and the relevant revenue amount may be reliably determined.

Revenue from the sale of magazines and advertising spaces is recognized on the basis of the relevant date of publication.

Revenue from barter transactions is recognized at fair value when the barter deal involves dissimilar services. Dissimilar services comprise barter deals for goods and advertising, when they refer to different communications means or product positioning.

Revenue from services is recognized based on the relevant state of completion, when it is probable that the economic benefits arising from the sale flow to the Group and when the revenue amount may be reliably calculated.

Revenue from interest is recognized on an accrual basis by applying the interest method; royalties are recognized on an accrual basis and subject to the conditions of the relevant agreements; dividends are recognized when the shareholder is acknowledged the right to payment.

Costs are recognized based on similar criteria as revenue and, in any case, on an accrual basis.

6.20 Current, pre-paid and deferred tax

Current tax is calculated on the basis of a taxable income estimate and in accordance with the laws applicable in the individual countries in which any of the Group companies have their registered offices.

Deferred and pre-paid tax is calculated on all the temporary differences between recognized assets and liabilities and the relevant book values booked in the financial statements for tax purposes, with the exception of the following:

- temporary taxable differences deriving from the initial recognition of goodwill;
- temporary differences resulting from the initial recognition of an asset or a liability in a transaction which does not imply business combination and which does not have any impact either on the result or the taxable income on the transaction date;

- temporary differences relating to the value of the shareholding held in subsidiary, associates and jointly-controlled companies when:
  - the Group is in a position to control the timing for the reversal of temporary taxable differences and it is probable that such differences shall not reverse in the foreseeable future;
  - it is not probable that deductible temporary differences will reverse in the foreseeable future and that taxable income is available to cover such temporary differences.

The value of prepaid tax amounts is reviewed at closing and is reduced if it is no longer probable that sufficient taxable income will be available in the future to cover all or part of these assets.

Deferred and prepaid tax is calculated on the basis of the tax rates that are expected to apply in the period in which assets are realized and liabilities are settled, considering the then applicable tax rates or the tax rates essentially used at closing.

Deferred and prepaid tax relating to items directly recognized under equity is recognized directly under equity.

6.21 Transactions denominated in foreign currencies

Revenue and costs deriving from transactions denominated in foreign currencies are posted in the relevant currency at the exchange rate applied on the transaction date.
Monetary assets and liabilities denominated in foreign currencies are converted at the exchange rate ruling at closing and any exchange differences are recognized under income statement, except for the differences deriving from loans denominated in foreign currency taken out to pay for the acquisition of an investment in a foreign company. In the latter case, such differences are recognized under equity until disposal.
Non-monetary items valued at historical cost in a foreign currency are converted using the exchange rates applied on the relevant transaction date. Non-monetary items recognized at fair value in a foreign currency are converted using the exchange rates applied on the fair value calculation date.

6.22 Grants and contributions

Grants and contributions are recognized if there is a reasonable certainty that they will be received and if all the conditions referring to them are satisfied. When grants refer to cost items, they are recognized as revenue and systematically distributed over the years so as to reflect the cost proportion they are intended to offset.

When grants refer to assets, the relevant fair value is deferred in long-term liabilities and is recognized in equal amounts under income statement over the useful life of the asset.

6.23 Earnings per share

Earnings per share refer to the Group's net profit divided by the weighted average number of outstanding shares in the period of reference.

For the purpose of calculating diluted earnings per share, the weighted average number of outstanding shares is adjusted on the assumption of converting shares with a dilution effect.

6.24 Discontinued assets and liabilities (discontinued operations)

Non-current assets and groups of assets and liabilities whose book value is mainly expected to be recovered through disposal instead of continuous use are recognized separately from other assets and liabilities in the balance sheet. Such assets and liabilities are classified as “held-for-sale assets” and are valued at the lower between their book value and fair value less probable costs of disposal. Income and loss, net of the related tax effect, resulting from the valuation or disposal of such assets or liabilities are recognized in a separate item in the income statement.

6.25 Accounting standards, amendments and interpretations endorsed by the European Union with effect from 1 January 2017 and applied by the Mondadori Group

The following accounting standards, amendments and IFRS interpretations have been applied by the Group for the first time with effect from 1 January 2017:

- Amendment to IAS 7 *Disclosure Initiative* (published on 29 January 2016). The document intends to provide clarification on how to improve disclosures on financial liabilities. Specifically, the amendments require an entity to disclose information that enables users of the financial statements to understand the changes in liabilities arising from financing transactions. The introduction of the new amendment had no significant impact on the Mondadori Group’s consolidated financial statements.
- Amendment to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses* (published on 19 January 2016). The document intends to provide clarification on the recognition of deferred tax assets for unrealized losses and the measurement of available-for-sale financial assets when certain circumstances occur, and on estimated taxable income for future years. The adoption of this amendment had no impact on the Mondadori Group’s consolidated financial statements.

6.26 Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union but not yet applicable on a compulsory basis and not adopted in advance by the Group at 31 December 2017

The following new and amended standards, which have been issued but have not come into effect yet, have not been applied by the Group.

- IFRS 15 – *Revenue from Contracts with Customers* (published on 28 May 2014 and supplemented with additional clarification published on 12 April 2016), which will replace IAS 18 – *Revenue* and IAS 11 – *Construction Contracts*, as well as IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The standard establishes a new model for the recognition of revenue, which will be applied to all contracts stipulated with customers except for those falling within the application of other IAS/IFRS standards as leasing, insurance contracts and financial instruments. The key steps in the accounting of revenue based on this new model are:
  - identification of the contract with the customer;
  - identification of the performance obligations included in the contract;
  - pricing;
  - price allocation based on the performance obligations included in the contract;
  - the criteria for the recognition of revenue when the entity meets each performance obligation. The standard is effective as of 1 January 2018, but early adoption is allowed. The amendments to IFRS 15, *Clarifications to IFRS 15 - Revenue from Contracts with Customers*, published by IASB on 12 April 2016, are, instead, still awaiting endorsement by the European Union.

Based on the analysis carried out, the directors expect the application of IFRS 15 to have a significant impact on revenue amounts recognized and on disclosure in the financial statements. Specifically, in light of the new standard, further analysis was required on the principal versus agent relationship within the Group.

The Italy and France Magazines Area, where the Group acts as principal, reported an increase in revenue, while the Books Area, where the Group acts as agent in the distribution of third-party publisher products, saw a decrease in revenue.
If the Group had applied the standard at 31 December 2017, revenue and costs would have shown a higher figure of approximately 33 million euro.

- Final version of IFRS 9 – *Financial Instruments* (published on 24 July 2014). The document includes the findings of the IASB project to replace IAS 39:
  - it introduces new criteria for the classification and measurement of financial assets and liabilities;
  - in relation to the impairment model, the new standard requires an entity to base its measurement of expected credit losses (not on the incurred losses model used by IAS 39) on reasonable and supportable information that is available without undue cost or effort, and that includes historical, current and forecast information;
  - it introduces a new hedge accounting model (broadening of the transaction types eligible for hedge accounting, changes in the accounting of forward contracts and options when included in a hedge accounting relationship, changes in the effectiveness test).

The greater flexibility of the new accounting rules is balanced by additional requests for disclosure on the company's risk management activities.
This new standard must be applied in the financial statements starting from 1 January 2018 or later; based on the analysis carried out, the directors expect the application of IFRS 9 to have an impact on the amounts and on their disclosure in the consolidated financial statements.
Specifically, the fair value difference arising from the renegotiation of the loan of 267 thousand euro will be booked under equity reserves on 1 January 2018.

6.27 Accounting standards, amendments and IFRS interpretations not yet endorsed by the European Union

As at the date of this Annual Report, the competent bodies of the European Union have yet to complete the validation process required for the adoption of the amendments and standards listed below.

- IFRS 16 – *Leases* (published on 13 January 2016), which will replace IAS 17 – *Leases*, and the interpretations IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish leases from service contracts, the differences lying in: the identification of the asset, the right to replace the asset, the right to essentially receive all the financial benefits arising from the use of the asset, and the right to control the use of the asset underlying the contract. The standard introduces a single lessee accounting model, by which an asset under a lease, including an operating lease, is recognized in assets with an offsetting financial liability. The model also provides the possibility of not recognizing as leases those contracts regarding low-value assets and leases with a term of 12 months or less. Conversely, the standard introduces no material changes for the lessor. The standard is applicable as of 1 January 2019; early adoption is allowed only for those companies that apply IFRS 15 *Revenue from Contracts with Customers* in advance. The directors expect that the application of IFRS 16 may have a significant impact on the accounting of leases and on the relating disclosures contained in the Group's consolidated financial statements. With regard to the significance that leases have for the Group, it is considered reasonable to conclude that the impact of this new standard will be material. Specifically, on a balance sheet level, the first order of magnitude of a non-index-related and undiscounted liability for future payments and, consequently, the value of the rights of use, may be represented by the total commitments for leases, as shown in Note 41. *Commitments and contingent liabilities*.

- Amendment to IFRS 2 *Classification and measurement of share-based payment transactions* (published on 20 June 2016), containing a number of clarifications regarding accounting for the effects of vesting conditions in cases of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics, and regarding accounting for changes to the terms and conditions of a share-based payment that modify the classification from cash-settled to equity-settled. The amendments are effective as of 1 January 2018, and the directors do not expect any significant impact on the Group's consolidated financial statements.
- "Annual Improvements to IFRSs: 2014-2016 Cycle", published on 8 December 2016 (including IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, *IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*, IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*), which partly supplement existing standards. The amendments are effective as of 1 January 2018, and the directors do not expect any significant impact on the Group's consolidated financial statements.
- Interpretation IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (published on 8 December 2016). The interpretation intends to provide guidelines on foreign currency transactions if non-monetary advances or payments have been recognized before the recognition of the relating asset, expense or income. The document provides guidance on how an entity should determine the date of a transaction and, therefore, the spot exchange rate to use in the event of foreign currency transactions where payment is made or received in advance. IFRIC 22 is effective as of 1 January 2018, and the directors do not expect any significant impact on the Group's consolidated financial statements.
- Amendment to IAS 40 *Transfers of Investment Property* (published on 8 December 2016). The amendments clarify the transfers of a property to, or from, investment properties. Specifically, an entity should reclassify a property into, or from, investment property only when there is an evident change in use of the property. Such a change must be traced back to a specific event that occurred and should, therefore, not be restricted to a change of intentions by the Management of an entity. The amendments are effective as of 1 January 2018, and the directors do not expect any significant impact on the Group's consolidated financial statements.
- On 7 June 2017, IASB published the interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments*. The document deals with the uncertainties over income tax treatments. The document envisages that uncertainties in the determination of tax liabilities or assets be reflected in the financial statements only when the entity is likely to pay or recover the amount in question. Additionally, the document does not contain any new disclosure requirements, but emphasizes that the entity will have to determine whether it will be necessary to provide information on Management's considerations and the uncertainty inherent in the accounting of tax, in accordance with IAS 1. The new interpretation is effective as of 1 January 2019, but early adoption is allowed; the directors do not expect any significant impact on the Mondadori Group's consolidated financial statements.
- Document "Annual Improvements to IFRSs 2015-2017 Cycle", published on 12 December 2017 (including IFRS 3 *Business Combinations and IFRS 11 Joint Arrangements – Remeasurement of previously held interest in a joint operation*, IAS 12 *Income Taxes - Income tax consequences of payments on financial instruments classified as equity*, IAS 23 *Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation*), which acknowledges the amendments to a number of standards in the context of the annual process for their improvement. The amendments are effective as of 1 January 2019, but early adoption is allowed. The directors do not expect any significant impact on the Mondadori Group's consolidated financial statements.

7. USE OF ESTIMATES

The preparation of these financial statements and the notes required the use of estimates and assumptions by the Directors, which have an impact on the value of assets and liabilities and on the disclosures relating to potential assets and liabilities at closing, based on the application of the IAS/IFRS accounting standards.

Estimates are based on the current status of information available, are examined periodically and effects reflected in the income statement.

Specifically, estimates on future trends have been made in light of the high level of uncertainty on the current macroeconomic and market environment, which continues to remain unstable owing to the lingering financial crisis. Therefore, one cannot rule out the possibility in the future of seeing results that differ from estimates, requiring adjustments to the accounting value of items which cannot be foreseen or measured at this time.

The most significant accounting estimates are outlined below:

Goodwill and intangible assets

The value reduction relating to goodwill and intangible assets is tested for impairment by comparing the book value of the Cash Generating Units and the relevant recoverable value, represented by the higher of fair value and the value in use. This process includes, among others, the application of methods such as discounted cash flow, with the relevant assumptions.

Provision for advances to authors

The Group estimates the risk that advances paid to authors of literary works published or to be published may be fully or partially offset by copyrights accrued following publication.

Depreciation of inventory

The Group estimates the amount of inventory to subject to impairment loss based on specific analyses ascertaining finished product marketability and the relevant turnover rates, and, for orders in progress, the Group considers the relevant risk of failed completion.

Provision for bad debt

The ability to recover bad debt is calculated by taking into account the risk of collection failure, the period of time receivables have been outstanding and any losses sustained in the past on similar debts.

Returns to receive

In the publishing sector it is accepted practice that unsold books and magazines are returned to the publisher under pre-established conditions.
Therefore, at the end of each financial year the Group measures the quantities that are expected to be returned in the following year: this estimate is based on historical statistics and takes into account also the level of circulation.

Provision for risks

Provisions made in relation to costs for judicial, fiscal and arbitration disputes are based on complex estimates that take into account the probability of losing the disputes.

Post-employment benefits

Provisions made in relation to funds in favour of employees are based on actuarial assumptions: any changes in the underlying assumptions may have significant effects on them.

Income tax

Income tax (both current and deferred) is calculated based on the applicable rates in each individual country in which the Group operates, according to a prudent interpretation of currently applicable tax laws.

8. BUSINESS COMBINATIONS AND OTHER ACQUISITIONS

Business combinations are recognized using the purchase cost method pursuant to IFRS 3.

Upon acquisition date, assets and liabilities pertaining to the transaction are recognized at fair value, except for any anticipated and deferred tax and assets and liabilities relating to benefits in favour of employees, any equity compensation plans as well as assets classified as held for sale, which are valued according to the relevant reference standard.

Accessory charges relating to the transaction are recognized under income statement in the financial year in which they are incurred.

Goodwill represents the difference between acquisition price, minority shareholders' equity and the fair value of any interest previously held in the acquired company against the fair value of the net assets and liabilities acquired upon completion of the transaction.

When the value of the net assets and liabilities purchased on the acquisition date exceeds the acquisition price, the minority shareholders' equity and the fair value of any interest previously held in the acquired company, such excess amount is recognized under income statement in the year in which the acquisition transaction is completed.

Minority Shareholders' equity may be valued, at acquisition date, either at fair value or pro-rata of the net assets recognized for the acquired company.
The valuation method is selected on a case-by-case basis.

For the purpose of calculating goodwill, any prices relating to the acquisition subject to the conditions of, and envisaged by business combination contracts, are measured at fair value as at the acquisition date and included in the relevant acquisition price.

Any subsequent changes in the fair value, referred to as adjustments deriving from additional information provided about facts and circumstances existing on the business combination completion date and in any case identified within the subsequent twelve months, are retroactively included in the value of goodwill.

In case of business combinations accomplished in subsequent steps, the investment previously held in the acquired company is subject to revaluation at fair value from the date of control acquisition and any resulting income or loss is recognized under income statement in the year in which the transaction is completed.

Should the values of the assets and liabilities acquired be incomplete as at the date of drafting of these financial statements, the Group recognizes provisional values that will be later subject to adjustments in the financial year of reference within 12 months thereafter, so as to take into account any new information about facts and circumstances existing at the acquisition date, that, if made available earlier, would have had an impact on the value of the assets and liabilities recognized on that same date.

Business combinations completed before 1 January 2010 are recognized pursuant to the provisions contained in the previous version of IFRS 3.

9. NON-RECURRING INCOME AND EXPENSES

As required by Consob resolution no. 15519 of 27 July 2006, income and expenses deriving from non-recurring transactions are recognized under income statement.

Transactions and events are considered non-recurring when, by nature, they do not occur repeatedly during normal business operations.
The relevant effects have been outlined in a separate table in these “Explanatory notes to the financial statements”.

10. ACQUISITIONS AND DISPOSALS IN THE YEAR

The main transactions that have impacted on the Group’s consolidation scope are outlined below:

Acquisition of 99.99% of Rizzoli Libri S.p.A. - conclusion of the purchase price allocation process

The final accounting of the acquisition, c arried out in 2016, was made in accordance with IFRS 3, taking also account of the agreements with the selling party. No changes were reported from the Annual Report at 31 December 2016, as previously indicated in the Half-Year Report at 30 June 2017.

(Euro/thousands)	Current amounts at acquisition date	Purchase price allocation	Fair value
Goodwill	-	1,634	1,634
Trademarks	1,273	13,421	14,694
Other intangible assets	10,399	-	10,399
Intangible assets	**11,672**	**15,055**	**26,727**
Investment property	**-**	**-**	**-**
Land and buildings	-	-	-
Plant and equipment	8	-	8
Other tangible assets	4,831	-	4,831
Property, plant and equipment	**4,839**	**-**	**4,839**
Total investments	**1,042**	**-**	**1,042**
Non-current financial assets	-	-	-
Pre-paid tax assets	30,891	(1,376)	29,515
Other non-current assets	2,003	-	2,003
Total non-current assets	**50,447**	**13,679**	**64,126**
Tax receivables	3,522	-	3,522
Other current assets	22,125	-	22,125
Inventory	48,784	-	48,784
Trade receivables	51,987	-	51,987
Other current financial assets	20,862	-	20,862
Cash and cash equivalents	511	-	511
Total current assets	**147,791**	**-**	**147,791**
Assets held for sale	21,026	7,655	28,681
Total assets	**219,264**	**21,334**	**240,598**
Provisions	10,499	-	10,499
Post-employment benefits	5,727	-	5,727
Non-current financial liabilities	-	-	-
Deferred tax liabilities	-	2,368	2,368
Other non-current liabilities	-	-	-
Total non-current liabilities	**16,226**	**2,368**	**18,594**
Income tax payables	2,191	-	2,191
Other current liabilities	39,231	-	39,231
Trade payables	44,691	-	44,691
Payables to banks and other financial liabilities	5,878	-	5,878
Total current liabilities	**91,991**	**-**	**91,991**
Liabilities held for sale	3,516	1,370	4,886
Total liabilities	**111,733**	**3,738**	**115,471**
Net acquired assets	107,531	17,596	125,127
Price paid	125,127	-	125,127
Difference to allocate	**(17,596)**	**17,596**	**-**

Disposal of the logistics business unit

On 28 April, the Mondadori Group sold the logistics business units to CEVA Logistics Italia S.r.l., in order to focus on its core businesses.
The transaction involved the disposal of the book storage and shipment site, the relating plants and equipment, as well as the staff employed.

(Euro/thousands)	
Land and buildings	1,679
Plant and equipment	643
Cash and cash equivalents	1,772
Post-employment benefits	(1,656)
Other current liabilities	(332)
Amount	6,676
Gain	**4,570**

Disposal of the investment in NaturaBuy S.a.s.

On 2 May 2017, Mondadori France completed the disposal of 100% of NaturaBuy S.a.s., after acquiring a 20% minority interest in the share capital for a consideration of 12,171 thousand euro.

The transaction resulted in the deconsolidation of the income statement and balance sheet amounts of the investment as from 1 May, and generated a gain of 4,251 thousand euro before tax.
The impact on the Group's net financial position, taking into account the disposed company's cash, amounts to 9,585 thousand euro.

Acquisition of 51% of Skira-Rizzoli Publications Inc.

On 27 June 2017, Rizzoli International Publications Inc., which already held 49% of Skira-Rizzoli Publications Inc., acquired the remaining 51% from Skira Editore S.p.A. for a consideration of 351 thousand euro.

The transaction is classified as a business combination achieved in stages; pursuant to IFRS 3, the fair value of assets and liabilities was calculated at the time of the acquisition of control, charging the difference from the amount of the previously recorded investment to the income statement.

The calculation of the fair value produced a gain of 286 thousand euro recorded in the income statement.
The concurrent valuation of acquired assets produced a goodwill of 400 thousand euro.
As a result of the above acquisition, Skira-Rizzoli Publications Inc. was consolidated on a line-by-line basis from the closing date.

11. INFORMATION RELATING TO IFRS 5

There were no transactions in 2017 accounted for pursuant to IFRS 5.

In 2016, the effects of the disposal of Marsilio Editori S.p.A. and of the Bompiani publishing BU (Trade books segment) were shown pursuant to IFRS 5; the disposals had been made in accordance with the authorization issued by the Antitrust Authority on the acquisition of Rizzoli Libri S.p.A..

12. INTANGIBLE ASSETS

“Intangible assets” decreased versus 2016 and amounted to 19,143 thousand euro, due mainly to amortization and impairment (27,296 thousand euro), which were higher than the purchases net of disposals (10,599 thousand euro).

Intangible assets (Euro/thousands)	**31/12/2017**	**31/12/2016**
Intangible assets with finite useful life	188,689	200,359
Intangible assets with indefinite useful life	404,315	411,788
Total intangible assets	**593,004**	**612,147**

Intangible assets with finite useful life mainly comprise titles published by the Mondadori France Group, such as *Télé Star, Closer, Pleine Vie, Le Chasseur Français,* and *Auto Plus*. The useful life of these assets, each of which represents a Cash Generating Unit, is estimated in thirty years; also included in the same CGU is the EMAS list of customers with subscription, and the relevant value is amortized over a period of six years.

Intangible assets with finite useful life (Euro/thousands)	**Magazines**	**Customer lists**	**Charges on shop lease contract takeovers**	**Software**	**Licenses, patents and rights**	**Other intangible assets - intangible assets in progress and advances**	**Total**
Cost at 31/12/2015	247,200	9,684	7,376	26,336	1,092	18,967	310,655
Capital expenditure	-	-	-	2,660	303	8,241	11,204
Disposals	-	-	(79)	(2)	-	-	(81)
Change in the consolidation scope	-	-	-	3,103	6,436	44,943	54,482
Other changes	-	-	-	520	14	(3,834)	(3,300)
Historical cost at 31/12/2016	247,200	9,684	7,297	32,617	7,845	68,317	372,960
Provision for depreciation and impairment loss at 31/12/2015	86,065	5,332	7,376	22,298	1,091	7,888	130,050
Amortization, depreciation	7,373	1,754	-	3,025	1,426	9,751	23,329
Impairment/(reinstatement of value)	167	-	-	-	-	-	167
Disposals	-	-	(79)	(2)	-	-	(81)
Change in the consolidation scope	-	-	-	-	804	18,699	19,503
Other changes	-	-	-	(391)	11	13	(367)
Provision for depreciation and impairment loss at 31/12/2016	93,605	7,086	7,297	24,930	3,332	36,351	172,601
Net book value at 31/12/2015	161,135	4,352	0	4,038	1	11,079	180,605
Net book value at 31/12/2016	**153,595**	**2,598**	**0**	**7,687**	**4,513**	**31,966**	**200,359**

The most significant changes in “Intangible assets with finite useful life” in 2017 are broken down below:

- capital expenditure of 16,039 thousand euro, the largest portion for software and applications (4,080 thousand euro), and for the development of publishing products in the Educational Books Area (9,478 thousand euro);
- partial write-down of a number of Mondadori France magazines for a total of 1,540 thousand euro, following the impairment process.

Intangible assets with finite useful life (Euro/thousands)	**Magazines**	**Customer lists**	**Charges on shop lease contract takeovers**	**Software**	**Licenses, patents and rights**	**Other intangible assets - intangible assets in progress and advances**	**Total**
Historical cost at 31/12/2016	247,200	9,684	7,297	32,617	7,845	68,317	372,960
Capital expenditure	-	-	-	4,080	-	11,959	16,039
Disposals	-	-	-	(81)	-	-	(81)
Change in the consolidation scope	-	-	-	-	-	-	0
Other changes	-	-	(5,448)	742	(3,164)	(4,370)	(12,240)
Historical cost at 31/12/2017	247,200	9,684	1,849	37,358	4,681	75,906	376,678
Provision for depreciation and impairment loss at 31/12/2016	93,605	7,086	7,297	24,930	3,332	36,351	172,601
Amortization, depreciation	7,317	1,756	-	4,555	730	11,398	25,756
Impairment/(reinstatement of value)	1,540	-	-	-	-	-	1,540
Disposals	-	-	-	-	-	-	0
Change in the consolidation scope	-	-	-	-		-	0
Other changes	-	-	(5,448)	608	(1,804)	(5,264)	(11,908)
Provision for depreciation and impairment loss at 31/12/2017	102,462	8,842	1,849	30,093	2,258	42,485	187,989
Net book value at 31/12/2016	153,595	2,598	0	7,687	4,513	31,966	200,359
Net book value at 31/12/2017	**144,738**	**842**	**0**	**7,265**	**2,423**	**33,421**	**188,689**

Intangible assets with indefinite useful life include:

- magazines deriving from the acquisition of the business of Silvio Berlusconi Editore S.p.A., including *TV Sorrisi e Canzoni* and *Chi*;
- series of the Books Area;
- trademarks acquired against payment and goodwill.

Intangible assets with indefinite useful lives (Euro/thousands)	**Magazines**	**Trademarks and series**	**Goodwill**	**Total**
Cost at 31/12/2015	96,223	33,820	466,178	596,221
Capital expenditure	-	-	-	0
Disposals	-	(4,909)	(2,746)	(7,655)
Change in the consolidation scope	-	19,464	28,245	47,709
Other changes	-	-	-	0
Historical cost at 31/12/2016	96,223	48,375	491,677	636,275
Impairment loss at 31/12/2015	8,890	1,207	214,389	224,486
Impairment/(reinstatement of value)	-	1	-	1
Other changes/disposals	-	-	-	0
Impairment loss at 31/12/2016	8,890	1,208	214,389	224,487
Net book value at 31/12/2015	87,333	32,613	251,789	371,735
Net book value at 31/12/2016	**87,333**	**47,167**	**277,288**	**411,788**

In 2017, "Intangible assets with indefinite useful life" dropped by 7,473 thousand euro as a result of the disposal of NaturaBuy S.a.s. (5,759 thousand euro) and of a number of reclassifications made to provide a clearer picture in the financial statements, partly offset by goodwill arising on the acquisition of the majority interest in Rizzoli Skira Publications Inc. (400 thousand euro).

Intangible assets with indefinite useful life (Euro/thousands)	**Magazines**	**Trademarks and series**	**Goodwill**	**Total**
Historical cost at 31/12/2016	96,223	48,375	491,677	636,275
Capital expenditure	-	-	400	400
Disposals	-	-	(5,759)	(5,759)
Change in the consolidation scope	-	-	-	0
Other changes	(2,109)	-	(625)	(2,734)
Historical cost at 31/12/2017	94,114	48,375	485,693	628,182
Impairment loss at 31/12/2016	8,890	1,208	214,389	224,487
Impairment/(reinstatement of value)	-	-	-	0
Other changes/disposals	-	-	(620)	(620)
Impairment loss at 31/12/2017	8,890	1,208	213,769	223,867
Net book value at 31/12/2016	87,333	47,167	277,288	411,788
Net book value at 31/12/2017	**85,224**	**47,167**	**271,924**	**404,315**

Amortization, impairment loss and value reinstatement of intangible assets

Amortization amounted to 27,296 thousand euro, increasing by 3,801 thousand euro, as a result of higher amortization of development costs for school textbooks (1,029 thousand euro), attributable to the fact that Rizzoli Libri S.p.A. had been consolidated for nine months in 2016, to higher amortization of software (1,530 thousand euro), and to the impairment loss from Mondadori France magazines (1,540 thousand euro).

Amortization of "Magazines" refers to Mondadori France Group activities, while "Customer Lists" refers to the amounts attributed to the subscribers to the French magazines and to Focus.

Amortization and impairment loss of intangible assets (Euro/thousands)	**2017**	**2016**
Magazines	7,317	7,373
Customer lists	1,756	1,754
Charges on shop lease contract takeovers	-	-
Software	4,555	3,025
Licenses, patents and rights	730	1,426
Other intangible assets	11,398	9,749
Total amortization of intangible assets	**25,756**	**23,327**
Amortization of intangible assets	1,540	168
Value reinstatement of intangible assets	-	-
Total amortization (value reinstatement) of intangible assets	**1,540**	**168**
Total depreciation and impairment loss of intangible assets	**27,296**	**23,495**

The availability and use of intangible assets recognized in these financial statements are not subject to any lien or restriction.

Impairment test

Pursuant to IAS 36, assets with indefinite useful life and goodwill are not subject to amortization, but to an impairment test at least once a year or whenever there are signs of impairment.

Assets with finite useful lives are subject to amortization, according to the useful life of each asset, and upon closing assets items are subject to impairment test to verify occurrence of value losses.

At closing, market capitalization is higher than booked equity.
A first-level impairment test was carried out on the single Cash Generating Units, based on the data contained in the budget plans, the guidelines of which were firstly reviewed by the meeting of the Board of Directors of 8 February 2018, approved by the meeting on today's date, before approval of the financial statements.

After analyzing the results of the test, the directors concluded that there was no need to prepare a second-level test.

For the purpose of calculating the recoverable value of assets - whichever is the higher of fair value and value in use - the Mondadori Group identified Cash Generating Units, broken down by the sectors in which the Group operates, with values net of impairment losses identified in the year, as shown in the table below:

Cash Generating Unit (Euro/thousands)	**Magazines**	**Trademarks and series**	**Other assets**	**Goodwill**	**Total**
Group of CGU magazines former Silvio Berlusconi Editore	83,579			731	84,310
Group of CGU magazines former Elemond	1,647			228	1,875
Einaudi CGU		2,991		286	3,277
Sperling & Kupfer CGU		1,847		731	2,578
Education CGU		29,483		12,042	41,525
Piemme CGU		8,287		5,059	13,346
Group of CGU Mondadori France	144,738			222,203	366,941
Group of CGU former Gruner+Jahr Mondadori		3,144	842	2,251	6,237
Trade Books CGU		4,005		1,634	5,639
Digital CGU		11,540	4,778	23,865	40,183
Other CGUs		626		2,894	5,233
	229,964	**61,923**	**5,620**	**271,924**	**569,431**

Key elements used to calculate the recoverable value:

Cash Generating Unit	Criterion used	Economics	Growth rate on terminal value	Discounting rate
Group of CGU magazines former Silvio Berlusconi Ed.	Value in use	EBITDA PMT 2018-2020	g = 0	6.86%
Group of CGU magazines former Elemond	Fair value	Revenue PMT 2018-2020	g = 0	6.86%
Einaudi CGU	Value in use	Cash flow PMT 2018-2020	g = 0	6.86%
Sperling & Kupfer CGU	Value in use	Cash flow PMT 2018-2020	g = 0	6.86%
Education CGU	Value in use	Cash flow PMT 2018-2020	g = 0	6.86%
Piemme CGU	Value in use	Cash flow PMT 2018-2020	g = 0	6.86%
Group of CGU Mondadori France	Value in use Fair value	EBITDA PMT 2018-2022 Revenue PMT 2018-2022	g = 0 g = 0	5.84% 5.84%
Group of CGU former Gruner+Jahr Mondadori	Value in use	EBITDA PMT 2018-2020	g = 0	6.86%
Trade Books CGU	Value in use	Cash flow PMT 2018-2020	g = 0	6.86%
Digital CGU	Value in use	EBITDA PMT 2018-2020	g = 0	6.86%
Other CGUs	Value in use	EBITDA PMT 2018-2020	g = 0	6.86%

Cash Generating Unit magazines former Silvio Berlusconi Editore

The value of magazines with indefinite useful life, each of which represents a Cash Generating Unit, refers to the acquisition of Silvio Berlusconi Editore, completed in 1994. The main magazines acquired are *TV Sorrisi e Canzoni, Chi and Telepiù.*

The recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

Data is derived from the income statements of the individual magazines, considered representative of the relevant cash flows, taking into account the immediate collection of revenue typical of magazines. The margins from the magazines also include overhead and operating costs.

The operating results used for the projections include tax; the discount rate before tax, applied to cash flow projections, is equal to 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review, nor on their goodwill. The book value coverage percentage is equal to approximately 260%.

Cash Generating Unit magazines former Elemond

The value of magazines with indefinite useful life, each of which represents a Cash Generating Unit, refers to the acquisition of the Elemond Group, completed in more than one tranche between 1989 and 1994.
The only magazine with a book value is *Interni*.

The recoverable value of the magazine was determined based on the higher between value in use and fair value.

The value in use was calculated, based on the projections of the cash flows deriving from the relevant budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018 and approved on today's date, considering uncertainties regarding growth expectations in the sector.

Data is derived from the income statement of the magazine, considered representative of the relevant cash flows, taking into account the immediate collection of revenue characterizing magazines. The margins from the magazines also include overhead and operating costs.

The operating results used for the projections include tax; the discount rate before tax, applied to cash flow projections, is equal to 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

The directors also deemed it appropriate to determine the fair value of the individual magazines by applying the royalty method, based on estimated revenue in the medium term of each magazine.

To calculate the fair value, in addition to assumed revenue, the following parameters were taken into account:
- a 6% royalty rate, representing the average rates contracted by the Group with foreign publishers for the international editions of the magazine;
- a residual useful life of 15 years;
- a revenue growth rate, beyond the last year included in the medium-term plan, equal to zero.

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review, nor on their goodwill. The book value coverage percentage is equal to approximately 130%.

Einaudi Cash Generating Unit

This Cash Generating Unit includes *Casa Editrice Einaudi* series, acquired indirectly through the transaction completed in more than one instalments between 1989 and 1994 with the Elemond Group.
Considering the changes occurred over time in the structure and in the positioning of the different series of the company acquired, the entire legal entity to which also goodwill acquired upon acquisition is attributed, was considered as cash generating unit for the purpose of the impairment test.

The recoverable value of the Cash Generating Unit was determined on the basis of the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant financial budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

The cash flows used for the projections include tax and financial income and costs; the discount rate before tax, applied to cash flow projections, is 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review. The book value coverage percentage is equal to approximately 5,000%.

Sperling & Kupfer Cash Generating Unit

This Cash Generating Unit includes the series published by Sperling & Kupfer, a company acquired in 1995. Considering the changes occurred over time in the structure and in the positioning of the different series of the company acquired, the entire Publisher to which also goodwill acquired upon acquisition is attributed, was considered as cash generating unit for the purpose of the impairment test.

The value in use was determined based on the projections of the cash flows deriving from the relevant financial budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors of 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

The cash flows used for the projections include tax and financial income and costs; the discount rate before tax, applied to cash flow projections, is 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review. The book value coverage percentage is equal to approximately 2,000%.

Education Cash Generating Unit

The Cash Generating Unit includes series and publishing lines referring to the production of textbooks for the different levels and grades of the Italian school system.
The Cash Generating Unit groups the values deriving from acquisition transactions completed over time. In particular: some publishers acquired through the Elemond Group transaction between 1989 and 1994 (6,483 thousand euro), the acquisition of the Le Monnier Group between 1999 and 2001 (12,070 thousand euro) and the acquisition of Texto, publisher of school textbooks under the Piemme Scuola trademark, completed in 2004 (380 thousand euro). Goodwill deriving from the abovementioned transactions as a residual portion compared to the higher price paid, and from other acquisitions completed in 1992 (Juvenilia), between 1999 and 2002 (Poseidonia), in 1999 (Mursia) and in 2008 (Edizioni Electa Bruno Mondadori) for a total of 12,042 thousand euro, add up to the abovementioned values.

Lastly, the decision was taken to also bring the amounts attributed to the Rizzoli trademarks (10,550 thousand euro) under this CGU, as a result of the acquisition in 2016, given the integration of the operating structures of Mondadori Education and Rizzoli Education, initiated following acquisition.

The recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the financial budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

The cash flows used for the projections include tax and financial income and costs; the discount rate before tax, applied to cash flow projections, is 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review. The book value coverage percentage is equal to approximately 1,000%.

Piemme Cash Generating Unit

This Cash Generating Unit includes Casa Editrice Edizioni Piemme series, acquired in more than one tranche between 2003 and 2012.
Upon acquisition, the higher price paid compared to accounting values, had not been considered in relation to the attribution to the single series and publishing lines. As a result, for the purpose of pursuing the decision made at that time, the cash generating unit coincides, for the purpose of impairment test, with the Publisher to which also goodwill transferred upon acquisition is allocated.

The recoverable value of the Cash Generating Unit was determined on the basis of the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant financial budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date.

The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

The cash flows used for the projections include tax and financial income and costs; the discount rate before tax, applied to cash flow projections, is 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review. The book value coverage percentage is equal to approximately 250%.

Mondadori France Cash Generating Unit

In August 2006, Mondadori acquired 100% of Emap Group France, the third largest publisher of magazines in France with over forty magazines dedicated to men, women, sports, entertainment and TV programmes.
The most important magazines are: *Télé Star*, *Télé Poche*, *Top Santé*, *Biba*, *Pleine Vie*, *Le Chasseur Français*.

Following acquisition and after completion of the purchase price allocation process, the higher price paid against the book values acquired was attributed to the different magazines included in the portfolio, and the remaining portion to goodwill.

At first, the magazines, considered assets with indefinite useful life, had been clustered, each identifying a cash generating unit, but already in July 2008 they have been redefined as separate cash generating units and subjected to amortization based on their useful life estimated in thirty years.

Goodwill, that had been initially allocated proportionately to the clusters, is attributed to the Cash Generating Units, coinciding with the entire French Group.

The recoverable value of the cash generating unit was calculated on the basis of the higher of value in use and fair value. In particular, the recoverable value was measured on the single magazines and then, in order to calculate the recoverable value on goodwill, a second test was performed on the entire French Group.

The value in use was calculated, based on the projections of the cash flows deriving from the relevant budgets of each magazine for the 2018-2022 period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018 and approved on today's date. The abovementioned cash flows were measured based on the current market scenario.

Data is derived from the income statements of the individual magazines, considered representative of the relevant cash flows, taking into account the immediate collection of revenue typical of magazines. The margins from the magazines also include overhead and operating costs.

The operating results used for the projections include tax; the discount rate before tax, applied to cash flow projections, is equal to 5.84% (6.19% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

The directors also deemed it appropriate to determine the fair value of the individual magazines by applying the royalty method, based on estimated revenue in the medium term of each magazine.

To calculate the fair value, in addition to assumed revenue, the following parameters were taken into account:
• a royalty rate (ranging from 2% to 9%), measured on each single magazine based on the specific characteristics of the magazine and also based on similar market transactions;
• a residual useful life of 20.5 years, aligned with the life defined for the calculation of the value in use;
• a revenue growth rate, beyond the last year included in the medium-term plan, equal to zero.

Royalty rates used were determined in 2016, with the aid of independent experts, and are deemed to comply with current market conditions.

After completing the analysis, the directors concluded that there was a need for impairment on a number of magazines for the amount of 1,540 thousand euro.

Subsequently, a second level impairment test was performed with a view to verifying the recoverable value of goodwill allocated to the group of cash generating units represented by the individual magazines.

First, the value in use was calculated based on the financial pre-tax result of the entire French Group, deriving from the relevant plans for the 2018-2022 period and for the projection of the relevant cash flows a pre-tax rate equal to 5.84% (6.19% in 2016).

After completing the analysis, the directors concluded that there was no need for impairment.

It should be noted however that the value in use determined as described above is basically in line with the relating book value; therefore, changes in the assumptions adopted in the preparation of the impairment test may result in even significant adjustments to the carrying amounts of the assets under the Mondadori France CGU. Based on the elements available to date, the directors believe that the estimates reflect the uncertainties of the relevant market, which has witnessed further downturns in the current year as well; they will closely monitor the situation to verify that the final results match the forecasts, and promptly reflect any deviations.

Cash Generating Unit former Gruner+Jahr Mondadori

Effective as of 1 July 2015, Arnoldo Mondadori Editore S.p.A. acquired control over the entire share capital of Gruner+Jahr Mondadori S.p.A. (now Mondadori Scienza S.p.A), from its previous 50%.
The company is the publisher of several magazines, the most popular including those published under the *Focus* trademark.

Following acquisition and after completion of the purchase price allocation process, also supported by the valuation of intangible assets by an independent expert, the higher price paid against the book values acquired, was attributed to the *Focus* trademark and to the relating subscriber list, and the remaining portion to goodwill.

The assets identified in the purchase price allocation are qualified as having finite useful life, except for goodwill; the trademark is amortized over 20 years and the subscriber list over 4 years, starting from 2016.

The recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

Data is derived from the income statements of the individual magazines, considered representative of the relevant cash flows, taking into account the immediate collection of revenue typical of magazines. The margins from the magazines also include overhead and operating costs.

The operating results used for the projections include tax; the discount rate before tax, applied to cash flow projections, is equal to 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review, nor on their goodwill. The book value coverage percentage is equal to approximately 250%.

Trade Books Cash Generating Unit

The CGU includes the BUR trademark (4,005 thousand euro) and goodwill (1,634 thousand euro), determined on conclusion of the purchase price allocation process carried out with regard to the acquisition of Rizzoli Libri S.p.A. in 2016.

The recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

The cash flows used for the projections include tax and financial income and costs; the discount rate before tax, applied to cash flow projections, is 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review. The book value coverage percentage is equal to approximately 1,250%.

Digital Cash Generating Unit

On 8 June 2016, Arnoldo Mondadori Editore S.p.A. acquired 100% of the share capital of Banzai Media Holding S.p.A., the leading Italian digital publisher with established brands in the vertical segments of women, food, health & wellness.

Following completion of the purchase price allocation process, after expressing the assets acquired and liabilities assumed at fair value, the higher price paid was attributed to the trademarks, to the proprietary software and, for the residual portion, to goodwill.

The recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

Data is derived from the income statements of the vertical segments, deemed to represent the relating cash flows; the operating results used for the projections include tax; the discount rate before tax, applied to cash flow projections, is equal to 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Unit under review, nor on its goodwill. The book value coverage percentage is equal to approximately 160%.

Other Cash Generating Units

This group of Cash Generating Units includes the values of residual assets.
These assets include the value of the Mondolibri S.p.A. bookclub member database, 50% of which was acquired in 2010, for a total of 2,500 thousand euro, as well as the Grazia China trademark regarding the local editions of the weekly.

The recoverable value of the cash generating unit was calculated on the basis of the higher of value in use and fair value.

Data used to calculate the value in use are: pre-tax results included in the medium-term plan for the 2018-2020 three-year period; pre-tax discount rate equal to 6.86% (6.59% in 2016), growth factor applied to data in addition to those indicated in the plan, equal to zero (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review.
The book value coverage percentage is equal to approximately 1,500% for bookclubs and 727% for the Grazia China trademark.

Determination of the rate

The discount rate was defined in terms of weighted average cost of capital (WACC) for the individual Cash Generating Unit/country taken into account and it includes tax, consistently with the flows used, as requested by IAS 36.55.
WACC is an adjusted risk rate, measured directly based on the cost that the company must bear to collect resources from lending entities, internal and external, to finance any specific investment. WACC expresses an opportunity cost of capital and is calculated as the weighted average of the cost of the risk capital and the cost of the debt capital.

The individual parameters that contribute to the determination of WACC are the following:

- cost of equity (ke) is quantified based on the model of CAPM (Capital Asset Pricing Model) as also requested in IAS 36. Based on CAPM, the cost of equity is determined as the sum resulting from risk free investment performance and a risk premium, determined as a function of the systematic risk on the investment under examination. The risk premium is quantified through the product resulting from the beta coefficient and the difference between the market performance (mp) and risk free (equity risk premium), determined taking into account a sufficiently large time horizon; For the purpose of quantifying the individual parameters, the following parameters were taken into account to properly measure the level of risk included in the

Company's cash flows. The risk free rate was determined taking into account the yield to maturity for the securities of the countries to which the Cash Generating Units are referred as at the date of the impairment test. Therefore, the reference rate is not pure risk free, but it includes a premium for the country risk, which is consequently considered and included in the model. This quantification considers also any market data affected by marked market speculations. The beta coefficient was calculated by considering the normalized average of market unlevered betas of a panel of comparable companies. The equity risk premium was assumed equal to 5.08% (source: Damodaran, January 2018);

- the cost of debt (kd) was quantified by making reference to the rate that the company would pay under current market conditions in order to obtain a new medium/long-term loan. The calculation of the Cost of Debt (kd) is based on the analysis of the specific financial structure of the Cash Generating Unit/country of reference. This, considered the specific financial structures of the Cash Generating Units/countries, makes reference to the available market data;
- the average cost of debt is de-taxed as a result of deductibility of interest due from taxable income according to the specific tax rate "t" of the individual Cash Generating Unit/country;
- the weight attributed to equity and third party equity was calculated based on the market normalized average of a panel of comparable companies.

Based on the above parameters it was possible to determine the WACC by individual Cash Generating Unit/country.
The discounting rate obtained is an amount net of tax and, therefore, it was subject to conversion to include tax as specifically requested by IAS 36.55.

Sensitivity to changes in the assumptions

A sensitivity analysis was performed on the discounting rate and the growth rate.

No sensitivity analysis was performed on future cash flows, as they were considered reasonable and achievable, deeming to be able to represent possible execution risks in the discounting rate analysis.

The findings of this analysis confirmed that the results obtained are reasonable and, consequently, confirmed the recoverability of the book values recognized in these financial statements, while stressing the need, however, to oversee the performance of each CGU, Magazines France in particular, in order to verify the consistency of final and forecast trends.

13. INVESTMENT PROPERTY

Value of non-instrumental property owned by the Mondadori Group.

Investment property (Euro/thousands)	**Land**	**Non-instrumental buildings**	**Total**
Cost at 31/12/2015	976	4,008	4,984
Capital expenditure	-	14	14
Disposals	-	-	0
Other changes	-	-	0
Historical cost at 31/12/2016	976	4,022	4,998
Depreciation and impairment losses at 31/12/2015	-	1,956	1,956
Amortization, depreciation	-	105	105
Impairment/(reinstatement of value)	-	-	0
Disposals	-	-	0
Other changes	-	-	0
Provision for depreciation and impairment loss at 31/12/2016	0	2,061	2,061
Net book value at 31/12/2015	976	2,052	3,028
Net book value at 31/12/2016	**976**	**1,961**	**2,937**

The changes in 2017 are attributable to amortization and depreciation, amounting to 105 thousand euro.

Investment property (Euro/thousands)	**Land**	**Non-instrumental buildings**	**Total**
Historical cost at 31/12/2016	976	4,022	4,998
Capital expenditure	-	-	0
Disposals	-	-	0
Other changes	-	-	0
Historical cost at 31/12/2017	976	4,022	4,998
Depreciation and impairment losses at 31/12/2016	-	2,061	2,061
Amortization, depreciation	-	105	105
Impairment/(reinstatement of value)	-	-	0
Disposals	-	-	0
Other changes	-	1	1
Provision for depreciation and impairment loss at 31/12/2017	0	2,167	2,167
Net book value at 31/12/2016	976	1,961	2,937
Net book value at 31/12/2017	**976**	**1,855**	**2,831**

The fair value of investment property at 31 December 2017 is estimated not to be lower than the net book value.

The use of the assets classified under investment property was not subject to any lien or restriction.

14. PROPERTY, PLANT AND EQUIPMENT

The net amount of “Property, plant and equipment” decreased by 6,334 thousand euro.

Capital expenditure in the year in plant and equipment, amounting to 1,082 thousand euro, and in furniture, furnishings, office machines and restructuring on leased property, amounting to 3,349 thousand euro, refer mainly to the Retail Area (2,277 thousand euro).

Disposals, amounting to a net 3,079 thousand euro, mainly regarded the assets under the logistics business unit sold to Ceva Logistics Italia, which included the Group’s product stocks site, the relating plant and equipment to manage packaging and shipment services, as well as furniture, furnishings and staff.

The table below shows a breakdown of “Property, plant and equipment” in 2016 and 2017:

Property, plant and equipment (Euro/thousands)	**Land**	**Instrumental buildings**	**Plant and equipment**	**Other assets**	**Total**
Cost at 31/12/2015	1,113	14,962	44,306	96,258	156,639
Capital expenditure	-	4	1,108	4,105	5,217
Disposals	-	(439)	(437)	(2,725)	(3,601)
Change in the consolidation scope	-	-	1,394	10,005	11,399
Other changes	-	(30)	(866)	(672)	(1,568)
Historical cost at 31/12/2016	1,113	14,497	45,505	106,971	168,086
Depreciation and impairment losses at 31/12/2015	-	10,043	35,278	83,110	128,431
Amortization, depreciation	-	384	2,605	4,239	7,228
Impairment/(reinstatement of value)	-	-	9	1,185	1,194
Disposals	-	(439)	(408)	(2,677)	(3,524)
Change in the consolidation scope	-	-	1,380	4,696	6,076
Other changes	-	(29)	(1,311)	(367)	(1,707)
Provision for depreciation and impairment loss at 31/12/2016	0	9,959	37,553	90,186	137,698
Net book value at 31/12/2015	1,113	4,919	9,028	13,148	28,208
Net book value at 31/12/2016	**1,113**	**4,538**	**7,952**	**16,785**	**30,388**

Property, plant and equipment (Euro/thousands)	**Land**	**Instrumental buildings**	**Plant and equipment**	**Other assets**	**Total**
Cost at 31/12/2016	1,113	14,497	45,505	106,971	168,086
Capital expenditure	-	-	1,082	3,349	4,431
Disposals	(210)	(8,033)	(15,166)	(4,961)	(28,370)
Change in the consolidation scope	-	-	-	-	0
Other changes	-	98	306	(2,111)	(1,707)
Historical cost at 31/12/2017	903	6,562	31,727	103,248	142,440
Depreciation and impairment losses at 31/12/2015	-	9,959	37,553	90,186	137,698
Amortization, depreciation	-	215	2,425	4,349	6,989
Impairment/(reinstatement of value)	-	-	217	435	652
Disposals	-	(6,178)	(14,501)	(4,912)	(25,591)
Change in the consolidation scope	-	-	-	-	0
Other changes	-	80	205	(1,647)	(1,362)
Provision for depreciation and impairment loss at 31/12/2017	0	4,076	25,899	88,411	118,386
Net book value at 31/12/2016	1,113	4,538	7,952	16,785	30,388
Net book value at 31/12/2017	**903**	**2,486**	**5,828**	**14,837**	**24,054**

"Other tangible assets" is broken down as follows:

Other tangible assets (Euro/thousands)	**31/12/2017**	**31/12/2016**
Industrial and commercial equipment	764	873
Electronic office equipment	2,411	2,279
Office furniture, and machines	5,381	5,833
Motor and transport vehicles	1	4
Leasehold improvements	5,869	7,163
Other assets	16	22
Assets under construction and advances	395	611
Total other tangible assets	**14,837**	**16,785**

Depreciation of property, plant and equipment

Depreciation amounted to 6,989 thousand euro, down versus 2016; in addition to depreciation, a write-down of 652 thousand euro was made on tangible assets related to a store under the Retail Area, which closed in early 2018.

Depreciation of property, plant and equipment (Euro/thousands)	2017	2016
Instrumental buildings	215	384
Plant and equipment	2,425	2,605
Equipment	321	161
Electronic office equipment	1,340	1,266
Office furniture	1,338	1,524
Motor and transport vehicles	2	2
Leasehold improvements	1,344	1,280
Other assets	4	6
Total depreciation of property, plant and equipment	**6,989**	**7,228**
Depreciation of tangible assets	652	1,194
Value reinstatement of tangible assets	-	-
Total depreciation (reinstatement of value) of tangible assets	**652**	**1,194**
Total depreciation and impairment loss on tangible assets	**7,641**	**8,422**

Leased assets

There are currently no lease contracts in place.

15. INVESTMENTS

“Investments booked at equity” and “Investments in other companies” amounted to 38,041 thousand euro.

Investments (Euro/thousands)	31/12/2017	31/12/2016
Investments booked at equity	37,139	42,538
Investments in other companies	902	453
Total investments	**38,041**	**42,991**

In 2017, the main transaction involving companies booked at equity was the acquisition of 51% of Rizzoli Skira Publications Inc, subsequently incorporated by Rizzoli International Publications Inc.

The loss in value is attributable:

- to the negative performance in the year of Mach 2 Libri S.p.A. (2,566 thousand euro), Società Europea di Edizioni S.p.A. (2,075 thousand euro) and Monradio S.p.A. (816 thousand euro);
- to the write-downs made following the impairment test on Attica (1,700 thousand euro) and on Società Europea di Edizioni S.p.A. (2,900 thousand euro).

Dividends received by the Group in 2017 (589 thousand euro) were paid out by Edizioni EL S.r.l..

Investments - Investments booked at equity (Euro/thousands)	**Net value**
Balance at 31/12/2015	44,457
Changes in 2016:	
- purchases and changes in consolidation scope	1,128
- changes in consolidation method	-
- disposals and other changes	(1,036)
- revaluations	2,871
- write-down	(2,243)
- impairment	(2,000)
- dividends	(639)
Balance at 31/12/2016	**42,538**
Changes in 2017:	
- purchases and changes in consolidation scope	1,852
- changes in consolidation method	(240)
- disposals and other changes	2,389
- revaluations	1,686
- write-down	(5,897)
- impairment	(4,600)
- dividends	(589)
Balance at 31/12/2017	**37,139**

Investments booked at equity - Details (Euro/thousands)	**31/12/2017**	**31/12/2016**
Investments in joint ventures:		
- Skira Rizzoli Publication Inc.	-	240
- Gold 5 S.r.l.	-	78
- Edizioni EL S.r.l.	3,322	3,317
- Attica Publications Group	12,242	13,625
- Mediamond S.p.A.	2,034	2,104
- Mondadori Seec Advertising Co. Ltd	5,694	5,717
Total investments in joint ventures	**23,292**	**25,081**
Investments in associates:		
- Monradio S.r.l.	7,162	7,978
- Mach 2 Libri S.p.A.	-	1,902
- GD Media Service S.r.l.	142	-
- Società Europea Edizioni S.p.A.	6,467	7,488
- Venezia Accademia Società per i servizi museali S.c.ar.l.	57	52
- Campania Arte S.c.ar.l.	19	23
- Consorzio Scuola Digitale	-	14
Total investments in associates	**13,847**	**17,457**
Total investments booked at equity	**37,139**	**42,538**

Investments in other companies

The value of “Investments in other companies” increased as a result of the acquisition of a minority interest in Paycar, a French company with operations in the digital business.

Investments - Investments in other companies (Euro/thousands)	**Net value**
Balance at 31/12/2015	443
Changes in 2016:	
- purchases and changes in consolidation scope	10
- disposals and other changes	-
- changes in consolidation method	-
- write-down	-
- impairment	-
Balance at 31/12/2016	**453**
Changes in 2017:	
- purchases and changes in consolidation scope	444
- disposals and other changes	5
- changes in consolidation method	-
- write-down	-
- impairment	-
Balance at 31/12/2017	**902**

Investments in other companies - Details (Euro/thousands)	**31/12/2017**	**31/12/2016**
Investments in other companies:		
- Milano Distribuzione Media S.r.l.	164	164
- Società Editrice Il Mulino S.p.A.	197	197
- Consuledit S.r.l.	1	1
- Consorzio Sistemi Informativi Editoriali Distributivi	10	10
- Immobiliare Editori Giornali S.r.l.	52	52
- Consorzio Edicola Italiana	10	10
- CTAV	6	16
- Sem Issy Media	3	3
- Paycar	444	-
- Mediasbook	10	-
- Confidimpresa	5	-
Total investments in other companies	**902**	**453**

Impairment test

The Mondadori Group measures the value in use in order to verify the recoverable value of equity investments; when in determining this value an impairment loss is identified, before proceeding with devaluation, the fair value is calculated after having deducted the estimated cost of disposal.

Impairment tests are carried out for each individual investment representing a separate Cash Generating Unit.

For the purpose of calculating value in use, projections contained in the 3-5-year plans prepared by the individual companies were used, as integrating part of the medium-term Plan, the guidelines of which were reviewed by the meeting of the Board of Directors of 8 February 2018, approved on today's date.

The expected cash flows of each investment was discounted, based on a country-specific WACC: for Italian companies, 6.86%, for French companies, 5.84%, and for the Greek investment in the Attica Group, 10.39%.

For the Italian and French subsidiaries, the growth rate on the terminal value was kept equal to zero (g = 0); for Attica growth rates in the range from zero to 3% were taken into account (g comprised between 0 and 3%) in order to account for the differences between businesses and the geographic areas in which the Group operates.

The performance of the impairment test required the write-down for 1.7 million euro of the investment in the Attica Group, and for 2.9 million euro of the investment in Società Europea di Edizioni S.p.A..

16. PRE-PAID TAX ASSETS AND DEFERRED TAX LIABILITIES

"Pre-paid tax assets" and "Deferred tax liabilities" dropped by 16,280 thousand euro and 14,431 thousand euro, respectively.

(Euro/thousands)	31/12/2017	31/12/2016
IRES on tax losses	18,804	19,161
Pre-paid IRES	43,693	57,783
Pre-paid IRAP	2,435	4,268
Total pre-paid tax assets	**64,932**	**81,212**
Deferred IRES	55,336	69,616
Deferred IRAP	5,261	5,412
Total deferred tax liabilities	**60,597**	**75,028**

"Pre-paid tax assets" decreased as a result of:
- the deduction of prior-years' tax losses from the 2017 taxable income, generated in the scope of the companies participating in the tax consolidation scheme with Fininvest S.p.A. as the consolidating entity, amounting to 9,528 thousand euro;
- the decrease in the temporary differences between assets and liabilities booked to the balance sheet and the amounts recognized for tax purposes, following the changes in the year and the disposal of the Rizzoli Trade business unit to Mondadori Libri S.p.A., which resulted in the realization of the above temporary differences and the recognition of a tax loss incurred by Rizzoli Libri S.p.A., which then recorded prepaid tax of 9,171 thousand euro. Mention should be made in this connection that Rizzoli Libri S.p.A. does not participate in the tax consolidation scheme.

The directors believe that the amounts recognized are fully recoverable, considering:
- the possibility of a pre-deduction of up to 80% of the Group's prior-years' tax losses from taxable income, in accordance with the agreement governing relations with the consolidating entity Fininvest S.p.A.;
- the right to carry forward tax losses without time restrictions;
- the projections made in the 2018-2020 three-year Plan approved by the Board of Directors and the prepared tax planning documents, relating also to those companies that do not participate in the tax consolidation scheme.

Temporary differences that led to the recognition of pre-paid tax

(Euro/thousands)	31/12/2017			31/12/2016		
	Amount of temporary differences	Current tax rate	Pre-paid tax	Amount of temporary differences	Current tax rate	Pre-paid tax
Differences between book and tax value of intangible assets	5,990	(*)	1,438	5,491	(*)	1,318
Difference between book and tax value of investment property and investments in property, plant and equipment	1,379	(*)	331	4,078	(*)	874
Provision for bad debt	26,617	(*)	6,504	29,098	(*)	7,347
Depreciation of inventory	25,288	(*)	6,452	26,717	(*)	7,120
Provision for advances to authors	23,733	(*)	5,752	63,039	(*)	15,235
Provisions	58,118	(*)	14,261	59,433	(*)	14,416
Post-employment benefits	13,268	(*)	3,364	15,312	(*)	4,727
Elimination of intercompany income	11,025	(*)	2,646	11,500	(*)	2,760
Other temporary differences	13,279	(*)	2,945	13,162	(*)	3,986
Total for IRES purposes	**178,697**		**43,693**	**227,830**		**57,783**
Differences between book and tax value of intangible assets	8,205	(*)	322	8,345	(*)	327
Difference between book and tax value of investment property and investments in property, plant and equipment	1,357	(*)	53	1,357	(*)	54
Depreciation of inventory	18,856	(*)	734	18,586	(*)	721
Provision for advances to authors	12,475	(*)	487	52,676	(*)	2,055
Provisions	5,982	(*)	235	9,684	(*)	380
Post-employment benefits	3,367	(*)	131	4,373	(*)	170
Elimination of intercompany income	11,026	(*)	430	11,500	(*)	449
Other temporary differences	1,140	(*)	43	2,521	(*)	112
Total for IRAP purposes	**62,408**		**2,435**	**109,042**		**4,268**

(*) It should be noted that, with reference to income tax, each Group company applied the tax rate applicable in the country of residence
As for IRAP, each Group company applied the tax rate in force, taking into account the distribution of the tax base by region

The decrease in "Deferred tax liabilities" is attributable mainly to:
- the use made as a result of the amortization of Mondadori France magazines (2,519 thousand euro);
- to the adjustment of 6,298 thousand euro made by Mondadori France to take account of the previously approved reduction in future tax rates.

Temporary differences that led to the recognition of deferred tax

(Euro/thousands)	31/12/2017			31/12/2016		
	Amount of temporary differences	Current tax rate	Deferred tax	Amount of temporary differences	Current tax rate	Deferred tax
Capital gains in instalments	-	(*)	-	-	(*)	-
Differences between book and tax value of intangible assets	222,062	(*)	54,848	285,465	(*)	68,626
Difference between book and tax value of investment property and investments in property, plant and equipment	1,180	(*)	283	1,516	(*)	441
Post-employment benefits	792	(*)	189	2,159	(*)	515
Other temporary differences	67	(*)	16	120	(*)	34
Total for IRES purposes	**224,101**		**55,336**	**289,260**		**69,616**
Capital gains in instalments	-	(*)	-	-	(*)	-
Differences between book and tax value of intangible assets	133,457	(*)	5,204	136,627	(*)	5,340
Difference between book and tax value of investment property and investments in property, plant and equipment	776	(*)	31	1,229	(*)	61
Post-employment benefits	667	(*)	26	297	(*)	11
Other temporary differences	-	(*)	-	-	(*)	-
Total for IRAP purposes	**134,900**		**5,261**	**138,153**		**5,412**

(*) It should be noted that, with reference to income tax, each Group company applied the tax rate applicable in the country of residence
As for IRAP, each Group company applied the tax rate in force, taking into account the distribution of the tax base by region

It should be noted that no deferred tax was allocated for retained earnings of subsidiaries and associates.

17. OTHER NON-CURRENT ASSETS

"Other non-current assets", amounting to 2,102 thousand euro, dropped by 1,231 thousand euro, as a result of:
- the decrease by 226 thousand euro in deposits for leases in the Retail Area;
- the same amounts of the prior year in deposits for commitments undertaken with Public Entities for the organization of exhibitions;
- the decrease in other assets by Rizzoli S.p.A., following reclassification under "Tax receivables" of the receivable from RCS MediaGroup S.p.A. regarding IRAP deductibility from the IRES taxable base.

Other non-current assets (Euro/thousands)	31/12/2017	31/12/2016
Guarantee deposits	1,118	1,358
Confirmation deposits	-	-
Other	984	1,975
Total other non-current assets	**2,102**	**3,333**

18. TAX RECEIVABLES AND PAYABLES

Tax receivables (Euro/thousands)	31/12/2017	31/12/2016
Receivables from the Inland Revenue for IRAP	324	1,631
Receivables from the Inland Revenue for IRES	6,751	947
Receivables from Fininvest for IRES	199	5,905
Receivables from the Inland Revenue for VAT, direct tax to recover and advances on disputes	22,099	21,953
Total tax receivables	**29,373**	**30,436**

"Tax receivables" at 31 December 2017 decreased by 1,063 thousand euro:

- the IRAP tax receivable (324 thousand euro) decreased by 1,307 thousand euro, as a result of the higher taxable income of a number of Group companies which had closed 2016 with a tax credit;
- "Receivables from the Inland Revenue for IRES" increased (5,804 thousand euro), due mainly to Mondadori International Business (1,125 thousand euro), which does not participate in the tax consolidation scheme of Fininvest S.p.A., and to the French subsidiaries (4,085 thousand euro), as a result of the reduced profit for the year;
- "Receivables from Fininvest for IRES" relating to IRES receivable from the partial deductibility of IRAP for 2005-2007 and 2007-2011, dropped by 5,706 thousand euro as a result of the reimbursements received from the Inland Revenue. The residual amount of 155 thousand euro refers to withholdings paid;
- "Receivables from the Inland Revenue for VAT, direct tax to recover and advances on disputes" was basically in line with the amount at 31 December 2016:
  This item included:
  - the VAT receivable carried forward and due from the Inland Revenue (12,147 thousand euro), which includes 8,950 thousand euro subject on request to reimbursement on submission of the 2018 VAT return, and partly to carry forward for offsetting purposes;
  - VAT receivable relating to Mondadori France for 3,072 thousand euro (2,490 thousand euro at 31 December 2016);
  - receivables for tax disputes for a total of 9,848 thousand euro (11,280 thousand euro in 2016). The amounts refer to the temporary payment of a tax demands received by Group companies for pending tax disputes. Following tax audits by the Revenue Commissioners, a few points were raised on a number of companies. Specifically:
    - regarding Arnoldo Mondadori Editore S.p.A.:
      - years 1996, 1997, 1998, 1999, following an inspection by INPGI (National Journalists' Social Security Association), assessment notices were notified containing tax for a total of 186,267.00 and penalties for failure to apply withholding tax for a total of 209,684.00. All these assessments have been challenged and are now pending before the Regional Tax Commission. The Company has made use of the settlement

concession for tax disputes pursuant to art. 11, c. 8, Legislative Decree no. 50 of 24/4/2017; the relating rulings have, therefore, been suspended until 31/12/2018.
- year 2004, the Central Division of the Lombardy Region raised a few points on the omitted application of a 12.50% withholding tax on the interest paid on a loan stock in favour of a subsidiary for a total of 999 thousand euro, plus applicable ancillary charges; against such assessment, an appeal is currently pending before the Court of Cassation.
- year 2005: the Central Division of the Lombardy Region challenged the omitted payment of a 12.50% withholding plus applicable ancillary charges by means of a tax assessment, in relation to interest paid on a loan stock stated in 2004 for a total of 3,051 thousand euro. An appeal is currently pending against such assessment before the Court of Cassation.

- as for Mondadori Retail S.p.A., it received tax assessments for IRES, IRAP and VAT relating to the 2003-2006 tax years. All these tax assessments have been challenged before the Provincial Tax Commission, which upheld the appeals. The Office filed an appeal before the Regional Tax Commission, which confirmed the first instance ruling, annulling the contested acts. The Office filed an appeal before the Court of Cassation after receiving cancellation of all assessment notices from the Regional Tax Commission;
- as for Giulio Einaudi editore S.p.A., in 2017 the Regional Tax Commissions of Piedmont and Latium upheld the first instance ruling in favour of the Company, against which the Inland Revenue has filed an appeal regarding the challenge of the assessment notices issued at the time for the years from 2005 to 2009. Following the outcome of the appeal filed by the Inland Revenue before the Court of Cassation against the second instance rulings that confirmed the annulment of the payment notices of the stamp duty of the years 2005, 2006, and 2007, the Supreme Court had referred the case to the Regional Tax Commission of Piedmont. The Company reinstated the case within the time limits of law. In December 2017, the Inland Revenue notified assessment notices for 2012 IRES and IRAP, following an inspection started by the Finance Police in 2016 and concluded on 17/5/2017.

Income tax payables (Euro/thousands)	**31/12/2017**	**31/12/2016**
Payables to the Inland Revenue for IRAP	917	431
Payables to the Inland Revenue for IRES	758	1,175
Payables to Fininvest for IRES	4,075	182
Total income tax payables	**5,750**	**1,788**

“Income tax payables” increased by 3,962 thousand euro, as a result of the improved performance of the Group companies.

19. OTHER CURRENT ASSETS

“Other current assets” decreased by 6,236 thousand euro, as a result of the reduction in other receivables, mainly in Rizzoli Libri S.p.A., Arnoldo Mondadori Editore S.p.A. and the French companies; receivables from authors net of the adjustment provision, which are the most significant item, were basically in line with the amounts at 31 December 2016.

Other current assets (Euro/thousands)	**31/12/2017**	**31/12/2016**
Receivables from agents	652	680
Receivables from authors and workers	131,932	137,184
Provision for advances to authors	(67,647)	(74,427)
Receivables from suppliers	7,615	7,013
Receivables from personnel	617	642
Receivables from social security institutions	406	2,225
Receivables for guarantee deposits	232	292
Other receivables from associates	56	202
Prepayments	2,123	1,045
Other	10,958	18,324
Total other current assets	**86,944**	**93,180**

20. INVENTORY

“Inventory” dropped sharply versus 31 December 2016 (15,465 thousand euro), as a result of the decision to reduce new titles and print runs in the Books Area, based on trend of demand in Magazines Italy and France, and to cut the supply of consumer electronics products in the Retail Area.

Inventory (Euro/thousands)	**31/12/2017**	**31/12/2016**
Raw and ancillary materials and consumables	10,736	12,946
Depreciation of raw and ancillary materials and consumables	(688)	(1,159)
Total raw and ancillary materials and consumables	**10,048**	**11,787**
Work in progress and semi-finished goods	13,582	16,501
Depreciation of work in progress and semi-finished goods	(1,685)	(1,865)
Total work in progress and semi-finished goods	**11,897**	**14,636**
Contract work in progress	2,490	2,567
Depreciation of contract work in progress	(20)	(43)
Total contract work in progress	**2,470**	**2,524**
Finished products and goods	134,961	143,595
Depreciation of finished products and goods	(31,769)	(29,105)
Total finished products and goods	**103,192**	**114,490**
Advances	-	-
Total inventory	**127,607**	**143,437**

“Raw and ancillary materials and consumables”, amounting to 10,048 thousand euro, decreased by 1,739 thousand euro, 903 thousand euro from Mondadori France and 836 thousand euro from the Books Area.

“Work in progress and semi-finished products”, amounting to 11,897 thousand euro, decreased by 2,739 thousand euro, 1,658 thousand euro of which from Magazines Italy and 659 thousand euro from Rizzoli International Publications Inc.

“Finished products and goods”, amounting to 103,192 thousand euro, decreased by 11,298 thousand euro, referring mainly to the Trade Books Area (7,434 thousand euro) and to the Retail Area (1,783 thousand euro).

The value of the inventory of products intended for sale includes books produced by the Group, third-party publishers’ books purchased for re-sale in the Retail sector and merchandising, paper processing and gifts.

Inventory depreciation was calculated separately and analytically for each Group company, taking into account finished product marketability, any failed revenue generation from orders in progress and semi-finished products, and deterioration of raw materials.

Inventory - Depreciation (Euro/thousands)	**Raw materials**	**Work in progress and semi-finished products**	**Contract work in progress**	**Finished products and goods**
Balance at 31/12/2015	588	1,435	66	14,352
Changes in the year:				
- provisions	339	42	-	-
- utilizations	(131)	-	(23)	(4,921)
- other changes	363	388	-	19,674
Balance at 31/12/2016	**1,159**	**1,865**	**43**	**29,105**
Changes in the year:				
- provisions	243	838	-	8,152
- utilizations	(714)	(346)	(23)	(3,974)
- other changes		(672)	-	(1,514)
Balance at 31/12/2017	**688**	**1,685**	**20**	**31,769**

No inventory is subject to restriction to cover liabilities.

Decrease (increase) in inventory

The income statement effects resulting from the changes in inventory and the provisions for their value adjustments are detailed below.

Decrease (increase) in inventory (Euro/thousands)	**2017**	**2016**
Changes in finished products and goods	7,806	13,726
Provision for finished products and goods	8,152	(287)
Utilization of the provision for finished products and goods	(3,974)	(4,634)
Total changes in inventory of finished products and goods	**11,984**	**8,805**
Changes in work in progress and semi-finished products	2,812	1,135
Provision for work in progress and semi-finished products	838	42
Utilization of the provision for work in progress and semi-finished products	(346)	(25)
Total changes in work in progress and semi-finished products	**3,304**	**1,152**
Changes for contract work in progress	77	(81)
Provision for contract work in progress	-	2
Utilization of the provision for contract work in progress	(23)	-
Total changes in contract work in progress	**54**	**(79)**
Changes in raw and ancillary materials and consumables	2,210	1,701
Provision for raw and ancillary materials and consumables	243	339
Utilization of the provision for raw and ancillary materials and consumables	(714)	(131)
Total changes in inventory of raw and ancillary materials and consumables	**1,739**	**1,909**
Total decrease (increase) in inventory	**17,081**	**11,787**

21. TRADE RECEIVABLES

Trade receivables (Euro/thousands)	**31/12/2017**	**31/12/2016**
Receivables from customers	247,599	243,895
Receivables from associates	49,945	54,563
Receivables from parent companies	4	3
Receivables from affiliates	464	276
Total trade receivables	**298,012**	**298,737**

The total amount of "Trade receivables" was in line with the prior year; however, the breakdown shows:
- a decrease in gross receivables of 11,218 thousand euro, as a result of the drop in revenue from Magazines Italy and France, to the positive performance in receivables management of Rizzoli Libri S.p.A., now fully integrated in the Group's procedures and standards, and to the collection of receivables related to the Bompiani business unit, sold in December 2016;
- a reduction in credit notes for returns to receive amounting to 9,283 thousand euro, referring mainly to the Books Area, as a result of the policy of selecting new titles and curbing print runs, which in 2017 also involved the Trade and Educational sectors of Rizzoli Libri S.p.A.;
- a reduction in the provision for bad debts of 5,639 thousand euro, referring mainly to Mondadori France (1,309 thousand euro) and Magazines Italy (3,306 thousand euro), as a result of the losses incurred and booked to the income statement, of releases of provisions made on certain positions deemed at risk of bad debt but then collected, and of the new assessment on customer worthiness.

Trade receivables - Receivables from customers (Euro/thousands)	**31/12/2017**	**31/12/2016**
Receivables from customers	432,755	443,973
Customers – returns to receive	(151,778)	(161,061)
Provision for bad debt	(33,378)	(39,017)
Total receivables from customers	**247,599**	**243,895**

With reference to the provision for bad debt, it should be noted that for each Group company, an accurate analysis is performed of each individual debt item position, considering also the customer solvency rating.

Trade receivables - Receivables from customers - Bad debt provision (Euro/thousands)	**31/12/2017**	**31/12/2016**
Balance at beginning of year	39,017	40,166
Changes in the year:		
- provisions	7,627	8,171
- utilizations	(12,814)	(14,192)
- changes in the consolidation scope and other changes	(452)	4,872
Total bad debt provision	**33,378**	**39,017**

"Receivables from associates" refers mainly to Mediamond S.p.A. for the advertising business performed for the Magazines Area, and to Mach 2 Libri S.p.A. for book distribution by large retailers.

The lower exposure at 31 December 2017 is attributable to the trend of the large retailers channel, down by 12.2%; receivables due from associates, parent companies and affiliates are explained in Annex "Transactions with related parties".
Trade transactions with these companies are performed under normal market conditions.
There were no trade receivables due over five years.

22. FINANCIAL ASSETS

"Non-current financial assets", amounting to 1,772 thousand euro, includes amounts coming due over 12 months towards third parties relating to Mondadori Magazines France S.a.s., and the loan of 500 thousand euro to Attica Publications classified as non-current, due to the Parent Company's commitment not to request repayment of the loan over the next 12 months.

Non-current financial assets (Euro/thousands)	**31/12/2017**	**31/12/2016**
Financial receivables from associates	500	-
Financial receivables	1,272	267
Financial assets at fair value with adjustments recognized under income statement	-	-
Available-for-sale financial assets	-	-
Assets resulting from derivative instruments	-	-
Total non-current financial assets	**1,772**	**267**

"Other current financial assets", amounting to 1,683 thousand euro, mainly includes:
- he credit positions on current accounts held by the Parent Company with a number of associates;
- receivables generated by receipts from ticket offices at the sites of the Special Superintendence for the Colosseum, the National Museum of Rome, and the Archaeological Area of Rome, due from the companies managing the service.

Other current financial assets (Euro/thousands)	**31/12/2017**	**31/12/2016**
Financial receivables from customers	133	71
Financial receivables from associates	25	692
Financial receivables from parent companies	-	-
Financial receivables from affiliates	-	-
Financial receivables from others	1,521	2,617
Total financial receivables	**1,679**	**3,380**
Financial assets at fair value with adjustments recognized under income statement	-	-
Available-for-sale financial assets	4	2
Assets resulting from derivative instruments	-	-
Total other current financial assets	**1,683**	**3,382**

Assets and liabilities resulting from derivative instruments

Assets and liabilities resulting from derivative instruments - Details (Euro/thousands)	**Type of derivative instrument**	**Fair value at 31/12/2017**	**Fair value al 31/12/2016**
Non-current financial assets (liabilities)			
- Rate derivatives	Cash flow hedge	(341)	(1,616)
Current financial assets (liabilities)			
- Currency derivatives	Trading	-	-

The Group has adopted a Financial Risk Management policy. The use of derivative instruments is in line with the guidelines contained in such policy. In order to verify hedging efficiency, the Group performs a series of perspective and retroactive tests on a quarterly basis.

Trading derivatives refer to transactions that, while performed for hedging purposes, do not fully meet the requirements envisaged by the international accounting standards to qualify for hedge accounting. With regard to the Mondadori Group, trading derivatives refer to exchange risk management, which is not present in the Group’s financial statements at 31 December 2017.

Perspective tests envisage that at the beginning of a hedge transaction and for its entire duration, each individual hedge proves effective. This means that any changes in the fair value or cash flow of the hedged item almost completely offset any changes in the fair value or cash flow of the hedged instrument.

Retroactive tests envisage that a hedge proves effective, when its results fall in a 80%-125% range. Group criteria to test effectiveness include statistic regression analyses and the Dollar Offset Method or Ratio Analysis.

In addition, the Group calculates the fair value of current hedge transactions on a quarterly basis at least.

At 31 December 2017, transactions were in place to hedge the existing interest rate risk (with BPM, Intesa Sanpaolo and UniCredit), applying to the A and B Term Loan Tranches of the new amortizing pool loan agreement concluded in December 2017, coming to maturity in June-December 2022 for a total notional amount of 175.0 million euro and a weighted average rate of 0.028%.

The table below shows the hedge impact on income statement and equity:

Cash flow hedge reserve (Euro/thousands)	**31/12/2017**	**31/12/2016**
Initial balance gross of the tax impact	(2,947)	(3,750)
Amount recognized in the period	2,420	1,405
Amount endorsed from reserve and recognized under income statement:		
- adjustments to expenses	(229)	(239)
- adjustments to income	(480)	(363)
Final balance gross of the tax impact	**(1,236)**	**(2,947)**
Inefficient part of hedge	0	0

23. CASH AND CASH EQUIVALENTS

The item amounted to 66,585 thousand euro, down versus 2016; the fair value of cash and cash equivalents is equal to their relevant book value at 31 December 2017.

Cash and cash equivalents (Euro/thousands)	**31/12/2017**	**31/12/2016**
Cash and cash on hand	2,058	1,708
Bank deposits	63,951	74,798
Postal deposits	576	1,084
Total cash and cash equivalents	**66,585**	**77,590**

Further details on the changes in cash and cash equivalents are found in the consolidated cash flow statement.

The table below shows the Group net financial position in accordance with Consob recommendations.

Net financial position (Euro/thousands)	31/12/2017	31/12/2016
A Cash	2,058	1,708
- Bank deposits	63,951	74,798
- Postal deposits	576	1,084
B Other cash and cash equivalents	64,527	75,882
C Cash and cash equivalents and other financial assets (A+B)	**66,585**	**77,590**
D Securities held for trading	-	-
- Financial receivables from associates	25	692
- Financial assets measured at fair value	-	-
- Available-for-sale financial assets	4	2
- Derivatives and other financial assets	1,654	2,688
E Receivables and other current financial assets	1,683	3,382
F Current financial assets (D+E)	**1,683**	**3,382**
G Current payables to banks	4,535	2,725
- Bonds	-	-
- Loans	-	-
- Borrowings	15,834	24,959
H Current portion of non-current debt	15,834	24,959
- Financial payables to associates	-	26
- Derivatives and other financial liabilities	6,179	9,678
I Other current financial liabilities	6,179	9,704
L Payables to banks and other current financial liabilities (G+H+I)	**26,548**	**37,388**
M Current net financial position (C+F-L)	**41,720**	**43,584**
- Bonds	-	-
- Loans	-	-
- Borrowings	229,607	301,233
N Debt non-current portion	229,607	301,233
O Other non-current financial liabilities	3,129	6,201
P Non-current net debt (N+O)	**232,736**	**307,434**
Q Net debt (M-P)	**(191,016)**	**(263,850)**

Should the balance of “Non-current financial assets”, amounting to 1,772 thousand euro and not included in the Consob format, be added to the above data, the Group net financial position comes to -189,244 thousand euro.

Further information regarding the Group’s net financial position is found in Notes 22, 23 and 28.

24. EQUITY

Equity at 31 December 2017, amounting to 345,314 thousand euro (317,798 thousand euro at 31 December 2016) and shown in the specific table, increased by 27,516 thousand euro, due mainly to profit for the year (+30,417 thousand euro), the positive change in the cash flow hedge reserve (1,300 thousand euro), and the negative change in the conversion reserve of financial statements in currencies other than the Euro (3,154 thousand euro).

Share capital

Arnoldo Mondadori Editore S.p.A. share capital amounts to 67,979,168.40 euro, divided into no. 261,458,340 ordinary shares with a nominal value of 0.26 euro each.

The legal entity controlling the Mondadori Group is Fininvest S.p.A.

Treasury shares

In 2017, Arnoldo Mondadori Editore S.p.A. purchased 840,000 treasury shares on the Electronic Stock Market (MTA), equal to 0.321% of the share capital, bringing the total of treasury shares held to 920,000, equal to 0.352% of the share capital.
As a result of the purchases, mainly to service the Incentive Plan named “2017-2019 Performance Share Plan”, the value of treasury shares increased by 1,581 thousand euro, reaching 1,654 thousand euro at 31 December 2017.

Other reserves and profit/loss carried forward

“Other reserves and profit/loss carried forward” at 31 December 2017 amounted to 219,072 thousand (196,873 thousand euro at 31 December 2016) and included:

- a legal reserve of 13,490 thousand euro;
- a revaluation reserve used over the years of 16,711 thousand euro;
- a cash flow hedge reserve of -940 thousand euro, net of the relevant tax impact, for the valuation of hedge derivatives;
- a reserve that covers the Incentive Plan, pursuant to IFRS 2, of 850 thousand euro;
- a reserve for post-employment discounting, net of the relevant tax impact, of -533 thousand euro;
- the conversion reserve of -1,230 thousand euro, mainly resulting from the conversion of the financial statements of Mondadori UK, the companies belonging to the Attica Group, with offices in Eastern European countries, and of the Chinese joint-venture Mondadori Seec Advertising Co. Ltd and Rizzoli International Publications Inc. The exchange rates used for the conversion of financial statements denominated in foreign currencies are summarized in the table below:

Currency	Actual 31/12/2017	Actual 31/12/2016	Average 2017	Average 2016
British Pound	0.89	0.82	0.88	0.84
US dollar	1.20	1.11	1.13	1.05
Chinese yuan	7.80	7.35	7.63	7.30
New Romanian leu	4.66	4.49	4.57	4.52
Bulgarian leva	1.96	1.96	1.96	1.96
Serbian dinars	118.64	123.11	121.36	123.36

- the residual balance represents reserves for retained earnings from past years.

Capital management

The Mondadori Group share capital is managed mainly in relation to the Group overall financial structure, taking into account a correct balance between net debt and capital.

The main index used by the Group for measuring capital adequacy compares net debt with capital to net debt. Net debt includes all liabilities (payables to banks) net of cash and cash equivalents.

Capital management (Euro/millions)	**31/12/2017**	**31/12/2016**
Net debt	189.2	263.6
Capital (equity)	345.3	317.8
Total capital and net debt	**534.5**	**581.4**
Ratio of net debt/capital to net debt	35.4%	45.3%
Treasury shares in portfolio	1.7	0.1

25. CAPITAL, RESERVES AND RESULTS ATTRIBUTABLE TO MINORITY SHAREHOLDERS

Below is a breakdown of Minority Shareholders' equity:

Capital, reserves and results attributable to minority shareholders (Euro/thousands)	**EMAS S.n.c.**	**NaturaBuy S.a.s.**	**Rizzoli International Publications**
Equity at 31/12/2016	30,269	193	13
Result for 2016	2,573	173	1
Equity at 31/12/2017	29,485	-	15
Result for 2017	2,476	46	1

26. PROVISIONS

"Provisions", amounting to 73,110 thousand euro, increased by 4,519 thousand euro, as a result mainly of the change in the provision for onerous contracts, pursuant to IAS 37, which mainly reflects the spending commitments undertaken through agreements previously concluded with the Colosseum Archaeological Park, the Appia Antica Archaeological Park and the National Museum of Rome.

Provisions (Euro/thousands)	**31/12/2016**	**Provisions**	**Utilizations**	**Other changes**	**31/12/2017**
Provision for agents' contractual risks	4,678	488	(324)	(529)	4,313
Provision for personnel downsizing risks	9,899	5,622	(5,933)	(119)	9,469
Provision for legal risks	27,924	4,401	(6,113)	1,683	27,895
Provision for equity investment risks	430	11	-	524	964
Provision for tax disputes	9,337	2,783	-	(760)	11,360
Provision for onerous contracts	5,508	455	-	3,288	9,251
Other provisions for risks	10,815	2,924	(1,178)	(2,704)	9,858
Total provisions	**68,591**	**16,684**	**(13,548)**	**1,383**	**73,110**

"Provisions for agents' contractual risks" refers to a number of disputes pending in the Books Area, counting approximately 300 agency contracts.

"Provision for personnel downsizing risks" reported increases (5,622 thousand euro) referred to new positions arising in 2017, while utilizations (5,933 thousand euro) are explained by the benefits accrued in prior years by employees for staff downsizing completed in the year.

"Provision for legal risks" is set up mainly to cover losses generated from actions for libel associated with articles published in magazines and requests for compensation by authors and third parties in general.

The "Provision for tax disputes" includes the amounts set aside to cover outstanding tax and social security litigation.

27. POST-EMPLOYMENT BENEFITS

The item, amounting to 47,505 thousand euro, dropped by 3,484 thousand euro versus 31 December 2016, as a result of:
• the disposal of the logistics business unit, which counted over 100 employees and resulted in a reversal of post-employment benefits of 1,634 thousand euro;
• the rationalization of structures with the resulting reduction in headcount;
• the normal turnover dynamics of employees and agents.

Post-employment benefits (Euro/thousands)	**31/12/2017**	**31/12/2016**
Provision for post-employment benefits (TFR)	36,777	41,027
Provision for supplementary agents' indemnity (FISC)	10,594	9,831
Provision for retirement and similar obligations	134	131
Total post-employment benefits	**47,505**	**50,989**

Post-employment benefits and the supplementary agents' indemnity have been determined by applying an actuarial method in compliance with IAS 19 and IAS 37.

It should be noted that for both calculations a discounting rate based on the iBoxx benchmark, Euro area, rating AA and with a 10+ duration was used consistently with past valuations.

Actuarial assumptions to measure TFR	31/12/2017	31/12/2016
Economic assumptions:		
- increase in cost of living	1.0%	1.0%
- discounting rate	1.30%	1.31%
Demographic assumptions:		
- probability of death	IPS.55 tables	IPS.55 tables
- probability of disability	INPS 2000 tables	INPS 2000 tables
- probability of leaving for other reasons	from 1.67% to 22.65%	from 5.31% to 18.70%
- retirement age	Regulations in force	Regulations in force

Actuarial assumptions to measure FISC	31/12/2017	31/12/2016
Economic assumptions:		
- discounting rate	1.30%	1.31%
Demographic assumptions:		
- probability of death/disability	1.0%	1.0%
- probability of leaving service	5.0%	5.0%
- probability of voluntary resignation	1.5%	1.5%
- average age of agency contract termination	Regulations in force	Regulations in force

The "Provision for post-employment benefits (TFR)" underwent a sensitivity analysis, increasing and decreasing the rate by 0.5%; the results show a higher or lower effect of approximately 700 thousand euro.

Post-employment benefits cost items, booked under income statement, include the service cost of companies with less than 50 employees for 417 thousand euro, financial costs of 494 thousand euro, and the portion paid into the supplementary pension scheme for 8,044 thousand euro.

The allocation and utilization of the "Provision for supplementary agents' indemnity" reflects the turnover in the sales force of the Group in 2017.

"Provision for retirement" was not subject to discounting as the effects are irrelevant.

Post-employment benefits - Details (Euro/thousands)	TFR	FISC	Provision for retirement
Balance at 31/12/2016	41,027	9,831	131
Changes in 2017:			
- provisions	417	1,889	2
- utilizations	(4,124)	(1,422)	-
- reversals	-	-	-
- discounting	464	-	-
- changes in the consolidation scope and other changes	(1,007)	296	1
Balance at 31/12/2017	**36,777**	**10,594**	**134**

28. FINANCIAL LIABILITIES

Current and non-current financial liabilities, amounting to 232,736 thousand euro, decreased by 74,698 thousand euro versus 2016, in line with the reduction in the consolidated net financial position.

Non-current financial liabilities (Euro/thousands)	Actual interest rate	Expiry 1-5 years	Expiry over 5 years	31/12/2017	31/12/2016
Bonds		-	-	-	-
Convertible bonds		-	-	-	-
Borrowings	2.81%	229,607	-	229,607	301,233
Payables to suppliers		-	-	-	-
Payables to associates		-	-	-	-
Payables to parent companies		-	-	-	-
Payables to affiliates		-	-	-	-
Payables for lease agreements		-	-	-	-
Payables for shareholders' contributions		-	-	-	-
Liabilities from derivatives		341	-	341	1,616
Other financial liabilities		2,788	-	2,788	4,585
Total non-current financial liabilities		**232,736**	**0**	**232,736**	**307,434**

"Non-current financial liabilities" includes:
- 129,918 thousand euro from the amortized cost of the Line A Amortizing Term Loan, taken out with a pool of banks, coming to maturity in December 2022;
- 99,752 thousand euro regarding the amortized cost of the Term Loan Bullet B underwritten with a pool of banks and coming to maturity in June 2019;
- 341 thousand euro from the fair value of the outstanding derivative contracts;
- 2,788 thousand euro from the medium-long term portion of the fair value of the Banzai earn out.

Payables to banks and other financial liabilities (Euro/thousands)	**Actual interest rate**	**31/12/2017**	**31/12/2016**
Bank deposits	0.35%	4,535	2,725
Bonds		-	-
Convertible bonds		-	-
Borrowings	0.70%	15,834	24,959
Payables to suppliers		-	-
Payables to associates		-	26
Payables to parent companies		-	-
Payables to affiliates		-	-
Payables for lease agreements		-	-
Payables for shareholders' contributions		-	-
Liabilities from derivatives		-	-
Other financial liabilities		6,179	9,678
Total payables to banks and other financial liabilities		**26,548**	**37,388**

"Payables to banks and other financial liabilities" came to 26,548 thousand euro and included:

- 15,000 thousand euro regarding part of the A Term Loan of the pool loan, coming to maturity in December 2018;
- 834 thousand euro regarding the balances of the other short-term loans;
- 6,179 thousand euro from other financial liabilities, 2,337 thousand euro of which from the short-term portion of the fair value of the Banzai earn out.

At 31 December 2017, the Financial Covenant Leverage Ratio (debt/EBITDA) resulting from the consolidated annual report was equal to 1.87, far below the cap of 3.25 under the pool loan agreement.

In December 2017, the Mondadori Group renegotiated the existing committed credit lines, underwriting a new amortizing loan agreement with a pool of major banks (Banca Popolare di Milano, Intesa Sanpaolo, UniCredit) for a total of 450.0 million euro, coming to maturity in December 2022.
The agreement sets improved conditions in terms of interest rate and commissions: the initial margin for the Term Loan line is 1.20%, with a reduction of approximately 130 bps from the cost in previous loan agreements. The rate may vary, on an annual basis, depending on changes in the debt/EBITDA ratio, from a low of 95 bps to a high of 200.

Changes in committed credit lines:

(Euro/thousands)	**31/12/2016**	**Utilizations**	**Repayments**	**Other changes**	**31/12/2017**
Pool loan December 2016					
Line A1	186,499	-	(186,499)		-
Line A2	103,509	-	(103,509)		-
Line C	36,184	-	(36,184)		-
Pool loan December 2017					
Line A	-	150,000		(5,143)	144,857
Line B	-	100,000		(250)	99,750
Total	**326,192**	**250,000**	**(326,192)**	**(5,393)**	**244,607**

Information on derivative financial instruments is found in Note 22 – “Financial assets” in these Notes.

29. OTHER CURRENT LIABILITIES

“Other current liabilities”, amounting to 221,845 thousand euro, dropped by 6,822 thousand euro, due mainly to staff payables.

Specifically:
- “Tax payables” and “Payables to welfare and social security entities” decreased by 2,857 thousand euro and 1,811 thousand euro respectively, as a result of the reduction in headcount and, regarding tax payables, of the VAT payable of Mondadori France, amounting to 1,240 thousand euro;
- “Payroll and other amounts to personnel” fell by 4,580 thousand euro, as a result of the reduction in headcount and also due to the Company strategy aimed at reducing the amount of holidays to take.

Other current liabilities (Euro/thousands)	**31/12/2017**	**31/12/2016**
Advances to customers	21,697	21,222
Tax payables	9,988	12,845
Payables to welfare and social security entities	25,671	27,482
Payables to associates	124	124
Other payables	164,365	166,988
Total other current liabilities	**221,845**	**228,661**

“Payables to authors and workers” increased (7,405 thousand euro), thanks to the positive trend in revenue from the Books Area, while “Payables to subscription and instalment customers” decreased (3,039 thousand euro), as a result of the drop in the magazines business affecting both Italy and France.

Other current liabilities – Other payables (Euro/thousands)	**31/12/2017**	**31/12/2016**
Payroll and other amounts to personnel	26,463	31,043
Payables to authors and workers	75,597	68,192
Payables to agents	12,617	11,016
Payables to subscription and instalment customers	33,570	36,609
Payables to directors and statutory auditors	4,549	3,472
Deferred income for advance rents	-	-
Other payables, accrued expense and deferred income	11,569	16,656
Total other payables	**164,365**	**166,988**

30. TRADE PAYABLES

"Trade payables", amounting to 323,538 thousand euro, fell by 8,824 thousand euro, as a result of the drop in the magazines business, of the sharp reduction in closing inventory also from improved purchasing, of the drop in the overdue component, and of payment of payables referring to the Bompiani business unit, sold in December 2016.

Trade payables (Euro/thousands)	**31/12/2017**	**31/12/2016**
Payables to suppliers	308,513	317,299
Payables to associates	11,904	12,476
Payables to parent companies	62	29
Payables to affiliates	3,059	2,558
Total trade payables	**323,538**	**332,362**

"Payables to associates" decreased versus the balance at 31 December 2016; the item includes the amounts due to:

- Edizioni EL S.r.l. (5,096 thousand euro versus 4,869 thousand euro in 2016) and Società Europea di Edizioni S.p.A. (1,109 thousand euro versus 455 thousand euro in 2016), regarding the distribution of publishing products;
- Mediamond S.p.A. for the purchase of goods in exchange for advertising pages (4,972 thousand euro versus 6,327 thousand euro in 2016).

Payables to associates, parent companies and affiliates are detailed in Annex "Transactions with related parties"; transactions with related parties are carried out under normal market conditions.

There were no trade payables due over five years.

Prior-year amounts have been classified differently, for the sake of clarity and comparability.

31. REVENUE FROM SALES AND SERVICES

In 2017, consolidated net revenue came to 1,268,268 thousand euro, up by 0.4% versus 1,263,347 thousand euro in 2016.

Revenue from sales and services (Euro/thousands)	**2017**	**2016**	**Variation %**
Books	523,948	475,085	10.3%
Retail	198,518	199,579	(0.5%)
Magazines Italy	290,677	310,556	(6.4%)
Magazines France	297,443	321,714	(7.5%)
Other Business and Corporate	26,203	23,262	12.6%
Aggregate revenue	**1,336,789**	**1,330,196**	**0.5%**
Intercompany revenue	(68,521)	(66,849)	2.5%
Total revenue from sales and services	**1,268,268**	**1,263,347**	**0.4%**

Revenue from the Books Area, amounting to 523.9 million euro, is recognized net of returns received and estimated at 113.3 million euro, increasing by 10.3%, also as a result of the contribution of Rizzoli Libri S.p.A. for the entire 12 months versus the nine months in 2016.
Revenue from Trade Books increased by 12.3%, as a result mainly of:
- the abovementioned discontinuity;
- the positive performance of Edizioni Mondadori, whose titles include the bestsellers *Origin* by Dan Brown and *La colonna di fuoco* by Ken Follett, *Quando tutto inizia* by Fabio Volo and *Storie della buonanotte per bambine ribelli by* Francesca Cavallo and Elena Favilli, and Einaudi, with *Le otto montagne* and *L'arminuta,* winners respectively of the Strega and the Campiello prizes;
- the drop by Piemme and Sperling, both negatively affected when comparing the success achieved by a number of titles in 2016, such as *Il nome di Dio è Misericordia* by Pope Francis, and the series *After* and *Before* by Anna Todd;
- the reduction in returns received.

Revenue from Educational Books increased by 10.5%, as a result mainly of:
- the abovementioned discontinuity;
- the positive performance of Mondadori Education (+4.2%) and of Rizzoli (+2.4%);
- the performance of Mondadori Electa S.p.A. in the organization of exhibitions, the management of museum services and the publishing of miscellaneous and illustrated titles under the Mondadori brand, and of art and architecture titles under the Electa brand.

Revenue from the Retail Area was basically in line with the prior year, thanks to the upward trend of the Book product, offset by the targeted reduction in revenue from consumer electronics products implemented from the first half of the year.

Revenue from Magazines Italy fell by 6.4% as a result of the decline in copies sold (-4.2%) and in add-on products (-24.4%), alleviated by the growth in advertising sales (+1.6%), driven by the contribution of Banzai Media for the entire year.
Licensing revenue was down (-10.5%), offset by the increase in revenue from digital marketing services (+4%), as a result also of the contribution of AdKaora for the entire year.

Revenue from Magazines France fell by an overall 7.5%, as a result of the drop in revenue from copies sold (-4.9%) both at newsstands and through subscriptions, and of the decline in advertising sales (-17.1%) on both print media and digital products.
Revenue from Group advertising services totaled 150.9 million euro.

The "Directors' Report on Operations" provides further details on revenue trends and the Group's various lines of business.

32. COST OF RAW AND ANCILLARY MATERIALS, CONSUMABLES AND GOODS

Cost of raw and ancillary materials, consumables and goods (Euro/thousands)	**2017**	**2016**
Paper	67,932	71,817
Other production materials	7	11
Total cost of raw and ancillary materials	**67,939**	**71,828**
Goods for re-sale	163,825	154,098
Consumables, maintenance and other materials	13,212	12,863
Total cost of consumables and goods	**177,037**	**166,961**
Total cost of raw and ancillary materials, consumables and goods	**244,976**	**238,789**

"Cost of raw and ancillary materials, consumables and goods" increased by 6,187 thousand euro, due also to the different consolidation of Rizzoli Libri S.p.A. (nine months) and of Banzai Media S.r.l. (seven months) in 2016.

Specifically:
- costs for the purchase of raw materials decreased by 3,889 thousand euro as a result of lower purchases of 4,049 thousand euro in the Magazines Area, with amounts in line with 2016 in the Books Area, due to higher production, offset by the different consolidation period of Rizzoli Libri S.p.A.;
- costs for "consumables and goods" increased by 10,076 thousand euro, due to the different consolidation period of Rizzoli Libri S.p.A..

33. COST OF SERVICES

Cost of services (Euro/thousands)	**2017**	**2016**
Rights and royalties	110,830	110,981
Consultancy services and third-party collaborations	60,134	65,909
Commissions	66,183	67,722
Third-party graphical processing	149,945	147,482
Transport and shipping	73,182	71,900
Purchase of advertising space and promotion expenses	45,454	51,023
Fairs, exhibitions and concession charges	19,581	16,906
Travel and other expense reimbursements	6,027	6,275
Maintenance expenses	8,616	6,732
Telephone and postal expenses	1,883	2,237
Catering and cleaning services	6,425	6,876
Market surveys, news agencies	7,275	7,877
Insurance	2,543	2,413
Subscriptions management	41,702	44,074
Publisher's share	5,905	5,322
Utilities	3,150	3,580
Bank services and commissions	2,800	2,636
IT services	8,126	8,898
Directors' and statutory auditors' fees	5,092	4,571
Temporary work fees	9,189	8,799
Rents and service expenses	23,119	19,944
Leases and rentals	7,468	7,779
Other services	11,597	8,996
Total cost of services	**676,226**	**678,932**

"Cost of services" dropped by 2,706 thousand euro, despite the consolidation period in 2016 respectively of nine months for Rizzoli Libri S.p.A. and seven months for Banzai Media S.r.l.

Specifically, the main items were:
- costs for rights and commissions, in line with the respective revenue trends, decreased in the Magazines Italy Area (3,597 thousand euro and 413 thousand euro) and in the Magazines France Area (1,796 thousand euro and 4,118 housand euro), while increasing in the Books Area by 5,995 thousand euro and 4,131 thousand euro;
- industrial costs increased by 2,463 thousand euro; in the Books Area, due also to the consolidation of Rizzoli Libri S.p.A. for the nine months of 2016, industrial costs increased by 8,084 thousand euro, while dropping by an overall 3,949 thousand euro in the Magazines Area; the further drop is attributable to Mondadori Retail S.p.A.;
- transport costs followed the same trends, increasing in the Books Area (4,879 thousand euro) and in the Retail Area (2,959 thousand euro), due also to the outsourcing of the logistics activities, while decreasing in the Magazines Area by an overall 2,584 thousand euro;
- costs for consultancy services and collaborations dropped sharply as a result of the costs incurred in 2016 following conclusion of the acquisition transactions;
- advertising and promotional costs saw a significant drop, ascribable to the Magazines Area, 3,473 thousand euro in Italy and 1,877 thousand euro in France;

- costs for “Subscriptions Management” fell by 2,372 thousand euro, in line with the relevant magazines revenue trend;
- rental costs increased by 3,175 thousand euro, due mainly to the increase in rent for the Segrate and Mondadori France offices.

“Directors’ and Statutory Auditors’ fees” comprised fees paid to Directors and Statutory Auditors for 4,565 thousand euro and 527 thousand euro, respectively.

34. COST OF PERSONNEL

Employees with a fixed-term or permanent labour contract employed by the Group companies totaled 3,026 units, down versus 2016, as a result of the outsourcing of the logistics activities, which counted over 100 employees and took place in May, and of the further efficiency measures involving the business areas.

Employees	Actual 31/12/2017	Actual 31/12/2016	Average 2017	Average 2016
Executives	113	111	114	124
White collars, middle managers and journalists	2,899	3,046	2,967	3,150
Blue collars	14	104	43	106
Total	**3,026**	**3,261**	**3,124**	**3,380**

Cost of personnel decreased by 8,355 thousand euro for the abovementioned reasons and also due to the Company strategy aimed at reducing remaining holiday time.

Cost of personnel (Euro/thousands)	2017	2016
Salaries and wages	156,339	161,477
Social security charges	50,569	53,031
Post-employment benefits TFR	417	1,173
Supplementary pension scheme plans	8,044	*7,772*
Other costs	10,752	11,023
Total cost of personnel	**226,121**	**234,476**

Information on the Performance Share Plan

On 27 April 2017, the Shareholders’ Meeting approved an incentive plan for employees of the Mondadori Group, including some members of the Board of Directors of Arnoldo Mondadori S.p.A., granting the Board the necessary powers to set up and execute the Plan.
The reasons for the introduction of the Plan are:
- to create a stronger link between the creation of medium- and long-term value and the remuneration of Management;

- to support Mondadori’s growth following the completion of the optimization of its assets, using a system that reflects the growth in the value of the Company;
- to stimulate teamwork at management level, supporting the shared objective of value creation.

The Plan involves 11 Group resources and envisages the right to receive a bonus in the form of Company shares, subject to the achievement of Performance Objectives set and measured at the end of a three-year performance period.

Beneficiaries gain the right to receive the Bonus upon receipt of a Letter of Assignment. Earning the Bonus is subject to the continuity of the relationship and the performance of work duties during the Vesting Period and until the time of actual payment of the Bonus, as well as achieving the specific Performance Targets.
The Performance Targets to which the Bonus is subject are:

- Total Shareholder Return (TSR) over the three years compared to the FTSE All Share index, with a weighting of 25%;
- Cumulative EBITDA over the three years, with a weighting of 25%;
- Cumulative Net profit over the three years, with a weighting of 25%;
- Cumulative Free Cash Flow over the three years, with a weighting of 25%.

The Board – or its representative, the CEO – has the power to amend the Performance Targets in extraordinary and/or unforeseeable situations or circumstances that could have a significant impact on the results of the Group and/or its area of operations. These situations and circumstances could, for example, include mergers, demergers, acquisitions, disposals or spin-offs.

In 2017, the total cost recognized in the income statement under Cost of personnel for the fair value of shares granted under the Plan amounted to 850 thousand euro.

Pursuant to IFRS 2, the financial instruments underlying the Plan were stated at fair value upon their granting. They are measured considering the four components of the Plan:

- the “market based” component connected to the measurement of the performance of Arnoldo Mondadori Editore S.p.A. in terms of Total Shareholder Return (TSR);
- the “non-market based” component relating to the achievement of targets on cumulative Net Profit, cumulative EBITDA and cumulative Free Cash Flow.

The fair value measurement, which takes account of the current share price at the grant date, volatility, the expected flow of dividends, the duration of the Plan and the free-risk rate, has been entrusted to an independent third-party expert and carried out using the Monte Carlo method.

The information document pursuant to art. 114-bis of Legislative Decree 58/98, which describes the features of the above plan, is available to the public on the Governance section of Arnoldo Mondadori Editore S.p.A.’s website (www.mondadori.it), at the registered office and at Borsa Italiana S.p.A.

In detail, the fair value of shares was determined based on the following assumptions:

Granting date	**13 September 2017**
Residual life at granting date (in months)	28
Expected volatility of the share price	38.6%
Risk-free interest rate	0.20%
% on expected dividends	0%
Fair value of share at granting date (Euro)	1.85

35. OTHER (INCOME) COSTS

“Other (income) costs” ended with a positive balance of 1,574 thousand euro, up by 7,320 thousand euro versus 2016, as a result of the increase in income, which includes the gains from the disposals of NaturaBuy and of the logistics business unit.

Other (income) costs (Euro/thousands)	**2017**	**2016**
Other revenue and income	(22,456)	(11,887)
Other operating costs	20,882	17,633
Total other (income) costs	**(1,574)**	**5,746**

“Other revenue and income” increased by 10,569 thousand euro, due mainly to the gain of 1 million euro from the disposal of the location in Via San Pietro all’Orto in Milan, recognised under “Other”, and to the gains from the disposal:

- of NaturaBuy by Mondadori France magazines (4,251 thousand euro);
- of the logistics business unit, which also included the book storage and shipment site, for a total of 4,570 thousand euro;
- of the store in Palermo (500 thousand euro).

Other (income) costs – Other revenue and income (Euro/thousands)	**2017**	**2016**
Year’s contributions	57	141
Capital gains from the disposal of fixed assets	9,896	482
Contingent assets	6,290	5,148
Third-party expense reimbursements	3,905	5,824
Other	2,308	292
Total other revenue and income	**22,456**	**11,887**

“Other operating costs” increased by 3,249 thousand euro, due mainly to higher costs for receivables management, in which the losses charged to the income statement increased by 1,659 thousand euro versus 2016, which had benefited from an adjustment to the provision for bad debts related to the positions of a number of customers whose receivables had been cashed in (approximately 3.5 million euro).

Other (income) costs – Other operating costs (Euro/thousands)	2017	2016
Receivables management	5,143	2,740
Reimbursements and settlements	643	3,307
Contributions and grants	2,347	2,729
Contingent liabilities	3,056	2,123
Capital loss from the transfer of assets	591	109
Other tax and duties	3,220	3,483
Other costs	5,882	3,142
Total other operating costs	**20,882**	**17,633**

36. RESULT FROM INVESTMENTS MEASURED AT EQUITY

The income statement effect of companies consolidated at equity came to -3,955 thousand euro, due mainly to the negative performance of Società Europea di Edizioni S.p.A. (2,075 thousand euro) and of Mach 2 Libri S.p.A. (2,566 thousand euro).

Income (costs) from investments booked at equity (Euro/thousands)	2017	2016
- Monradio S.r.l.	(816)	(1,000)
- Gruppo Attica Publications	318	50
- Società Europea di Edizioni S.p.A.	(2,075)	299
- Mach 2 Libri S.p.A.	(2,566)	(780)
- GD Media Service S.r.l.	(1)	(231)
- Mondadori Independent Media LLC	-	(4)
- Edizioni EL S.r.l.	594	608
- Consorzio Scuola Digitale	(35)	-
- Mediamond S.p.A.	7	129
- Skira Rizzoli Publications	-	49
- Mondadori Seec Advertising Co. Ltd	339	1,422
- Venezia Accademia Società per i servizi museali S.c.ar.l.	5	(40)
- Campania Arte S.c.ar.l.	(11)	37
- Edigita S.r.l.	-	86
Badwill su acquisto Skira Rizzoli Inc.	286	-
Loss from disposals	-	(204)
Total income (costs) from investments booked at equity	**(3,955)**	**421**

37. FINANCIAL INCOME (COSTS)

Net financial costs in 2017 improved by 3,721 thousand euro versus the prior year, as a result of:
- lower interest expense (1,954 thousand euro), due mainly to the reduction in rates charged on committed lines (from 3.13% in 2016 to 2.72% in 2017), and to the reduced bank exposure of the Group;
- lower commissions on undrawn amounts from the Revolving Line and from Line C (549 thousand euro);
- increased ancillary charges on loans (342 thousand euro);
- lower costs from the early closure of hedging transactions (904 thousand euro);
- higher costs from earn-out discounting (167 thousand euro);
- lower other financial costs (commission expenses, post-employment discounting) of 638 thousand euro.

Financial income (costs) (Euro/thousands)	**2017**	**2016**
Interest from banks and post offices	3	7
Financial income from derivatives	-	-
Financial income	657	775
Other interest	66	34
Total interest and other financial income	**726**	**816**
Interest to banks and post offices	31	75
Interest on bonds, loans and borrowings	10,765	12,669
Financial costs from derivatives	1,101	1,622
Other financial costs for discounting assets/liabilities	494	769
Other interest	2,334	3,217
Total interest expense and other financial costs	**14,725**	**18,352**
Realized positive currency differences	243	304
Unrealized positive currency differences	74	42
Realized negative currency differences	(267)	(418)
Unrealized negative currency differences	(51)	(114)
Total income (loss) on currency transactions	**(1)**	**(186)**
Income (costs) from financial assets	11	12
Total financial income (costs)	**(13,989)**	**(17,710)**

38. INCOME TAX

Costs for income tax and tax charges dropped by 3,445 thousand euro versus 2016, despite the improvement in operations, as a result mainly of:
- the lower IRES tax rate from 27.5% in 2016 to 24%;
- the adjustment of pre-paid and deferred tax made by Mondadori France, taking account of the new tax rates approved by the local tax authorities, amounting to 6,298 thousand euro.

Income tax (Euro/thousands)	2017	2016
IRES on income for the period	8,708	12,344
IRAP for the period	3,698	2,301
Total current tax	**12,406**	**14,645**
Deferred/pre-paid tax for IRES	4,227	1,604
Deferred/pre-paid tax for IRAP	1,681	266
Total deferred/pre-paid tax	**5,908**	**1,870**
Other tax items	(3,767)	1,477
Total income tax	**14,547**	**17,992**

Reconciliation between the theoretical tax charge and the current tax charge

(Euro/thousands)	2017			2016		
	Pre-tax result	Tax amount	Current tax rate	Pre-tax result	Tax amount	Current tax rate
Theoretical IRES tax amount	47,487	11,397	24.00%	42,304	11,634	27.50%
Theoretical IRAP tax amount	47,487	1,852	3.90%	42,304	1,650	3.90%
Total theoretical tax amount/rate		**13,249**	**27.90%**		**13,284**	**31.40%**
Actual IRES tax amount		8,997	18.95%		15,270	36.10%
Actual IRAP tax amount		5,550	11.69%		2,723	6.44%
Total actual tax amount/rate		**14,547**	**30.64%**		**17,993**	**42.54%**
Theoretical tax amount/rate		**13,249**	**27.90%**		**13,284**	**31.40%**
Effect relating to the recognition of prior years' tax		(6,117)	(12.88%)		1,322	3.13%
Effect relating to companies posting losses		-	-		-	-
Effect of differences in tax rates on taxable income of foreign subsidiaries		(200)	(0.42%)		927	2.19%
Net effect of other permanent differences		3,917	8.25%		259	0.61%
Effect of different IRAP tax base		3,698	7.79%		1,073	2.54%
Current tax amount/rate		**14,547**	**30.64%**		**17,993**	**42.54%**

39. RESULT FROM DISCONTINUED OPERATIONS

There were no transactions made in 2017 pursuant to IFRS 5; the item includes the capital gains earned in 2016 from the disposal of Marsilio Editori S.p.A. and the Bompiani BU, amounting respectively to 700 thousand euro and 2,349 thousand euro, net of selling costs and the result of Bompiani in the period from 1 April 2016 to the disposal date.

40. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the period attributable to the Group by the weighted average number of outstanding ordinary shares in the reporting period.

	2017	2016
Net income for the period (Euro/000)	30,417	22,544
Average number of outstanding ordinary shares (no./000)	261,101	261,458
Basic earnings per share (Euro)	**0.116**	**0.086**

Diluted earnings per share are calculated by dividing net profit for the period attributable to the Group by the weighted average number of outstanding ordinary shares in the period.
Diluted earnings per share are equivalent to the net earnings per share as there are no financial instruments with dilutive effects in circulation.

41. COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2017, the Mondadori Group has commitments underwritten for a total amount of 95,326 thousand euro (86,086 thousand euro at 31 December 2016), consisting mainly of guarantees issued on VAT receivables subject to reimbursement and prize contests transactions.

The increase is attributable to the guarantees issued in favour of the lessor of the new Mondadori France offices.

Additionally, the Group has property leases in place, whose payments as per contract fall due between 2018 and 2030, for a total of 127,373 thousand euro.

42. NON-RECURRING (INCOME) COSTS

Under Consob Resolution no. 15519 of 27 July 2006, the Mondadori Group in 2017, as in 2016, recorded no non-recurring income or cost.

43. RELATED PARTIES

Transactions carried out with related parties, including intercompany transactions, do not qualify as either atypical or unusual, since they refer to standard business activities performed by Group companies.
When performed out of the scope of standard conditions or when they are imposed by specific regulatory conditions, transactions with related parties are in any case carried out under market conditions.

Benefits to key management personnel

At 31 December 2017, the executives holding responsibilities for Mondadori Group planning, direction and control activities are listed below:

Directors	
Ernesto Mauri	CEO
Oddone Pozzi	CFO, Director of Purchasing and IT
Executives	
Enrico Selva	Manager of Trade Books
Pierluigi Bernasconi	Manager of Business Retail
Carlo Luigi Mandelli	Manager of Magazines Italy, Advertising and International
Carmine Perna	Manager of Mondadori France
Antonio Porro	Manager of Educational Books
Daniele Sacco	Head of Human Resources and Organization

In 2017, the group of Key Management Personnel, shown above in the situation at 31 December, saw the entry of Daniele Sacco as Head of Human Resources and Organization, as well as the departure, on 31 March, of Mario Maiocchi, Head of the Business Retail Area, replaced, starting from June, by Pierluigi Bernasconi.

Total compensation paid to Key Management Personnel in 2017 amounted to 8.5 million euro, which includes payment of the three-year incentive plan (2015- 2017) to the CEO. Net of the above, compensation paid to the Group’s executives decreased by 5% versus the prior year, due to the dynamics that took place and to slightly lower MBO outlays than the prior year.

Transactions with parent companies, affiliates and associates

Transactions with related parties, including intercompany transactions, do not qualify as atypical or unusual transactions, and were concluded at market conditions.

TRANSACTIONS WITH RELATED PARTIES: FIGURES AT DECEMBER 31, 2017

(Euro/thousands)	Trade receivables	Financial receivables	Tax receivables	Other current assets	Trade payables
Parent companies:					
- Fininvest S.p.A.	4		199		62
Associates					
- Mach 2 Libri S.p.A.	13,325				28
- Venezia Musei Società per i servizi museali S.c.ar.l.	260			12	
- Harlequin Mondadori S.p.A.					
- Attica Publications Group	46	500			6
- Edizioni EL S.r.l.	1,144			15	5,096
- Società Europea di Edizioni S.p.A.	483			29	1,109
- ACI-Mondadori S.p.A. (in liquidation)					
- Consorzio COVAR (in liquidation)					
- EMAS Digital S.A.S.					
- Campania Arte S.c.ar.l.					
- Mondadori Independent Media LLC	3				
- Venezia Accademia Soc. per i serv. mus. S.c.ar.l.	38	25			99
- Mediamond S.p.A.	33,406				4,972
- Mondadori Seec Advertising Co. Ltd	1,123				118
- GD Media Service S.r.l.	2				359
- Monradio S.r.l.	115				117
- Gold 5 S.r.l.					
- Skira Rizzoli Publications Inc.					
- EDIGITA S.r.l					
Total associates	**49,945**	**525**	**0**	**56**	**11,904**

Financial payables	Tax payables	Other current liabilities	Revenue	Purchases of raw materials	Purchases of services	Cost of personnel	Other costs (income)	Financial income (costs)
	4,075		4		61		21	47
			9,677		11			
			23		12			24
		1	1,677	7,174	78			
		123	2,120	230	(5)		(16)	
							(1)	
			22		76		(15)	
			79,680	3,700	2,894		(37)	
			1,361		120		48	
			2	366	911			
			87	87	5		(27)	
0	**0**	**124**	**94,649**	**11,557**	**4,102**	**0**	**(48)**	**24**

TRANSACTIONS WITH RELATED PARTIES: FIGURES AT DECEMBER 31, 2017

(Euro/thousands)	Trade receivables	Financial receivables	Tax receivables	Other current assets	Trade payables
Affiliates:					
- RTI - Reti Televisive Italiane S.p.A.	435				1,235
- Publitalia ’80 S.p.A.					1,868
- Digitalia ’08 S.r.l.					9
- Banca Mediolanum S.p.A.	3				
- Publieurope Ltd					
- Isim S.p.A.					
- Mediaset S.p.A.	9				
- Alba Servizi Autotrasporti S.p.A.					
- Mediolanum Comunicazione S.p.A.					
- Fininvest Gestione Servizi S.p.A.	2				12
- Milan Entertainment S.r.l.					
- Mediaset Premium S.p.A.	15				
- Media4Commerce S.p.A.					(65)
- Mediobanca S.p.A.					
Total affiliates	**464**	**0**	**0**	**0**	**3,059**
Total related parties	**50,413**	**525**	**199**	**56**	**15,025**
of which related parties from discontinued operations	-	-	-	-	-
Percentage on item	**16.9%**	**15.2%**	**0.7%**	**0.1%**	**4.6%**

Financial payables	Tax payables	Other current liabilities	Revenue	Purchases of raw materials	Purchases of services	Cost of personnel	Other costs (income)	Financial income (costs)
			(3,286)		273	(156)		
			9		4,346			
					41			
		7	389		1			
				10				
					1			
			12					
					10	(69)		
			12	5				
			23	(79)				
0	**0**	**7**	**(2,831)**	**(74)**	**4,672**	**(225)**	**0**	**0**
0	**4,075**	**131**	**91,822**	**11,483**	**8,835**	**(225)**	**(27)**	**71**
-	-	-	-	-	-	-	-	-
0.0%	**70.9%**	**0.1%**	**7.2%**	**4.7%**	**1.3%**	**n.s.**	**n.s.**	**1.7%**

TRANSACTIONS WITH RELATED PARTIES: FIGURES AT DECEMBER 31, 2016

(Euro/thousands)	Trade receivables	Financial receivables	Tax receivables	Other current assets	Trade payables
Parent companies:					
- Fininvest S.p.A.	3		10,058		29
Associates					
- Mach 2 Libri S.p.A.	18,985				134
- Venezia Musei Società per i servizi museali S.c.ar.l.	260			12	
- Harlequin Mondadori S.p.A.					
- Gruppo Attica Publications	82	500			10
- Edizioni EL S.r.l.	870			21	4,869
- Società Europea di Edizioni S.p.A.	620				455
- ACI-Mondadori S.p.A. (in liquidation)					
- Consorzio COVAR (in liquidation)					
- EMAS Digital S.A.S.					
- Campania Arte S.c.ar.l.		107			19
- Mondadori Independent Media LLC					
- Venezia Accademia Soc. per i serv. mus. S.c.ar.l.		25			25
- Mediamond S.p.A.	32,748			169	6,327
- Mondadori Seec Advertising Co. Ltd	460				11
- GD Media Service S.r.l.	2				570
- Monradio S.r.l.	31				56
- Gold 5 S.r.l.		60			
- Skira Rizzoli Publications Inc.	505				
- EDIGITA S.r.l					
Total associates	**54,563**	**692**	**0**	**202**	**12,476**

Financial payables	Tax payables	Other current liabilities	Revenue	Purchases of raw materials	Purchases of services	Cost of personnel	Other costs (income)	Financial income (costs)
	182	72	3		60			
			15,887		102		(20)	
			1		12			24
		1	1,663	6,984	8			
		123	2,895	245	10		(23)	
			5		6			
			36					(1)
					42		(5)	
26			78,135	4,0206	5,738	(250)	(59)	
			698		11		33	
			(20)	391	1,249			
			15		107		(53)	
					180			
26	**0**	**124**	**99,315**	**11,826**	**7,465**	**(250)**	**(127)**	**23**

TRANSACTIONS WITH RELATED PARTIES: FIGURES AT DECEMBER 31, 2016

(Euro/thousands)	Trade receivables	Financial receivables	Tax receivables	Other current assets	Trade payables
Imprese consociate:					
- RTI - Reti Televisive Italiane S.p.A.	62			2	64
- Publitalia ’80 S.p.A.					1,563
- Digitalia ’08 S.r.l.					
- Banca Mediolanum S.p.A.	8			(5)	
- Publieurope Ltd	3				
- Isim S.p.A.					
- Mediaset S.p.A.	9				
- Alba Servizi Autotrasporti S.p.A.					8
- Mediolanum Comunicazione S.p.A.	7				
- Fininvest Gestione Servizi S.p.A.	48				
- Milan Entertainment S.r.l.	69				
- Mediaset Premium S.p.A.					
- Media4Commerce S.p.A.	70				922
- Mediobanca S.p.A.					
Total affiliates	**276**	**0**	**0**	**(3)**	**2,558**
Total related parties	**54,842**	**692**	**10,058**	**199**	**15,063**
of which related parties from discontinued operations	-	-	-	-	-
Percentage on item	**18.4%**	**20.5%**	**33.0%**	**0.2%**	**4.5%**

Financial payables	Tax payables	Other current liabilities	Revenue	Purchases of raw materials	Purchases of services	Cost of personnel	Other costs (income)	Financial income (costs)
		(1)	131	(2)	63			
			82		9,812			
					77			
		5	48					
							(3)	
							(2)	
			9					
					8			
			18					
			3		16	(91)		
			111					
				9				
			153	(69)				
0	**0**	**4**	**555**	**(62)**	**9,976**	**(91)**	**(5)**	**0**
26	**182**	**200**	**99,873**	**11,764**	**17,501**	**(341)**	**(132)**	**23**
-	-	-	-	-	-	-	-	-
0.1%	**10.2%**	**0.1%**	**7.9%**	**4.9%**	**2.6%**	**n.s.**	**n.s.**	**n.s.**

44. FINANCIAL RISK MANAGEMENT AND OTHER INFORMATION REQUIRED PURSUANT TO IFRS 7

In carrying out its business activities, the Mondadori Group is exposed to various financial risks, including interest rate risk, exchange rate risk, credit/counterparty risk, issuer risk and liquidity risk.

The Group drafted a "General Policy for Financial Risk Management" aimed at regulating and defining financial risk management. The Policy also envisaged the setting up of a Risk Committee, whose task is to identify any changes. The Policy was adopted by the Parent Company, Arnoldo Mondadori Editore S.p.A., and all Group companies.

The Mondadori Group analyses and measures its exposure to financial risks for the purpose of defining management and hedge strategies. The criteria used by the Group to measure the risks include the sensitivity analysis of positions subject to risk, involving "mark to market" analysis of variations and/or future cash flow variations in relation to small variations in risk factors.

The overall Policy objective is to minimize financial risks, by using appropriate tools available on the market. Financial derivative instruments are exclusively used to hedge against financial risks directly referring to Arnoldo Mondadori Editore S.p.A. or its subsidiaries.
Financial derivative instruments may not be used for speculative purposes.

Specific company functions are responsible for risk management and monitoring and reports are drafted periodically for each type of risk.

Interest rate risk

Interest rate risk refers to the possibility that losses may be incurred in financial management, in terms of lower business activity performance or increased liability costs (existing or potential) as a result of interest rate fluctuations.

Interest rate risk is therefore correlated to interest rate uncertainty. The key objective of interest rate risk management is to reduce exposure of the Group's financial margin against market interest rate fluctuations.

Group exposure to interest rate risk mainly refers to long-term loans, specifically, to the loan granted by a pool of banks coming to maturity in December 2022.

Interest rate risk hedging is ensured through interest rate swap contracts, converting exposure from floating to fixed rate.

Specifically:
- a -0.20% fixed rate 3-month Euribor hedge, comprising an interest rate swap of a notional value of 20.6 million euro, coming to maturity in June 2019;
- a 0.20% fixed rate 3-month Euribor hedge, comprising an interest rate swap of a notional value of 27.5 million euro, coming to maturity in December 2022;
- a -0.20% fixed rate 3-month Euribor hedge, comprising an interest rate swap of a notional value of 20.6 million euro, coming to maturity in June 2019;
- a 0.20% fixed rate 3-month Euribor hedge, comprising an interest rate swap of a notional value of 27.5 million euro, coming to maturity in December 2022;

- a -0.20% fixed rate 3-month Euribor hedge, comprising an interest rate swap of a notional value of 33.8 million euro, coming to maturity in June 2019;
- a 0.197% fixed rate 3-month Euribor hedge, comprising an interest rate swap of a notional value of 45.0 million euro, coming to maturity in December 2022.

For more detailed information regarding debt, reference should be made to Note 22, "Financial assets", and Note 28, "Financial liabilities".

The following table shows the findings of the sensitivity analysis with indication of the relevant impact on income statement and equity, gross of any tax effects.

While identifying potential impact correlated to positive and negative interest rate variations, floating-rate loans were also analyzed.

The basic assumptions underlying the sensitivity analysis are:
- an initial parallel shift of the interest curve of + 100/-20 base points;
- all the other risk variables remain constant;
- same analysis performed both on the current year and the prior year.

Sensitivity analysis (Euro/millions)	**Underlying**	**Interest rate increase/ (decrease)**	**Income (costs)**	**Equity increase (decrease)**
2017	(131.1)	1%	-	4.5
2016	(200.1)	1%	(0.8)	4.8
2017	(131.1)	(0.2%)	-	(0.9)
2016	(200.1)	(0.2%)	0.2	(1.0)

Currency risk

Currency risk refers to a set of negative effects on the margin or the value of an asset or a liability as a result of exchange rate fluctuations.
The Mondadori Group is not particularly exposed to exchange rate risks. At 31 December 2017, there are no exchange derivatives in place.

Liquidity risk

Liquidity risk refers to the possibility that the Group may not be able to face payment obligations as a result of its inability to raise new funds (funding liquidity risk), or its inability to sell assets on the market (asset liquidity risk), thereby being forced to sustain excessively high costs for the purpose of meeting obligations.

The Group's exposure to liquidity risk mainly refers to existing loans and borrowings. The Group currently has medium-long term loans (loans granted in pool) with banks.
In addition, if deemed necessary, the Group may resort to pre-authorized short-term credit lines. For further information on current and non-current financial liabilities, reference should be made to Note 28 "Financial liabilities".

At 31 December 2017, liquidity risk was managed by Mondadori Group through the following tools:
• bank and postal deposits totaling 66.6 million euro;
• committed credit lines totaling approximately 450.0 million euro (200.0 million euro of which unused) and uncommitted credit lines of 214.1 million euro, drawn down for a total of 1.0 million euro at 31 December 2017.

The table below details Group exposure to liquidity risk and the relevant maturity dates.

Liquidity risk (Euro/millions)	**Analysis of maturity periods at 31/12/2017**						
	< 6 months	**6-12 months**	**1-2 years**	**2-5 years**	**5-10 years**	**> 10 years**	**Total**
Trade payables	311.6	-	-	-	-	-	311.6
Medium/long-term loans	1.6	16.6	120.1	122.9	-	-	261.2
Other financial liabilities:							
- committed lines	-	-	-	-	-	-	-
- uncommitted lines	11.6	-	-	-	-	-	11.5
Other liabilities	110.0	-	-	-	-	-	110.0
Payables to associates	11.9	-	-	-	-	-	11.9
Total	**446.7**	**16.6**	**120.1**	**122.9**	**-**	**-**	**706.3**
Derivatives on rate risk	(0.3)	(0.2)	(0.5)	(0.4)			(1.4)
Derivatives on currency risk	-	-	-	-	-	-	-
Total exposure	**447.0**	**16.9**	**120.6**	**123.2**	**-**	**-**	**707.7**

Liquidity risk (Euro/millions)	**Analysis of maturity periods at 31/12/2016**						
	< 6 months	**6-12 months**	**1-2 years**	**2-5 years**	**5-10 years**	**> 10 years**	**Total**
Trade payables	319.9	-	-	-	-	-	319.9
Medium/long-term loans	6.0	31.0	44.7	293.6	-	-	375.3
Other financial liabilities:							
- committed lines	-	-	-	-	-	-	-
- uncommitted lines	12.4	-	-	-	-	-	12.4
Other liabilities	103.7	-	1.7	2.9	-	-	108.3
Payables to associates	12.5	-	-	-	-	-	12.5
Total	**454.5**	**31.0**	**46.3**	**296.6**	**-**	**-**	**828.4**
Derivatives on rate risk	(0.3)	(0.3)	(0.5)	(0.2)			(1.3)
Derivatives on currency risk	-	-	-	-	-	-	-
Total exposure	**454.8**	**31.3**	**46.8**	**296.7**	**-**	**-**	**829.7**

Maturity dates were analyzed by using undiscounted cash flows and the amounts were accounted for by taking into account the first date upon which payment becomes due. For this reason, uncommitted credit lines are shown in the first column.

For the purpose of meeting liquidity requirements, the Group relies on credit lines and liquidity, and cash flow from operations.

Credit risk

Credit risk refers to the possibility of incurring financial losses as a result of counterparty default in complying with contractual obligations.

A special type of credit risk is represented by the counterparty/replacement risk in case of derivative exposure. In this case, the risk is associated with any deferred gains as a result of the possibility that the counterparty fails to live up to its contractual obligations and thus no positive cash flow is generated in favour of the Company.

In the case of the Mondadori Group, this potential risk is limited, since the counterparties of derivative instrument contracts are leading financial institutions with high ratings.

The objective is to limit the risk for losses due to the unreliability of market counterparties or to the difficulty of converting or replacing existing financial positions. Hence, transactions with non-authorized counterparties are not allowed.

When approving the Policy, the Board of Directors also approved a list of authorized counterparties for financial risk hedging. Transactions with such authorized counterparties are constantly monitored and reports are periodically drafted.

Each individual Group company is responsible for the management of trade receivables in compliance with the Group financial objectives, commercial strategies and operating procedures, restricting the sale of products and services to customers whose credit profile or provision of collateral guarantees does not conform to the standards set. The balance relating to trade receivables is monitored throughout the year, to ensure that the amount of exposure to losses is kept low.

Maximum risk exposure for financial items including derivative instruments: maximum risk exposure is accounted for before the effects of mitigation deriving from compensation agreements and guarantees.

Credit risk (Euro/millions)	**31/12/2017**	**31/12/2016**
Deposits	64.5	75.9
Receivables and loans:		
- trade receivables and other current financial assets	314.7	324.5
- trade receivables and other non-current financial assets	11.0	11.6
Available-for-sale assets	0.9	0.4
Receivables from hedge derivatives	-	-
Guarantees	-	-
Total maximum exposure to credit risk	**391.1**	**412.4**

The table below shows the Group's exposure to credit risk by geographical area:

Trade credit risk concentration				
By geographical area:	Euro/millions **31/12/2017**	Euro/millions **31/12/2016**	% **31/12/2017**	% **31/12/2016**
Italy	247.0	241.8	82.9%	81.0%
France	43.9	49.2	14.7%	16.4%
Other countries	7.1	7.7	2.4%	2.6%
Total	**298.0**	**298.7**	**100.0%**	**100.0%**

Below is a description of management criteria used for the main business segments:

Books

The Group has adopted a specific procedure to assess the risk profile of any new customer. This procedure comprises the collection of commercial information to evaluate customer reliability before granting any credit line. Customer reliability is monitored on an ongoing basis.

Magazines

With reference to the Italian market, the Group's exposure relates to local distributors mainly represented by small-medium enterprises.
Given the fact that contractual provisions establish the collection of significant advances on supplies, exposure is represented by the residual amount of sales relating to the month of December.

In addition, for the purpose of limiting the credit risk, the Group stipulated an insurance.

The French market of magazines is characterized by only two national players, whose stake is also owned by the main French publishers.

Therefore, considering counterparty financial solidity and solvency, the Group does not consider credit risk relevant.

Advertising

Most of the Group's exposure is with small to medium-sized advertising investors and with media centres, constantly monitored by Mediamond S.p.A., an equally-held joint-venture with the Mediaset Group and advertising agency for Mondadori Group titles.

Mediamond S.p.A. controls credit risk with these subjects, for significant investments, through solvency analysis and the collection of commercial information before the provision of services.

Each company performs autonomous individual assessments of the most significant positions and makes the appropriate adjustments, taking into account the estimated recoverable amount, collection dates, recovery charges and costs and any guarantees issued.

In case of positions not subject to specific losses, the Group companies set up a provision based on historical data and statistics.

The table below shows the Group's exposure to credit risk by business area:

Trade credit risk concentration (Euro/millions)		Analysis of maturity periods at 31/12/2017 Net overdraft				
	Net to maturity	0-30 days	30-60 days	60-90 days	Over	Bad debt provision
Books	135.6	10.4	3.6	(5.7)	3.8	13.5
Magazines Italy	56.4	10.1	1.8	1.4	6.1	10.2
Magazines France	33.9	6.5	3.3	0.1	10.4	2.4
Retail	16.0	2.7	0.8	0.6	-	7.2
Other business	0.4	-	-	-	-	0.1
Total	**242.2**	**29.7**	**9.5**	**(3.7)**	**20.3**	**33.4**

Trade credit risk concentration (Euro/millions)		Analysis of maturity periods at 31/12/2016 Net overdraft				
	Net to maturity	0-30 days	30-60 days	60-90 days	Over	Bad debt provision
Books	129.8	4.7	4.8	4.1	4.5	15.4
Magazines Italy	47.2	9.4	2.4	0.6	6.1	13.6
Magazines France	39.4	5.3	2.5	1.3	0.3	3.8
Retail	12.3	2.5	0.9	0.6	9.7	5.8
Other business	7.7	1.3	0.7	-	0.6	0.4
Total	**236.4**	**23.2**	**11.3**	**6.6**	**21.2**	**39.0**

OTHER INFORMATION REQUESTED PURSUANT TO IFRS 7

The table below summarizes financial assets and liabilities classified according to the categories defined by IAS 39 and the relevant fair value:

Classification								
	Book value						Fair value	
	Total		of which current		of which non-current			
(Euro/millions)	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16	31/12/17	31/12/16
Financial assets measured at fair value with differences recognized under income statement, held for trading	-	-	-	-	-	-	-	-
Receivables and loans:								
- cash and cash equivalents	66.6	77.6	66.6	77.6	-	-	66.6	77.6
- trade receivables	248.1	244.2	244.6	240.4	3.5	3.8	248.1	244.2
- other financial assets	27.6	36.6	24.1	33.0	3.4	3.6	27.5	36.6
- receivables from affiliates and joint ventures	50.4	55.3	50.0	55.3	0.5	-	50.5	55.3
Available-for-sale financial assets	0.9	0.4	0.9	0.4	-	-	0.9	0.4
Derivatives	-	-	-	-	-	-	-	-
Total financial assets	**393.6**	**414.1**	**386.2**	**406.7**	**7.4**	**7.4**	**393.6**	**414.1**
Financial liabilities at fair value:								
- non-hedge derivatives	-	-	-	-	-	-	-	-
Financial liabilities at amortized cost:								
- trade payables	311.6	319.9	311.6	319.9	-	-	311.6	319.9
- payables to banks and other financial liabilities	369.0	446.9	136.6	141.1	232.4	305.8	377.7	476.6
- payables to associates and joint ventures	11.9	12.5	11.9	12.5	-	-	11.9	12.5
Derivatives	0.3	1.6	-	-	0.3	1.6	0.3	1.6
Total financial liabilities	**692.8**	**780.9**	**460.1**	**473.5**	**232.7**	**307.4**	**701.5**	**810.6**

IFRS 7 requires values regarding financial assets and liabilities to be classified based on a scale of levels reflecting input significance used when calculating fair value.

At 31 December 2017, the Group has current and non-current financial liabilities represented by derivatives as defined in Note 28 “Financial liabilities”, that are classified as Level 2; this scale refers to procedures to either directly or indirectly monitor inputs having a significant impact on fair value.

The table below summarizes income and expenses recognized under income statement and attributable to financial assets and liabilities, classified according to the categories defined by IAS 39.

Income and loss from financial instruments (Euro/millions)	**2017**	**2016**
Interest earned on financial assets not measured at fair value:		
- deposits	-	-
- other financial assets	0.7	0.8
Total income	**0.7**	**0.8**
Net loss on derivative instruments	1.1	1.6
Interest due on financial liabilities not measured at fair value	-	-
- deposits	-	0.1
- bonds	-	-
- borrowings	8.6	10.9
- other	2.3	3.2
Losses from financial instrument impairment:		
- trade receivables	10.8	9.1
Expense and commissions not included in effective interest rates	2.2	1.8
Total costs	**25.0**	**26.7**
Total	**(24.3)**	**(25.9)**

45. FAIR VALUE MEASUREMENT

Some of the Group's financial assets and liabilities were measured at fair value.

Financial assets (liabilities) (Euro/thousands)	**Fair value 31 December 2017**	**Fair value hierarchy**	**Valuation method and main inputs**
Interest rate swap contracts	(341)	Level 2	Discounted cash flow. Projected flows are discounted based on the forward rate curve expected at the end of the period and on the contractual fixing rates, also taking the counterparty default risk into account.
Investments in other companies	902	Level 3	Based on the nature of the investments held in other companies, the cost may be considered representative of the fair value.

46. OPERATING SEGMENTS

The reporting required by IFRS 8 - Operating segments - is provided by taking into account the Group's organizational structure, based on which the periodic reporting is made, used by Management to define actions and strategies, evaluate investment opportunities and allocate resources; the picture versus 2016 remained unchanged.

SEGMENT REPORTING: FIGURES AT 31 DECEMBER 2017

(Euro/thousands)	Books	Retail
Revenue from sales and services from external customers	**479,812**	**197,817**
Revenue from sales and services from other sectors	**44,136**	**701**
Income (costs) from investments measured at equity	(1,727)	-
EBITDA	**74,479**	**606**
EBIT	**62,805**	**(3,723)**
Financial income (costs)	-	-
Result before tax and minority interests	**62,805**	**(3,723)**
Income tax	-	-
Result attributable to minority shareholders	1	-
Result from discontinued operations	-	-
Net result	**62,804**	**(3,723)**
Amortization, depreciation and impairment	11,674	4,329
Non-monetary costs	24,401	3,281
Non-recurring income (costs)	-	-
Capital expenditure	11,536	2,636
Investments booked at equity	3,398	-
Total assets	391,526	103,636
Total liabilities	256,594	79,404

Italy
France
Other EU countries
USA
Other countries
Consolidated result

	Magazines Italy	Magazines France	Corporate & Shared Services	Unallocated items and consolidation adjustments	Consolidated result
	291,454	**297,373**	**1,812**	**-**	**1,268,268**
	(777)	**70**	**24,391**	**(68,521)**	**0**
	663	-	(2,891)	-	(3,955)
	12,799	**18,390**	**(5,632)**	**476**	**101,118**
	7,019	**5,047**	**(10,148)**	**476**	**61,476**
	-	-	(13,989)	-	(13,989)
	7,019	**5,047**	**(24,137)**	**476**	**47,487**
	-	-	14,547	-	14,547
	-	2,522	-	-	2,523
	-	-	-	-	0
	7,019	**2,525**	**(38,684)**	**476**	**30,417**
	5,780	13,343	4,516	-	39,642
	3,908	10,144	2,607	-	44,341
	-	-	-	-	0
	941	1,860	4,348	-	21,321
	20,112	-	13,629	-	37,139
	245,197	428,330	200,250	(31,997)	1,336,942
	186,426	120,833	372,586	(24,215)	991,628

	Revenue from sales and services	Fixed assets
	908,309	243,938
	291,500	372,276
	25,835	-
	36,371	3,675
	6,253	-
	1,268,268	**619,889**

SEGMENT REPORTING: FIGURES AT 31 DECEMBER 2016

(Euro/thousands)	Books	Retail
Revenue from sales and services from external customers	**427,813**	**198,895**
Revenue from sales and services from other sectors	**47,272**	**684**
Income (costs) from investments measured at equity	(86)	-
EBITDA	**72,277**	**1,397**
EBIT	**61,940**	**(3,513)**
Financial income (costs)	-	-
Result before tax and minority interests	**61,940**	**(3,513)**
Income tax	-	-
Result attributable to minority shareholders	1	-
Result from discontinued operations	-	-
Net result	**62,219**	**(3,513)**
Amortization, depreciation and impairment	10,337	4,910
Non-monetary costs	5,628	4,372
Non-recurring income (costs)	-	-
Capital expenditure	47,414	6,161
Investments booked at equity	5,548	-
Total assets	395,575	105,659
Total liabilities	236,998	82,092

Italy
France
Other EU countries
USA
Other countries
Consolidated result

Magazines Italy	Magazines France	Corporate & Shared Services	Unallocated items and consolidation adjustments	Consolidated result
312,120	**321,676**	**2,843**	**-**	**1,263,347**
(1,564)	**38**	**20,419**	**(66,849)**	**0**
1,208	-	(701)	-	421
3,596	**30,814**	**(12,564)**	**(1,482)**	**94,038**
(1,604)	**18,915**	**(14,243)**	**(1,482)**	**60,013**
-	-	(17,710)	-	(17,710)
(1,604)	**18,915**	**(31,953)**	**(1,482)**	**42,303**
-	-	17,992	-	17,992
-	2,746	-	-	2,747
-	-	-	979	979
(1,604)	**16,169**	**(49,245)**	**(1,482)**	**22,544**
5,200	11,899	1,679	-	34,025
5,928	6,993	3,697	-	26,618
-	-	-	-	0
45,822	1,787	831	-	102,015
21,524	-	15,466	-	42,538
255,205	454,186	237,577	(28,164)	1,420,038
198,237	129,537	472,041	(16,665)	1,102,240

Revenue from sales and services	Fixed assets
894,530	250,791
314,576	390,221
21,487	-
26,821	4,460
5,933	-
1,263,347	**645,472**

47. INFORMATION PURSUANT TO ART. 149-*DUODECIES* OF CONSOB ISSUER REGULATION

Table drafted pursuant to article 149-*duodecies* of Consob Issuer Regulation, illustrating fees paid in 2017 for auditing and other services provided by Deloitte & Touche S.p.A. and by other entities belonging to the same network.

Service	Entity providing the service	Beneficiary of the service		**Amount** (Euro/thousands)
Auditing	Deloitte & Touche S.p.A.	Arnoldo Mondadori Editore S.p.A.		368.8
	Deloitte & Touche S.p.A.	Subsidiaries		663.2
	Other network companies	Subsidiaries		236.9
Certification	Deloitte & Touche S.p.A.	Arnoldo Mondadori Editore S.p.A.	(1)	92.7
	Deloitte & Touche S.p.A.	Subsidiaries	(2)	14.6
	Other network companies	Subsidiaries	(3)	35.5
Other services	Other network companies	Subsidiaries	(4)	39.0
Total				**1,450.7**

(1) Accertamento Diffusione Stampa (circulation auditing). Auditing of the Company financial statements, tax returns and auditor's stamp
(2) Audits for underwriting of tax returns and auditor's stamp
(3) Auditing procedure for the obtaining of subsidized postal tariffs (CPAPP)
(4) Due diligence

For the Board of Directors
The Chairman
Marina Berlusconi

CERTIFICATION OF THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

CERTIFICATION OF THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned Ernesto Mauri, in his capacity as CEO, and Oddone Pozzi, in his capacity as Financial Reporting Manager of Arnoldo Mondadori Editore S.p.A., also in compliance with the provisions set out in art. 154-*bis*, par. 3 and 4, of Legislative Decree no. 58 of February 24, 1998, hereby certify:

   • the adequacy in relation to the Group's characteristics and
   • the effective application,

   of the administrative and accounting procedures for the drafting of the Group's consolidated financial statements in 2017.

2. The valuation of the adequacy of the administrative and accounting procedures for the drafting of the Group's consolidated financial statements at 31 December 2017 was carried out based on a specific process defined by Arnoldo Mondadori Editore S.p.A. consistently with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which groups together a set of general principles of reference generally accepted at the international level.

3. We also hereby certify that:

   3.1 the Group's consolidated financial statements at December 31, 2017:

   a) were drafted in compliance with the applicable international accounting standards acknowledged at the EU level pursuant to EC Regulation no. 1606/2002 of the EU Parliament and Council of July 19, 2002, as well as with the provisions set out for the implementation of art. 9 of Legislative Decree no. 38/2005;

   b) reflect the accounting books and entries;

   c) provide a true and fair description of the financial position and results of operations of the Company and the group of companies included in the consolidation scope.

   3.2 the Report on Operations includes a reliable analysis of the Company's performance and results, the financial position of the Company and the companies included in the consolidation scope, along with the description of the main risks and uncertainties they are exposed to.

March 13, 2018

The CEO
(Ernesto Mauri)

The Financial Reporting Manager
(Oddone Pozzi)

15 October 2017
Palazzo Niemeyer opens to the public on FAI
Autumn Day.

Arnoldo Mondadori Editore S.p.A. Financial Statements at 31 December 2017

BALANCE SHEET

Assets (Euro)	Notes	31/12/2017	31/12/2016*	01/01/2016*
Intangible assets	1	125,429,390	87,232,211	87,015,290
Investment property	2	2,831,303	2,936,591	3,027,544
Land and buildings		3,389,029	5,282,788	5,639,777
Plant and equipment		1,162,009	1,439,646	1,791,512
Other tangible assets		1,216,312	843,333	770,473
Property, plant and equipment	3	**5,767,350**	**7,565,767**	**8,201,762**
Investments	4	487,464,408	503,577,116	313,104,117
Non-current financial assets	4	165,000,000	178,582,192	200,000,000
Pre-paid tax assets	5	12,897,505	18,088,936	24,650,617
Other non-current assets	6	323,098	351,489	345,051
Total non-current assets		**799,713,055**	**798,334,302**	**636,344,381**
Tax receivables	7	25,964,816	27,186,531	33,396,628
Other current assets	8	4,290,277	4,924,660	4,574,205
Inventory	9	6,034,120	7,702,354	10,039,826
Trade receivables	10	50,549,470	39,933,201	28,977,705
Other current financial assets	11	90,043,845	100,363,382	116,135,676
Cash and cash equivalents	12	61,026,292	72,619,152	27,676,667
Total current assets		**237,908,820**	**252,729,280**	**220,800,707**
Assets held for sale or transferred		-	-	-
Total assets		**1,037,621,874**	**1,051,063,582**	**857,145,088**

* Reporting formats restated in accordance with IAS 8 following change in the measurement of investments in subsidiaries, joint ventures and associates

Liabilities (Euro)	**Notes**	**31/12/2017**	**31/12/2016***	**01/01/2016***
Share capital		67,979,168	67,979,168	67,979,168
Treasury shares		(1,653,869)	(73,207)	-
Other reserves and profit/(loss) carried forward		219,070,942	196,872,988	196,007,462
Profit (loss) for the year		30,417,415	22,543,940	-
Total equity	13	**315,813,656**	**287,322,889**	**263,986,630**
Provisions	14	33,100,645	33,432,031	34,513,055
Post-employment benefits	15	11,855,680	11,609,980	11,612,365
Non-current financial liabilities	16	232,798,918	302,933,755	220,386,726
Deferred tax liabilities	5	28,831,578	24,263,705	24,021,171
Other non-current liabilities		-	-	-
Total non-current liabilities		**306,586,821**	**372,239,471**	**290,533,317**
Income tax payables	17	-	-	-
Other current liabilities	18	47,857,683	45,995,129	42,204,805
Trade payables	19	75,280,614	72,513,385	80,557,359
Payables to banks and other financial liabilities	16	292,083,100	272,992,708	179,862,977
Total current liabilities		**415,221,397**	**391,501,222**	**302,625,141**
Liabilities held for sale or transferred		-	-	-
Total liabilities		**1,037,621,874**	**1,051,063,582**	**857,145,088**

* Reporting formats restated in accordance with IAS 8 following change in the measurement of investments in subsidiaries, joint ventures and associates

INCOME STATEMENT

(Euro)	Notes	2017	2016*
Revenue from sales and services	20	**241,559,151**	**239,226,630**
Decrease (increase) in inventory	9	1,668,234	2,337,472
Cost of raw and ancillary materials, consumables and goods	21	25,776,759	29,392,940
Cost of services	22	147,428,307	150,972,008
Cost of personnel	23	76,035,366	72,961,199
Other (income) costs	24	(11,282,787)	(5,623,388)
EBITDA		**1,933,273**	**(10,813,601)**
Depreciation of property, plant and equipment	2	1,202,807	1,300,222
Amortization and impairment loss of intangible assets	1	3,741,677	462,148
EBIT		**(3,011,211)**	**(12,575,971)**
Financial income (costs)	25	(4,758,505)	(4,777,659)
Income (costs) from investments	26	40,082,835	39,616,019
Result before tax		**32,313,119**	**22,262,389**
Income tax	28	1,895,704	(281,551)
Result from continuing operations		**30,417,415**	**22,543,940**
Income (costs) from discontinued operations	27	-	-
Net result		**30,417,415**	**22,543,940**

* Reporting formats restated in accordance with IAS 8 following change in the measurement of investments in subsidiaries, joint ventures and associates

COMPREHENSIVE INCOME STATEMENT

(Euro)	2017	2016
Net result	**30,417,415**	**22,543,940**
Items reclassifiable to income statement		
Effective part of profit/(loss) on cash flow hedge instruments (cash flow hedge)	(340,718)	(1,577,411)
Tax effect	81,772	433,788
Items of the comprehensive income statement of investments measured at equity	(3,053,000)	324,000
Reclassified entries under income statement		
Effective part of profit/(loss) on cash flow hedge instruments (cash flow hedge)	2,051,017	2,044,622
Tax effect	(492,244)	(617,480)
Items not reclassifiable to income statement		
Actuarial income/(losses)	132,975	(348,982)
Tax effect	(31,914)	83,756
Actuarial gains/(losses) from investments measured at equity	277,939	(1,059,774)
Comprehensive net result	**29,043,242**	**21,826,459**

For the Board of Directors
The Chairman
Marina Berlusconi

STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2016* AND 2017

(Euro/thousands)	Share capital	Treasury shares	Performance share reserve	Discounting reserve - IAS 19 post-employment benefits	Cash flow hedge reserve	Other reserves	Result for the year	Total equity
Balance at 31/12/2015	**67,979**	**-**	**268**	**592**	**(2,523)**	**126,284**	**(31,982)**	**160,618**
Effects of the change in accounting standards	-	-	-	-	-	103,368	-	103,368
Balance at 01/01/2016 Restated	**67,979**	**-**	**268**	**592**	**(2,523)**	**229,652**	**(31,982)**	**263,986**
Changes in:								
- Allocation of result	-	-	-	-	-	(31,982)	31,982	-
- Purchase of treasury shares	-	(73)	-	-	-	-	-	(73)
- Performance Share	-	-	(268)	-	-	268	-	-
- Other reserves	-		-	-	-	1,584	-	1,584
- Comprehensive profit/(loss)	-	-	-	(265)	283	(736)	22,544	21,826
Balance at 31/12/2016 Restated	**67,979**	**(73)**	**-**	**327**	**(2,240)**	**198,786**	**22,544**	**287,323**

(Euro/thousands)	Share capital	Treasury shares	Performance share reserve	Discounting reserve - IAS 19 post-employment benefits	Cash flow hedge reserve	Other reserves	Result for the year	Total equity
Balance at 31/12/2016 Restated	**67,979**	**(73)**	**-**	**327**	**(2,240)**	**198,786**	**22,544**	**287,323**
Changes in:								
- Allocation of result	-	-	-	-	-	22,544	(22,544)	-
- Purchase of treasury shares	-	(1,581)	-	-	-	-	-	(1,581)
- Performance Share	-	-	850	-	-	-	-	850
- Other reserves	-	-	-	-	-	179	-	179
- Comprehensive profit/(loss)	-	-	-	101	1,300	(2,775)	30,417	29,043
Balance at 31/12/2017	**67,979**	**(1,654)**	**850**	**428**	**(940)**	**218,734**	**30,417**	**315,814**

For the Board of Directors
The Chairman
Marina Berlusconi

* Financial statement restated in accordance with IAS 8 following change in the measurement of investments in subsidiaries, joint ventures and associates

CASH FLOW STATEMENT

(Euro thousands)	Notes	2017	2016
Result for the year		**30,417**	**22,544**
Adjustments			
Amortization, depreciation and impairment		4,945	15,059
Income tax for the year		(34)	(2,718)
Stock options		415	-
Provisions and post-employment benefits		392	(713)
Gains (losses) from disposal of intangible assets, property plant and equipment and investments		(4,161)	(556)
(Income)/costs from measurement of investments at equity		(40,083)	(39,616)
Net financial costs (income) on loans and transactions with derivatives		11,845	14,270
Cash flow generation from operations		**3,736**	**8,270**
(Increase) decrease in trade receivables		(3,206)	(10,879)
(Increase) decrease in inventory		1,665	2,305
Increase (decrease) in trade payables		(487)	(6,929)
(Payment) cash-in from income tax		7,761	3,832
Increase (decrease) in provisions and post-employment benefits		(1,166)	(841)
Net difference for other assets/liabilities		(4,447)	15,762
Cash flow generated from (absorbed by) operations		**3,856**	**11,520**
Cash and cash equivalents contributed from merger		6	-
(Purchase) disposal of intangible assets		(5,158)	(1,129)
(Purchase) disposal of property, plant and equipment		4,979	(1,239)
(Purchase) disposal of investments		(6,545)	(163,827)
Income from investments - dividends		44,070	12,000
(Purchase) disposal of securities		-	-
Cash flow generated from (absorbed by) investing activities		**37,352**	**(154,195)**
Increase (decrease) in payables to banks for loans	16	(81,235)	98,735
Variation in other financial assets - intercompany		10,379	15,773
Variation in other financial liabilities - intercompany		26,967	75,285
(Purchase) disposal of treasury shares		(1,580)	(73)
Net difference for other financial assets/liabilities		3,749	12,315
Cash-in of net financial income (payment of net financial costs) on loans and transactions in derivatives		(11,081)	(14,418)
Dividends paid		-	-
Cash flow generated from (absorbed by) financing activities		**(52,801)**	**187,617**
Increase (decrease) in cash and cash equivalents		**(11,599)**	**44,942**
Cash and cash equivalents beginning of period		**72,619**	**27,677**
Cash and cash equivalents end of period		**61,026**	**72,619**
of which cash, cheques and securities		*1*	*1*
of which bank deposits		*61,025*	*72,614*

For the Board of Directors
The Chairman
Marina Berlusconi

BALANCE SHEET PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

Assets (Euro/thousands)	**Notes**	**31/12/2017**	**Of which related parties (Note 30)**	**31/12/2016***	**Of which related parties (Note 30)**
Intangible assets	1	125,429		87,232	
Investment property	2	2,831		2,937	
Land and buildings		3,389		5,283	
Plant and equipment		1,162		1,440	
Other tangible assets		1,216		843	
Property, plant and equipment	3	**5,767**		**7,566**	
Investments	4	487,464		503,577	
Non-current financial assets	4	165,000	165,000	178,582	178,582
Pre-paid tax assets	5	12,898		18,089	
Other non-current assets	6	323	140	351	140
Total non-current assets		**799,713**	**165,140**	**798,334**	**178,722**
Tax receivables	7	25,965	7,355	27,187	16,262
Other current assets	8	4,290	25	4,925	
Inventory	9	6,034		7,702	
Trade receivables	10	50,549	43,884	39,933	36,112
Other current financial assets	11	90,044	89,615	100,363	100,113
Cash and cash equivalents	12	61,026		72,619	
Total current assets		**237,909**	**140,879**	**252,729**	**152,487**
Assets held for sale or transferred		-		-	
Total assets		**1,037,622**	**306,019**	**1,051,064**	**331,209**

* Reporting formats restated in accordance with IAS 8 following change in the measurement of investments in subsidiaries, joint ventures and associates

Liabilities (Euro/thousands)	**Notes**	**31/12/2017**	**Of which related parties (Note 30)**	**31/12/2016***	**Of which related parties (Note 30)**
Share capital		67,979		67,979	
Treasury shares		(1,654)		(73)	
Other reserves and profit/(loss) carried forward		219,071		196,873	
Profit (loss) for the year		30,417		22,544	
Total equity	13	**315,814**		**287,323**	
Provisions	14	33,101		33,432	
Post-employment benefits	15	11,856		11,610	
Non-current financial liabilities	16	232,799		302,934	
Deferred tax liabilities	5	28,832		24,264	
Other non-current liabilities		-		-	
Total non-current liabilities		**306,587**		**372,239**	
Income tax payables	17	-		-	
Other current liabilities	18	47,858	6,567	45,995	7,504
Trade payables	19	75,281	9,748	72,513	17,393
Payables to banks and other financial liabilities	16	292,083	273,943	272,993	246,976
Total current liabilities		**415,221**	**290,258**	**391,501**	**264,369**
Liabilities held for sale or transferred		-		-	
Total liabilities		**1,037,622**	**290,258**	**1,051,064**	**264,369**

* Reporting formats restated in accordance with IAS 8 following change in the measurement of investments in subsidiaries, joint ventures and associates

INCOME STATEMENT PURSUANT TO CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

(Euro/thousands)	Notes	2017	Of which related parties (Note 30)	Of which non-recurring (income) costs (Note 29)	2016*	Of which related parties (Note 30)	Of which non-recurring (income) costs (Note 29)
Revenue from sales and services	20	**241,559**	**238,589**		**239,227**	**235,696**	
Decrease (increase) in inventory	9	1,668	-		2,337	-	
Cost of raw and ancillary materials, consumables and goods	21	25,777	1,607		29,393	2,301	
Cost of services	22	147,428	20,908		150,972	27,468	
Cost of personnel	23	76,035	2,623		72,961	-	
Other (income) costs	24	(11,283)	(5,603)		(5,623)	(4,706)	
EBITDA		**1,933**	**219,054**		**(10,814)**	**210,633**	
Depreciation of property, plant and equipment	2	1,203	-		1,300	-	
Amortization and impairment loss of intangible assets	1	3,742	-		462	-	
EBIT		**(3,011)**	**219,054**		**(12,576)**	**210,633**	
Financial income (costs)	25	(4,759)	8,778		(4,788)	11,395	
Income (costs) from assets/liabilities held for sale		40,083	40,083		39,616	-	
Result before tax		**32,313**	**267,915**		**22,262**	**222,952**	
Income tax	28	1,896			(282)		
Net result		**30,417**	**267,915**		**22,544**	**222,952**	

* Reporting formats restated in accordance with IAS 8 following change in the measurement of investments in subsidiaries, joint ventures and associates

ACCOUNTING STANDARDS AND EXPLANATORY NOTES

1. GENERAL INFORMATION

The core business of Arnoldo Mondadori Editore S.p.A. is the publishing of magazines and the sale of advertising space. The Company has its registered office in Via Bianca di Savoia 12, Milan, and headquarters in Strada privata Mondadori, Segrate, Milan.

The Company is present through the storage device on the www.1info.it website.

The amounts shown in the tables are in Euro; in these notes, the amounts are expressed in Euro thousands, unless otherwise stated.

The draft financial statements of Arnoldo Mondadori Editore S.p.A. for the year ended December 31, 2017 were approved by the Board of Directors on March 31, 2018 and made available, together with the additional documents forming the Company's Annual Report, pursuant to art. 154-ter of the TUF (Finance Consolidation Act), and the Statutory Auditors' and Independent Auditors' Reports, within the time limits established by current laws, at the registered office, at Borsa Italiana S.p.A. and on the Company's website.
The Company's financial statements will be filed with the Company Registry within 30 days after the Annual General Meeting called on 24 April 2018 to approve the 2017 financial statements.

Information pursuant to art. 2427, no. 22-quinquies of the Italian Civil Code
Arnoldo Mondadori Editore S.p.A. is part of the Fininvest Group, whose consolidated financial statements are prepared by the parent Finanziaria d'Investimento Fininvest S.p.A. A copy of the consolidated financial statements of the Fininvest Group is filed with the registered office of Finanziaria d'Investimento Fininvest S.p.A., in Largo del Nazareno 8, Rome.

2. FORM AND CONTENT

The financial statements at December 31, 2017 were drafted in compliance with the International Accounting Standards (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and approved by the EU, and in compliance with the International Financial Reporting Interpretations Committee (SIC/IFRIC).

The financial statements were drafted based on the historical cost, adjusted as requested to evaluate a few financial instruments, and on a going concern basis. The Company has decided that, despite the challenging economic, financial and core sector context, there is no significant uncertainty (as defined by IAS 1. 25) surrounding its ability to continue operations, also as a result of the actions undertaken to adjust to the changed market scenarios, and of its industrial and financial flexibility.

Arnoldo Mondadori Editore S.p.A. adopted the body of the standards applied as of 1 January 2005, following entry into force of European Regulation no. 1606 of 19 July 2002.

The financial statements at December 31, 2017 were prepared in accordance with the accounting standards used for the preparation of the IAS/IFRS consolidated financial statements at December 31, 2017, taking account of the amendments and the new standards effective as of 1 January 2017, as per Note 3.26, with the exception of the measurement criteria for investments in subsidiaries, joint ventures and associates, as per Note 3.7.

The following criteria were adopted in the drafting of these financial statements:
- current and non-current assets and current and non-current liabilities are shown separately in the balance sheet;
- in the separate income statement, the analysis of costs is carried out on the basis of the nature of the costs, since the Company decided that this method is more representative than an analysis by function;
- the comprehensive income statement contains revenue and cost items that are not recognized under income (loss) for the year as required or allowed by the other IAS/IFRS accounting standards;
- the cash flow statement has been prepared using the indirect method.

With reference to the requirements of Consob Resolution no. 15519 of 27 July 2006 concerning the tables to the financial statements, specific supplementary tables were included to highlight significant transactions with "Related parties" and "Non-recurring transactions".

The amounts shown in the tables and in these notes are expressed in Euro thousands unless otherwise stated.

3. ACCOUNTING STANDARDS AND VALUATION CRITERIA

The following is an explanation of the standards adopted by the Company in preparing the IAS/IFRS financial statements at December 31, 2017.

3.1 Intangible assets

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

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

Internal costs for producing publishing trademarks and for the launch of newspapers and magazines are recognized in the income statement for the year in question.

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

Intangible assets purchased separately and those purchased as part of business combinations that took place before the first-time adoption of IAS/IFRS are initially recognized at cost, while those purchased as part of business combination transactions carried out after the first adoption of IAS/IFRS are initially recognized at fair value.

Intangible assets with finite useful life

The cost of intangible assets with finite useful life is systematically amortized over the useful life of the asset from the moment that the asset is available for use. The amortization criteria depend on how the relating future economic benefits contribute to the Company's result.

The amortization rates reflecting the useful lives attributed to intangible assets with finite useful life are as follows:

Intangible assets with finite useful life	Amortization rates and useful life
Goods under concession or license	Duration of the concession and license
Software and development costs	Straight line over 3 years
Patents and rights	Straight line over 3-5 years
Other intangible assets (including Banzai platforms and PPA contents)	Straight line over 3-5 years
Trademarks (from PPA Banzai)	Straight line over 15 years

Intangible assets with finite useful life are subject to an impairment test whenever there is an indication of a possible impairment. The period and method of amortization applied are reviewed at the end of each year or more frequently, if necessary, whenever there are reasons to believe that changes have occurred.

Variations in the expected useful life or in the way future economic benefits linked to intangible assets are expected to be earned by the Company are recognized by modifying the period or method of amortization, and are treated as adjustments to accounting estimates.

Intangible assets with indefinite useful life

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

The intangible assets identified by the Company as having indefinite useful life are shown in the table below:

Intangible assets with indefinite useful life
Magazines
Trademarks
Goodwill

Goodwill represents the excess of the cost of a business combination over the Company's purchased share in the fair value of the assets, liabilities and contingent liabilities acquired, as identifiable at the time of purchase. Goodwill and other intangible assets with indefinite useful life are not subject to amortization but to an impairment test of their book value. This test concerns the value of the individual assets or of 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 partly disposed of, goodwill associated with the asset disposed of is reviewed in order to determine any capital gains or losses resulting from the transaction. In these circumstances, goodwill disposed of is measured on the basis of the value of the assets disposed of, compared with the asset still included in the cash generating unit in question.

3.2 Investment property

An investment property is recognized as an asset when it is held in order to earn income from its rental or to increase its invested capital value, on condition that the cost of the asset can be reliably measured and that future economic benefits will flow to the entity.

Investment property is valued at historical cost, which includes the purchase cost and all accessory charges directly connected to the purchase.

Costs which arise after the initial purchase are included in the increase of the cost of the property 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 amortized over the useful life of the asset. Amortization criteria depend on how the relating future economic benefits accrue to the entity.

The depreciation rates reflecting the useful lives attributed to the Company's investment property are shown as follows:

Investment property	Depreciation rate
Non-instrumental buildings	3%

Both the useful life and the depreciation criteria are periodically reviewed and, if any significant changes are found in the assumptions previously adopted, the amortization rate for the year in question and for successive years is adjusted.

Income and losses deriving from the disposal of investment property are recognized in the income statement pertaining to the year in which the transaction takes place.

Investment property is reclassified when there is a change in use following specific events.

3.3 Property, plant and equipment

Any costs attributable to the purchase of property, plant and equipment are recognized as assets, on condition that the relevant costs can be reliably calculated and any relating future economic benefits accrue to the entity.

Assets booked to property, plant and equipment are valued at historical cost, including any accessory charges, and are stated net of depreciation and any impairment.

Costs incurred after the initial purchase are recognized as an increase in cost in direct relation to the extent that these costs can improve the asset's yield.

Assets booked to property, plant and equipment purchased as part of acquisitions and business combinations are initially recognized at fair value as determined at the time of purchase and, subsequently, at historical cost.
Assets recognized as property, plant and equipment, with the exception of land, are depreciated on a straight line basis during the useful life of the asset from the moment the assets are available for use.

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

The depreciation rates that generally reflect the useful lives attributed to Company property, plant and equipment are shown in the table below:

Property, plant and equipment	Depreciation rate
Instrumental buildings	3%
Plant	10%-25%
Plant in external offices	Based on the duration of the lease contract or on the technical life, if lower
Machinery	15.5%
Equipment	25%
Electronic office equipment	30%
Office furniture, and machines	12%
Motor and transport vehicles	20%-30%
Other assets	20%

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

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

3.4 Finance lease assets

Assets acquired under finance leases, which transfer all the relevant risks and benefits to the Company, are recognized at current value or, if lower, at the value of the minimum lease payments, including the amount to be paid for exercising an eventual purchase option.

Liabilities arising from lease contracts are recognized under financial liabilities.

These assets are classified in the relevant categories under property, plant and equipment and are depreciated over the lower of the contract term and the useful life of the asset in question.

Lease contracts in which the lessor substantially retains all the risks and benefits associated with asset ownership are classified as operating leases and the relevant costs are recognized in the income statement for the entire duration of contract term.

3.5 Financial costs

Under IAS 23, the Company capitalizes the financial costs resulting from asset purchase, development or production. In case of failed identification of assets justifying capitalization, the costs are recognized under income statement in the year in which they are borne.

3.6 Impairment

The carrying value of intangible assets, investment property, and property, plant and equipment 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 indefinite useful life and on other assets that are not available for use, and are performed by comparing the carrying value with whichever is higher between the fair value minus the sales cost and the value in use of the asset.

If no binding sales agreement or active market for an asset exist, the fair value is calculated on the basis of the best information available as to the amount the entity would obtain at closing from the disposal of an asset in a free transaction between informed and willing parties, having deducted the costs of disposal.

The value in use of an asset is determined by discounting the cash flows expected from its use, subjecting forecasts of the relevant financial income on reasonable and sustainable assumptions used by the management to best represent the economic conditions foreseen for the remainder of the life of the asset, giving more weight to external indicators.

Discounting rates reflect current market estimates of the time value of money and the specific risks connected to the asset.

The valuation is carried out by individual asset or by the smallest Cash Generating Unit that generates cash flows from asset use.

Should the value resulting from the impairment test be lower than cost, the loss is recognized as a reduction in the value of the asset and recognized as a cost item in income statement.

If during subsequent financial years, when the impairment test is repeated, the reasons for the impairment no longer exist, the value of the asset, excluding goodwill, is reinstated to take into account the new recoverable value, which should never exceed the value that would have been stated had no loss in value been recognized.

3.7 Investments in subsidiaries, joint ventures and associates

Subsidiaries are business entities in which the Company has the power to determine, both directly and indirectly, administrative and managerial decisions and obtain the resulting benefits. Generally, control is assumed when the Company owns, directly or indirectly, more than half of the voting rights in the ordinary Shareholders' Meeting, including any potential rights to vote resulting from convertible securities.

Joint ventures are business entities in which the Company exercises, together with one or more partners, joint control over business activities. Joint control envisages that the strategic, financial and managerial decisions are made with the unanimous agreement of the parties sharing control.

Associates are business entities in which the Company has a considerable influence in the determination of the relevant administrative and managerial decisions, though not having control. Generally, a considerable influence is assumed when the Company owns, directly or indirectly, at least 20% of the voting rights in the ordinary Shareholders' Meeting.

Investments in subsidiaries, joint ventures and associates are initially recognized at cost and subsequently adjusted as a result of any changes in the interest in the relevant equity.
The Company's share of any income and loss of such companies is recognized under income statement. As further explained below, it should be noted that, in the year, in order to provide a clearer picture of its figures, the Company has retrospectively changed the measurement criteria of investments in subsidiaries, from the historical cost to equity.

Investments in other companies are valued at cost, subsequently adjusted as a result of any changes in value, determined by appropriate impairment tests, leading to conditions that require the adjustment of the book value to the actual value of the investment. The initial cost is recovered in subsequent years, should the reasons for the adjustments no longer apply. Adjustments and any value recoveries are recognized in the income statement.

3.8 Inventory

Inventory is valued at the lower of the cost and the net realizable value. Inventory cost includes purchase costs, processing costs and other costs involved in bringing an item to its current location and condition, without taking financial charges into consideration.

The calculation of cost of inventory is based on the weighted average cost of raw materials, consumables and finished products purchased for sale. 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 direct costs incurred, taking into account the progress of the production process.

The presumed net value for raw and ancillary materials and consumables corresponds to the cost of their replacement, while for semi-finished and finished products it corresponds to the standard estimated sales price net of estimated cost to completion and sales cost, respectively.

3.9 Financial assets

Financial assets are initially recognized at cost, increased by accessory purchase charges, corresponding to the fair value of the price paid. Purchases and sales of financial assets are recognized as of the trading date, which corresponds to the date in which the Company agrees to purchase the assets in question. After initial recognition, financial assets are posted according to the relevant classification, as outlined below:

Financial assets at fair value with adjustments recognized under income statement
This category includes financial assets held for trading, acquired for the purpose of sale in the short term.

Profit and losses deriving from fair value evaluation of assets held for trading are recognized in the income statement.

Held-to-maturity investments
Assets that envisage fixed or determinable payments with a fixed maturity date, that the Company intends to hold in its portfolio, are classified as financial assets held to maturity.

Long-term financial investments that are held to their maturity, such as bonds, are valued, after their initial recognition by using the amortized cost method based on effective interest rates, i.e. the rates that will apply to future payments or returns estimated for the entire life of the financial instrument.
Calculation of amortized cost also considers any discounts or premiums that will be applied over the period of time to maturity.

Financial assets that the Company decides to keep in its portfolio for an indefinite period do not fall into this category.

Loans and receivables
This item includes financial assets that do not have fixed or determinable payments and are not listed on an active market.

These assets are recognized at amortized cost using the discounting method. Income and loss are recognized under income statement when loans and receivables are cancelled out or in case of impairment, as well as through amortization.

Available-for-sale financial assets
Available-for-sale financial assets include all assets which do not fall into any of the categories mentioned above.

After being initially measured at cost, held-for-sale financial assets are measured at fair value. Income and loss from valuations are recognized in a separate item under equity for as long as the assets are held in the portfolio and for as long as no impairment loss is identified.

In the case of shares widely traded on regulated markets, fair value is determined by referring to the listing reached at the end of the trading day corresponding to the closing date.

For investments where an active market does not exist, fair value is determined by valuations based on recent trading prices between independent parties, or on the basis of the current market value of a substantially similar financial instrument or on the analysis of discounted cash flows or option pricing models.
Available-for-sale financial assets also include investments in other companies.

3.10 Trade receivables and other receivables

Trade receivables and other receivables are initially recognized at cost, i.e. at the fair value of the price collected upon completion of the relevant transaction. Receivables are recognized at current values when the relevant financial impact linked to the expected collection time span is significant and the collection date can be reliably estimated.
Receivables are recognized in the financial statements at their estimated realizable value.

3.11 Treasury shares

Treasury shares recognized to reduce equity are booked in a separate reserve.
No income or loss is recognized under income statement for the purchase, sale, issue, cancellation or any other transaction involving treasury shares.

3.12 Cash and cash equivalents

The cash, liquidity and cash equivalents item includes cash on hand and financial investments falling due within three months and which entail only a minimal risk of variation in their face value. They are recognized at face value.

3.13 Financial liabilities

Financial liabilities include financial payables, derivative instruments, payables associated with finance leases and trade payables. All financial liabilities other than derivative financial instruments are initially recognized at fair value, increased by any transaction costs, and are subsequently valued at amortized cost using the interest rate method.
Financial liabilities hedged by derivative instruments against the risk of changes in value (fair value hedges), are measured at fair value, in accordance with IAS 39 - *Hedge accounting*. Income and loss resulting from subsequent variations in fair value are recognized under income statement. Any changes linked to the effective hedge portion are offset by adjusting the value of the relevant derivative instruments.
Financial liabilities hedged by derivative instruments against the risk of changes in cash flow (cash flow hedges), are valued at amortized cost in compliance with IAS 39 - *Hedge accounting*.

3.14 Derecognition of financial assets and liabilities

A financial asset or, where applicable, part of a financial asset or parts of a group of similar financial assets, is derecognized when:
- the right to receive cash flows from the asset has been extinguished;
- the Company still has the right to receive cash flows from the asset but has taken on a contractual obligation to transfer the entire cash flow promptly to a third party;
- the Company has transferred the right to receive cash flows from an asset and has transferred substantially all the risks and benefits deriving from the ownership of the financial asset or has transferred control of the financial asset.

A financial liability is derecognized when the underlying obligation has been discharged, cancelled or expired.

3.15 Impairment of financial assets

At the balance sheet date, the Company carries out an impairment test in order to determine whether a financial asset or group of financial assets has decreased in value.

Financial assets valued at amortized cost
If there is objective evidence of a reduction in the value of loans and receivables, the loss amount is recognized under income statement and is calculated as the difference between the asset's book value and the current value of the estimated cash flows discounted based on the interest rate used initially for the asset.

If, in a subsequent period, the value loss amount decreases and such reduction can be objectively attributed to an event that has occurred after recognition of impairment, the previously recognized loss of value is reversed up to the amount the asset would have had, taking amortization into account, at the date of the reversal.

Available-for-sale financial assets

When any financial asset available for sale is subject to impairment, the accumulated value loss is recognized under income statement. Value reversals relating to equity instruments classified as available for sale are not recognized under income statement. Value reversals relating to debt instruments are recognized under income statement if the increase in the fair value of the instrument can be objectively attributed to an event that occurred after recognition of impairment in the income statement.

Financial assets valued at cost

If there is objective evidence of a reduction in the value of an unlisted equity instrument which was not recognized at fair value, because its fair value could not be reliably measured, or of a derivative instrument associated with and regulated by delivery of such unlisted equity instrument, the value loss amount is measured as the difference between the carrying value of the asset and the current value of the expected future cash flows discounted based on the current market performance rate for similar financial assets.

3.16 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value at the date they are stipulated. When a hedge operation is entered into, the Company designates and formally documents the hedge relationship for hedge accounting purposes and its objectives for risk and strategy management purposes. The documentation includes the identification of the hedging instrument, the object or transaction subject to hedge, the nature of the risk and the criteria adopted by the Company to evaluate hedging effectiveness in compensating exposure to fair value fluctuations of the object hedged or cash flows correlated to the risk hedged.
It is assumed that such hedges are highly effective to offset the exposure of the object hedged against fair value fluctuations or cash flows correlated to the risk hedged. The valuation of the effectiveness of such hedges is carried out on an ongoing basis over the years of application.
Transactions that satisfy hedge accounting criteria are accounted for as follows:

Fair value hedge

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

Cash flow hedge

If a derivative financial instrument is designated as a hedging instrument against exposure to cash flow variations of an asset or liability included in the financial statements or of a highly probable transaction, the effective portion of profit or loss deriving from fair value adjustment of the derivative instrument is recognized in a special reserve under equity. The accumulated income or loss is written off from the equity reserve and recognized under income statement, when the results of the transaction subject to hedge are recognized under income statement.
Income and loss associated with the ineffective part of a hedge are recognized under income statement. When a hedging instrument is terminated, but the transaction subject to hedge has not yet been carried out,

the accumulated income and loss are kept in the reserve under equity and will be reclassified under income statement upon completion of the transaction. Should the transaction subject to hedge be considered as no longer probable, any unrealized income and loss posted under the relevant equity reserve is recognized under income statement.
When hedge accounting is not applicable, income and loss deriving from the fair value valuation of the derivative financial instrument are recognized under income statement.

3.17 Provisions

Provisions established to cover liabilities that have been clearly identified, are certain or probable but whose amount or date of occurrence cannot be foreseen at the reporting date, are recognized when a legal or implicit obligation can be assumed which refers to past events and when it is also assumed that such obligation implies expenses that can be reliably measured.

Provisions are measured at fair value based on each individual liability item. When the financial impact associated with the assumed time span for the outlay is relevant and the payment dates can be reliably foreseen, provisions include said financial component, which is recognized in financial income (expense) in the income statement.

3.18 Post-employment benefits

Benefits to employees upon termination of the relevant labour contract are broken down according to their economic nature as follows:
• defined contribution plans, represented by the sums accrued as of 1 January 2007;
• defined benefit plans, represented by the severance indemnity (TFR) fund accrued until December 31, 2006.

In the defined contribution plans, the entity's legal or implicit obligation is limited to the amount of contributions to pay; hence, the actuarial and investment risks fall upon the employee. In the defined benefit plans, the entity's obligation consists in granting and ensuring the agreed benefits to employees; hence, the actuarial and investment risks fall upon the entity.

Post-employment benefits are calculated by applying actuarial criteria to the severance indemnity provision accrued until December 31, 2006, taking into account both demographic assumptions, including mortality rates and employee turnover, and financial assumptions, relating to discounts reflecting the time value of money and the inflation rate.

The amount recognized as a liability for defined benefit plans is represented by the current liability value at closing, net of the current value of plan assets, if any. This liability item is listed in the income statement and includes the following components:
• social security costs relating to current labour services;
• cost of interest;
• actuarial gains or losses;
• the expected return from any plans, if any.

The amounts accrued in favour of employees during the year, and any applicable actuarial gains or losses, are recognized under "Cost of personnel", while the relevant financial component, which represents the cost the company would have to incur if it were to seek a loan on the market for the same amount, is recognized under "Financial income (costs)".

The supplementary indemnity for agents is also determined on an actuarial basis. The amounts accrued in favour of agents during the year, which become payable upon termination of the labour contract only under certain conditions, are recognized under "Other costs (income)".

3.19 Equity compensation plans

The Company grants additional benefits to a number of board members and managers whose functions are strategically relevant for the attainment of the Company's results, through equity-settled compensation plans (Performance Share Plan).
In the case of share-based payments transactions settled with equity instruments of the Company, the fair value at the grant date, calculated according to the Monte Carlo model, is recorded under cost of personnel, with a corresponding increase in Equity under "Reserve for stock options/LTIs", over the period during which the employees obtain the unconditional right to the incentives. All non-vesting conditions are taken into account when estimating the fair value of the equity instruments granted.
The benefits, directly attributed by the Parent Company Arnoldo Mondadori Editore S.p.A. to the executives/managers of subsidiaries, are recognized as an increase in the cost of the relevant investment with a balancing entry in "Reserve for stock options/LTI" under equity.
Subsequently, the amount recognized as a cost is adjusted to reflect the actual number of shares for which the service condition and the non-market condition have been met, so that the final amount recorded as a cost is based on the number of incentives that will definitely vest.

3.20 Recognition of revenues and costs

Revenues from the sale of goods are recognized net of agency and commercial discounts, allowances and returns when it is probable that the relevant economic benefits will flow to the Company and the relevant revenue amount may be reliably determined.

Revenues from the sale of magazines and advertising spaces are recognized on the basis of the relevant date of publication.

Revenues from services are recognized based on the relevant state of completion, when it is probable that the economic benefits arising from the sale flow to the Company and when the revenue amount may be reliably calculated.

Revenues from interest are recognized on an accrual basis by applying the interest method; royalties are recognized on an accrual basis and subject to the conditions of the relevant agreements; dividends are recognized when the shareholder is acknowledged the right to payment.

Costs are recognized based on similar criteria as revenue and, in any case, on an accrual basis.

3.21 Current, pre-paid and deferred tax

Current tax is calculated on the basis of a taxable income estimate and in accordance with the laws applicable in the Country in which the Company has its registered offices.

Deferred and pre-paid tax is calculated on all the temporary differences arising between the taxable base of assets and liabilities and the relevant book values in the financial statements, with the exception of the following:

- temporary taxable differences deriving from the initial recognition of goodwill;
- temporary taxable or deductible differences resulting from the initial recognition of an asset or a liability in a transaction which does not imply business combination and which does not have any impact either on the result or the taxable income on the transaction date;
- in subsidiaries, associates and jointly-controlled companies when:
  - the Company is in a position to control the timing for the reversal of temporary taxable differences and it is probable that such differences shall not reverse in the foreseeable future;
  - it is not probable that deductible temporary differences will reverse in the foreseeable future and that taxable income is available to cover such temporary differences.

The value of prepaid tax amounts is reviewed at closing and is reduced if it is no longer probable that sufficient taxable income will be available in the future to cover all or part of these assets.
Deferred tax assets and liabilities are calculated on the basis of the tax rates that are expected to apply in the year in which assets are realized and liabilities are settled, considering the then applicable tax rates or the tax rates essentially used at the balance sheet date.

Tax relating to items directly recognized under equity (cash flow hedge reserve) is recognized directly under equity and not under income statement.

3.22 Transactions denominated in foreign currencies

Revenues and costs deriving from transactions denominated in foreign currencies are posted in the relevant currency at the exchange rate applied on the transaction date.
Monetary assets and liabilities denominated in foreign currencies are converted at the exchange rate ruling at the balance sheet date and any exchange differences are recognized under income statement.
Non-monetary items valued at historical cost in a foreign currency are converted using the exchange rates applied on the relevant transaction date. Non-monetary items recognized at fair value in a foreign currency are converted using the exchange rates applied on the fair value calculation date.

3.23 Grants and contributions

Grants and contributions are recognized if there is a reasonable certainty that they will be received and if all the conditions referring to them are satisfied. When grants refer to cost items, they are recognized as revenue and systematically distributed over the years so as to reflect the cost proportion they are intended to offset. When grants refer to assets, the relevant fair value is deferred in long-term liabilities and is recognized in equal amounts under income statement over the useful life of the asset.

3.24 Dividends

Following the change in the measurement criteria for investments in subsidiaries and associates, dividends are recognized as a decrease in the value of the investment when shareholders are given right to them. This normally corresponds to the date of the Shareholders' Meeting resolving upon dividend payout.

3.25 Discontinued assets and liabilities

Non-current assets and groups of assets and liabilities whose book value is mainly expected to be recovered through disposal instead of continuous use are recognized separately from other assets and liabilities in the balance sheet. Such assets and liabilities are classified as "held-for-sale or discontinued", and are valued at the lower of their book value and fair value less probable costs of disposal. Income and loss, net of the related tax effect, resulting from the valuation or disposal of such assets or liabilities are recognized in a separate item in the income statement.

3.26 Accounting standards, amendments and interpretations adopted by the EU, with effect from 1 January 2017 and applied by Arnoldo Mondadori Editore S.p.A.

The following accounting standards, amendments and IFRS interpretations have been applied by the Group for the first time with effect from 1 January 2017:

- Amendment to IAS 7 "Disclosure Initiative" (published on 29 January 2016). The document intends to provide clarification on how to improve disclosures on financial liabilities. Specifically, the amendments require to disclose information that enables users of the financial statements to understand the changes in liabilities arising from financing transactions. The additional information required by the new amendment, regarding changes in liabilities generated by financing activities, is shown in paragraph 16. *Financial liabilities*.
- Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses" (published on 19 January 2016). The document intends to provide clarification on the recognition of deferred tax assets for unrealized losses and the measurement of available-for-sale financial assets when certain circumstances occur, and on estimated taxable income for future years. The adoption of the amendment had no impact on the Company's financial statements.

3.27 Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union but not yet applicable on a compulsory basis and not adopted in advance by the Company at December 31, 2017

- IFRS 15 – *Revenue from Contracts with Customers* (published on May 28, 2014 and supplemented with additional clarification published on April 12, 2016), which will replace IAS 18 – *Revenue* and IAS 11 – *Construction Contracts*, as well as IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers* and SIC 31 – *Revenues-Barter Transactions Involving Advertising Services*. The standard establishes a new model for the recognition of revenue, which will be applied to all contracts stipulated with customers except for those falling within the application of other IAS/IFRS standards as leasing, insurance contracts and financial instruments. The key steps in the accounting of revenue based on this new model are:
  - identification of the contract with the customer;
  - identification of the performance obligations included in the contract;
  - pricing;
  - price allocation based on the performance obligations included in the contract;
  - the criteria for the recognition of revenue when the entity meets each performance obligation.

  The standard is effective as of 1 January 2018. The amendments to IFRS 15, Clarifications to IFRS 15 - *Revenue from Contracts with Customers*, were endorsed by the European Union on 6 November 2017.
  Based on the analysis carried out, the directors expect the application of IFRS 15 to have a significant impact on revenue amounts recognized and on disclosure in the financial statements. Specifically, in light of the new standard, further analysis was required on the principal versus agent relationship within the Company and the Group. The analysis showed that, in terms of revenue from the sale of magazines, the Company acts as principal based on the provisions of paragraph B37 of the standard, because it controls the goods before their delivery to the end user. From an accounting point of view, the entity that acts as principal is required to account separately in its financial statements for the revenue and expenses deriving from the sales carried

out through the agent, as if it had performed them on its own account. Therefore, revenue from the sale of magazines and the expenses associated with the sales channel – consisting of fees to distributors – need to be recognized differently in the financial statements; the impact at December 31, 2017, if the company had applied this standard, would be an increase in magazine sales revenue of 40,784 thousand euro and an equivalent increase in expenses for distribution fees. The Company will apply IFRS 15 retrospectively to each previous year presented in accordance with IAS 8, notwithstanding permitted practical expedients, where applicable.

- Final version of IFRS 9 – *Financial Instruments* (published on 24 July 2014). The document includes the findings of the IASB project to replace IAS 39:
  - it introduces new criteria for the classification and measurement of financial assets and liabilities (in addition to the valuation of the non-substantial amendments to financial liabilities);
  - in relation to the impairment model, the new standard requires an entity to base its measurement of expected credit losses (not on the incurred losses model used by IAS 39) on reasonable and supportable information that is available without undue cost or effort, and that includes historical, current and forecast information;
  - it introduces a new hedge accounting model (broadening of the transaction types eligible for hedge accounting, changes in the accounting of forward contracts and options when included in a hedge accounting relationship, changes in the effectiveness test).

  This new standard must be applied in the financial statements starting from 1 January 2018 or later.
  Based on the analysis carried out, the directors expect the application of IFRS 9 to have an impact on the amounts recognized and on the relevant disclosure in the Company's financial statements. Specifically, the fair value difference arising from the renegotiation of the loan of 267 thousand euro will be booked under reserves at 1 January 2018; the intercompany items, instead, are expected not to produce a significant impact, except for several reclassifications, since the Company already adopts a general impairment model for trade receivables, in addition to the specific analysis of non-performing positions.

- IFRS 16 – *Leases* (published on 13 January 2016), which will replace IAS 17 – Leases, and the interpretations IFRIC 4 *Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.
  The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish leases from service contracts, the differences lying in: the identification of the asset, the right to replace the asset, the right to essentially receive all the financial benefits arising from the use of the asset, and the right to control the use of the asset underlying the contract.
  The standard introduces a single lessee accounting model, by which an asset under a lease, including an operating lease, is recognized in assets with an offsetting financial liability. The model also provides the possibility of not recognizing as leases those contracts regarding low-value assets and leases with a term of 12 months or less. Conversely, the standard introduces no material changes for the lessor.
  The standard is effective as of 1 January 2019, but early adoption is allowed only for those companies that have previously adopted IFRS 15 - *Revenue from Contracts with Customers*.
  The directors expect the application of IFRS 16 to have a significant potential impact on the amounts and on the relevant disclosure included in the Company's financial statements. A reasonable estimate, however, can be given only when the Company will have conducted a thorough analysis of the relating contracts. Early application of the standard is not envisaged.
  With regard to the significance that leases have for the Company, it is considered reasonable to conclude that the impact of this new standard will be material. Specifically, on a balance sheet level, the first order of magnitude of a non-index-related and undiscounted liability for future payments and, consequently, the value of the rights of use, may be represented by the total commitments for leases, as shown in paragraph 28. *Commitments and contingent liabilities*.

3.28 Accounting standards, amendments and IFRS interpretations not yet endorsed by the European Union

As at the date of these Financial Statements, the competent bodies of the European Union have yet to complete the endorsement process required for the adoption of the amendments and standards listed below.

- On 18 May 2017, the IASB published IFRS 17 – *Insurance Contracts*, which will replace IFRS 4 – *Insurance Contracts*.
  The standard does not apply to the Company as it does not pursue any insurance activities. The directors do not expect any impact on the financial statements from the adoption of this standard.

- Amendment to IFRS 2 "*Classification and measurement of share-based payment transactions*" (published on 20 June 2016), containing a number of clarifications regarding accounting for the effects of vesting conditions in cases of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics, and regarding accounting for changes to the terms and conditions of a share-based payment that modify the classification from cash-settled to equity-settled. The amendments are effective as of 1 January 2018. The directors do not expect any significant impact on the financial statements from the adoption of these amendments.

- "Annual Improvements to IFRSs: 2014-2016 Cycle", published on 8 December 2016 (including IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*, IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*, IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*), which partly supplement existing standards. Most of the amendments are effective as of 1 January 2018. The directors do not expect any significant impact on the financial statements from the adoption of these amendments.

- Interpretation IFRIC 22 "*Foreign Currency Transactions and Advance Consideration*" (published on 8 December 2016). The interpretation intends to provide guidelines on foreign currency transactions if non-monetary advances or payments have been recognized before the recognition of the relating asset, expense or income. The document provides guidance on how an entity should determine the date of a transaction and, therefore, the spot exchange rate to use in the event of foreign currency transactions where payment is made or received in advance. IFRIC 22 is effective as of 1 January 2018. The directors do not expect any significant impact on the financial statements from the adoption of these amendments.

- Amendment to IAS 40 "*Transfers of Investment Property*" (published on 8 December 2016). The amendments clarify the transfers of a property to, or from, investment properties. Specifically, an entity should reclassify a property into, or from, investment property only when there is an evident change in use of the property. Such a change must be traced back to a specific event that occurred and should, therefore, not be restricted to a change of intentions by the Management of an entity. These amendments are effective as of 1 January 2018. The directors do not expect any significant impact on the financial statements from the adoption of these amendments.

- On 7 June 2017, IASB published the interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments. The document deals with the uncertainties over income tax treatments*.
  The document envisages that uncertainties in the determination of tax liabilities or assets be reflected in the financial statements only when the entity is likely to pay or recover the amount in question. Additionally, the document does not contain any new disclosure requirements, but emphasizes that the entity will have to determine whether it will be necessary to provide information on Management's considerations and the uncertainty inherent in the accounting of tax, in accordance with IAS 1.

The new interpretation is effective as of 1 January 2019, but early adoption is allowed. The directors do not expect any significant impact on the financial statements from the adoption of this interpretation.

- Amendment to IFRS 9 "*Prepayment Features with Negative Compensation*" (published on 12 October 2017). This documents specifies the prepayable instruments that may meet the "SPPI" test even if the reasonable additional compensation to be paid in the event of prepayment is negative compensation for the lender. The amendment is effective as of 1 January 2019, but early adoption is allowed. The directors do not expect any significant impact on the financial statements from the adoption of these amendments.

- Amendment to IAS 28 "*Long-term Interests in Associates and Joint Ventures*" (published on 12 October 2017). The document clarifies the need to apply IFRS 9, including the requirements on impairment, to other long-term interests in an associate or joint venture to which the equity method is not applied. The amendment is effective as of 1 January 2019, but early adoption is allowed. The directors do not expect any significant impact on the financial statements from the adoption of these amendments.

- Document "*Annual Improvements to IFRSs 2015-2017 Cycle*", published on 12 December 2017 (including IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements – Remeasurement of previously held interest in a joint operation*, IAS 12 Income Taxes - *Income tax consequences of payments on financial instruments classified as equity*, IAS 23 *Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation*), which acknowledges the amendments to a number of standards in the context of the annual process for their improvement. The amendments are effective as of 1 January 2019, but early adoption is allowed. The directors do not expect any significant impact on the financial statements from the adoption of these amendments.

- Amendment to IFRS 10 and IAS 28 *Sales or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on 11 September 2014). The document was published to solve the current conflict between IAS 28 and IFRS 10 on the measurement of gain or loss resulting from the sale or contribution of a non-monetary asset to a joint venture or an associate in return for an investment in the latter. IASB has currently suspended the application of this amendment.

- IFRS 14 – *Regulatory Deferral Accounts* (published on 30 January 2014) which allows only first-time adopters of IFRS to continue to account for rate-regulated activities in accordance with the previous accounting standards used. As the Company is not a first-time adopter, the standard is not applicable.

4. USE OF ESTIMATES

In preparing the attached tables and the notes to these financial statements, it was deemed necessary to use estimates and assumptions in order to calculate, in particular, the provisions for returns relating to the sale of publishing products, the provisions for bad debt, inventory obsolescence and risks, post-employment benefits and taxation and the expected cash flows to calculate the value of some current and non-current activities under intangible assets and goodwill.

These estimates are periodically reviewed and any effects are recognized under income statement.

Estimates are based on the current status of information available, are examined periodically and effects reflected in income statement.

It should be noted that in the current macroeconomic context and in the specific scenario of the publishing industry, characterized by the ongoing financial and economic crisis, it was deemed necessary to make assumptions on the future trend showing substantial uncertainties. As a result, it is not possible to exclude that in the upcoming years, results might differ from estimates and that adjustments to the accounting value of items are needed, which cannot be either foreseen or quantified today, but which can also be significant.

The most significant accounting estimates that involve a high level of subjective opinion are outlined below:

Goodwill and intangible assets

The value reduction relating to goodwill and intangible assets is tested for impairment by comparing the book value of the Cash Generating Units and the relevant recoverable value, represented by the higher of fair value and the value in use. This process includes, among others, the application of methods such as discounted cash flow, with the relevant assumptions.

Bad debt provision

The ability to recover bad debt is calculated by taking into account the risk of collection failure, the period of time receivables have been outstanding and any losses sustained in the past on similar debts.

Inventory depreciation provision

The Company estimates the amount of inventory to subject to impairment loss based on specific analyses ascertaining finished product marketability and the relevant turnover rates, and, for orders in progress, the Group considers the relevant risk of failed completion.

Returns to receive

In the publishing sector it is accepted practice that unsold books and magazines are returned to the publisher under pre-established conditions.

Therefore, at the end of each financial year, the Company measures the quantities that are expected to be returned in the following year: this estimate is based on historical statistics and takes into account also the level of circulation.

Provision for risks

Provisions made in relation to costs for restructuring and judicial, arbitration and tax disputes are based on complex estimates; for tax disputes in particular, they take into account the probability of losing the dispute.

Post-employment benefits

Provisions made in relation to funds in favour of employees are based on actuarial assumptions: any changes in the underlying assumptions may have significant effects on them.

Income tax

Income tax (both current and deferred) is calculated based on the applicable rates in Italy according to a prudent interpretation of currently applicable tax laws.

5. RISK MANAGEMENT

The Company manages financial risks for all Mondadori Group Italian subsidiaries. For an exhaustive analysis of the Group's financial risks, reference should be made to the relevant section in the consolidated financial statements.

6. NON-RECURRING INCOME AND EXPENSES

As required by Consob resolution no. 15519 of 27 July 2006, in a specific statement, income and expenses deriving from non-recurring transactions are recognized under income statement. Transactions and events are considered non-recurring when, by nature, they do not occur repeatedly during normal business operations. Mention should be made that no non-recurring income and expenses were identified in the current year, as outlined in the above Consob Resolution.

7. OTHER INFORMATION

Significant transactions at January 1st, 2017: merger of Banzai Media S.r.l.

On January 15, 2017, the Company merged its subsidiary Banzai Media S.r.l. by incorporation, with retroactive accounting and tax effects as of January 1, 2017. Following the merger, the fair value of assets acquired and liabilities assumed of Banzai Media S.r.l. was aligned to the amounts recorded in the consolidated financial statements, recognized on purchase price allocation which took place on the closing of the 2016 consolidated financial statements.
A thorough disclosure and comparability of the relevant figures is found in the following pro-forma summary table on the balance sheet and results, as if the merger had taken place in the prior year.
Pro-forma figures include the elimination of the intragroup loan, of the investment in Banzai Media S.r.l., and of its equity and relating goodwill.

Balance sheet (Euro/thousands)	**AME S.p.A.** **31/12/2017**	**Proforma** **AME S.p.A.** **01/01/2017**	**Merger of** **Banzai Media** **01/01/2017**	**AME S.p.A.** **31/12/2016**
Intangible assets	125,429	120,449	8,557	87,232
Investment property	2,831	2,937	-	2,937
Property, plant and equipment	5,767	7,946	380	7,566
Investments	487,465	479,935	1,018	503,577
Non-current financial assets	165,000	178,582	-	178,582
Pre-paid tax assets	12,898	18,686	597	18,089
Other non-current assets	323	393	42	351
Total non-current assets	**799,713**	**808,928**	**10,594**	**798,334**
Tax receivables	25,965	27,508	321	27,187
Other current assets	4,290	5,015	90	4,925
Inventory	6,034	7,702	-	7,702
Trade receivables	50,550	47,296	7,363	39,933
Other current financial assets	90,044	87,791	60	100,363
Cash and cash equivalents	61,026	72,625	6	72,619
Total current assets	**237,909**	**247,937**	**7,840**	**252,729**
Total assets	**1,037,622**	**1,056,866**	**18,434**	**1,051,064**
Total equity	**315,814**	**286,983**	**-**	**286,983**
Provisions	33,101	34,112	340	33,772
Post-employment benefits	11,855	13,067	1,457	11,610
Non-current financial liabilities	232,799	302,934	-	302,934
Deferred tax liabilities	28,831	24,264	-	24,264
Total non-current liabilities	**305,586**	**374,376**	**1,797**	**372,579**
Income tax payables	-	-	-	-
Other current liabilities	47,858	47,553	1,558	45,995
Trade payables	75,281	74,960	2,447	72,513
Payables to banks and other financial liabilities	292,083	272,993	12,632	272,993
Total current liabilities	**415,222**	**395,506**	**16,637**	**391,501**
Total liabilities	**1,037,622**	**1,056,866**	**18,434**	**1,051,064**

Income statement (Euro/thousands)	**AME S.p.A. 31/12/2017**	**Proforma AME S.p.A. 01/01/2017**	**Merger of Banzai Media 01/01/2017**	**AME S.p.A. 31/12/2016**
Revenue from sales and services	**241,559**	**259,046**	**19,819**	**239,227**
Decrease (increase) in inventory	1,668	2,337	-	2,337
Cost of raw and ancillary materials, consumables and goods	25,777	29,412	19	29,393
Cost of services	147,428	162,237	11,265	150,972
Cost of personnel	76,035	82,014	9,053	72,961
Other (income) costs	(11,283)	(5,424)	199	(5,623)
EBITDA	**1,933**	**(11,531)**	**(717)**	**(10,814)**
Depreciation of property, plant and equipment	1,203	1,494	194	1,300
Amortization and impairment loss of intangible assets	3,742	3,290	2,828	462
EBIT	**(3,011)**	**(16,315)**	**(3,739)**	**(12,576)**
Financial income (costs)	(4,759)	(4,960)	(182)	(4,778)
Income (costs) from investments	40,083	42,238	(93)	39,616
Result before tax	**32,313**	**20,963**	**(4,014)**	**22,262**
Income tax	1,896	(215)	(67)	(282)
Result from continuing operations	**30,417**	**21,178**	**(4,081)**	**22,544**
Income (costs) from discontinued operations	-	-	-	-
Net result	**30,417**	**21,178**	**(4,081)**	**22,544**

Change in accounting policies

Following publication of the amendment to IAS 27 - *Equity Method in Separate Financial Statements*, which introduces the option of using the equity method for the measurement of investments in subsidiaries, joint ventures and associates in the separate financial statements, in order to provide a clearer picture on the Parent Company's balance sheet, given the significant differences between cost and equity of investments as a result of retained earnings, the Directors deemed it appropriate to change the measurement method of investments in subsidiaries, joint ventures and associates.

The change has been applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, as this amendment does not have any transitional provisions. The Company has therefore adjusted the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

Accordingly, in the financial statements the Company has presented the following documents:

- balance sheets: at the transition date (January 1, 2016), at December 31, 2016, and at December 31, 2017;
- income statements: the restated income statement for year ended December 31, 2016 and the income statement at the reporting date.

The amount of the adjustment to prior years compared to the published amount is shown in paragraph 4. Financial fixed assets in these Explanatory Notes

The following table shows the equity and income statement effects for the years 2015 and 2016:

(Euro/thousands)	**Equity effects**	**Income statement effects**
Balance at 31/12/2015 published	**160,618**	**(31,982)**
Effects of the change in accounting policies - IAS 8	103,368	-
Balance at 01/01/2016 Restated	**263,986**	**(31,982)**
Balance at 31/12/2016 published	**145,387**	**(15,176)**
Effects of the change in accounting policies - IAS 8	141,936	37,720
Balance at 31/12/2016 Restated	**287,323**	**22,544**

Details regarding the items of the financial statements

All the amounts are expressed in Euro thousands, with the exception of some ancillary data, which are expressed in Euro millions. The amounts in brackets refer to 2016 figures.

BALANCE SHEET

ASSETS

1. Intangible assets

Intangible assets (Euro/thousands)	**31/12/2017**	**31/12/2016**
Intangible assets with finite useful lives	20,513	1,013
Intangible assets with indefinite useful lives	104,916	86,219
Total intangible assets	**125,429**	**87,232**

The availability and use of intangible assets recognized in these financial statements are not subject to any lien or restriction.

Intangible assets with finite useful lives (Euro/thousands)	**Licences, rights and content**	**Software**	**Others and under construction**	**Total**
Cost at 01/01/2016	598	8,817	-	9,415
Capital expenditure	-	679	-	679
Historical cost at 31/12/2016	598	9,496	-	10,094
Provision for depreciation and impairment loss at 01/01/2016	598	8,021	-	8,619
Amortization, depreciation	-	462	-	462
Provision for depreciation and impairment loss at 31/12/2016	598	8,483	-	9,081
Net book value at 01/01/2016	-	796	-	796
Net book value at 31/12/2016	**-**	**1,013**	**-**	**1,013**

Intangible assets with finite useful lives (Euro/thousands)	**Licences, right and content**	**Trademarks**	**Software**	**Cost of development**	**Others and under construction**	**Total**
Cost at 01/01/2017	598	-	9,496	-	-	10,094
Capital expenditure	-	-	2,093	235	1,944	4,272
Merger of Banzai	3,799	14,633	1,923	14,298	374	35,027
Historical cost at 31/12/2017	4,397	14,633	13,512	14,533	2,318	49,393
Impairment loss at 01/01/2017	598	-	8,483	-	-	9,081
Amortization, depreciation	719	909	1,220	831	63	3,742
Merger of Banzai	678	2,184	495	12,535	165	16,057
Depreciation and impairment losses at 31/12/2017	1,995	3,093	10,198	13,366	228	28,880
Net book value at 01/01/2017	-	-	1,013	-	-	1,013
Net book value at 31/12/2017	**2,402**	**11,540**	**3,314**	**1,167**	**2,090**	**20,513**

Capital expenditure in the year, amounting to 4,272 thousand euro, refers mainly to the SAP ERP project, to go live on 1 January 2019: relating purchase of software licenses of 1,300 thousand euro was recorded and amortized over a period of 5 years starting from the current one, as the licenses are already available for use, as well as fixed assets under construction for work progress consisting of external consultancy and cost of personnel for the dedicated resources. Development costs refer to the cost of personnel for resources working specifically on website creation.

Following the merger with Banzai Media S.r.l., the Company booked in its fixed assets the fair value of the assets recognized on purchase price allocation with the relating depreciation provision resulting from the consolidated financial statements at December 31, 2016. Assets with finite useful life consist of the trademarks, contents, technological platforms and internal development costs of the vertical sites acquired from Banzai Media S.r.l.

Intangible assets with indefinite useful lives (Euro/thousands)	**Magazines**	**Trademarks**	**Goodwill**	**Total**
Cost at 01/01/2016	83,577	4,263	732	88,572
Capital expenditure	-	-	-	0
Disposals	-	-	-	0
Other changes	-	-	-	0
Cost at 31/12/2016	83,577	4,263	732	88,572
Impairment loss 01/01/2016	-	(2,353)	-	(2,353)
Impairment/(reinstatement loss)	-	-	-	0
Impairment loss at 31/12/2016	0	(2,353)	0	(2,353)
Net book value at 01/01/2016	83,577	1,910	732	86,219
Net book value at 31/12/2016	**83,577**	**1,910**	**732**	**86,219**

Intangible assets with indefinite useful lives (Euro/thousands)	**Magazines**	**Trademarks**	**Goodwill**	**Total**
Cost at 01/01/2017	83,577	1,910	732	86,219
Capital expenditure	-	-	-	0
Disposals	-	-	-	0
Merger of Banzai	-	-	18,697	18,697
Cost at 31/12/2017	83,577	1,910	19,429	104,916
Impairment loss at 01/01/2017	-	-	-	-
Impairment loss at 31/12/2017	-	-	-	-
Net book value at 01/01/2017	83,577	1,910	732	86,219
Net book value at 31/12/2017	**83,577**	**1,910**	**19,429**	**104,916**

Magazines and trademarks with indefinite useful life mainly refer to the Magazines Area (specifically, *TV Sorrisi e Canzoni* and *Chi*, each of which represents a different Cash Generating Unit) comprised in the acquisition of the business unit, former SBE, completed in 1994.
The increase in goodwill in the year, amounting to 18,697 thousand euro, refers solely to the Banzai Media merger, and reflects the value of goodwill as previously recorded in the Mondadori Group consolidated financial statements on the specific CGU. As mentioned, as the merger falls into the broader frame of a reorganization and streamlining process involving the Group, the transaction was accounted for based on the consistent amounts principle, as required by the revised OPI 2.

Amortization, impairment loss and value reinstatement of intangible assets

Amortization and impairment loss on intangible assets (Euro/thousands)	**2017**	**2016**
Licences, rights and content	719	-
Trademarks	909	-
Software	1,220	462
Cost of development	831	-
Other	63	-
Total amortization of intangible assets	**3,742**	**462**
Amortization of intangible assets	-	-
Value reinstatement of intangible assets	-	-
Total amortization (value reinstatement) of intangible assets	**0**	**0**
Total amortization of intangible assets	**3,742**	**462**

Pursuant to IAS 36, assets with indefinite useful life and goodwill are not subject to amortization but to an impairment test at least once a year or whenever there is an indication of impairment.

For the impairment tests carried out on magazines, trademarks and goodwill to calculate their recoverable value, the value in use was measured.

Cash Generating Unit former Silvio Berlusconi Editore
The value of magazines with indefinite useful life, each of which represents a Cash Generating Unit, refers to the acquisition of Silvio Berlusconi Editore, completed in 1994. The main magazines acquired are *TV Sorrisi e Canzoni*, *Chi* and *Telepiù*.

The recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

Data is derived from the income statements of the individual magazines, considered representative of the relevant cash flows, taking into account the immediate collection of revenue typical of magazines. The margins from the magazines also include overhead and operating costs.

The operating results used for the projections include tax; the discount rate before tax, applied to cash flow projections, is equal to 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review, nor on their goodwill. The book value coverage percentage is equal to approximately 260%.

Digital Cash Generating Unit
On June 8, 2016, Arnoldo Mondadori Editore S.p.A. acquired 100% of the share capital of Banzai Media Holding S.p.A., the leading Italian digital publisher with established brands in the vertical segments of women, food, health & wellness.

Following completion of the purchase price allocation process, after expressing the assets acquired and liabilities assumed at fair value, the higher price paid was attributed to the trademarks, to the proprietary software and, for the residual portion, to goodwill.

The recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on February 8, 2018, and approved on March 29, 2018. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

Data are derived from the income statements of the vertical segments, deemed to represent the relating cash flows; the operating results used for the projections include tax; the discount rate before tax, applied to cash flow projections, is equal to 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Unit under review, nor on its goodwill. The book value coverage percentage is equal to approximately 160%.

2. Investment property

Investment property (Euro/thousands)	**Land**	**Non-instrumental buildings**	**Total**
Cost at 01/01/2016	1,032	3,952	4,984
Capital expenditure	-	14	14
Disposals	-	-	0
Other changes	-	-	0
Historical cost at 31/12/2016	1,032	3,966	4,998
Depreciation and impairment losses at 01/01/2016	-	1,956	1,956
Amortization, depreciation	-	105	105
Impairment/(reinstatement of value)	-	-	0
Disposals	-	-	0
Other changes	-	-	0
Provision for depreciation and impairment loss at 31/12/2016	0	2,061	2,061
Net book value at 01/01/2016	1,032	1,996	3,028
Net book value at 31/12/2016	**1,032**	**1,905**	**2,937**

Investment property (Euro/thousands)	**Land**	**Non-instrumental buildings**	**Total**
Cost at 01/01/2017	1,032	3,966	4,998
Capital expenditure	-	-	-
Disposals	-	-	-
Other changes	-	-	-
Historical cost at 31/12/2017	1,032	3,966	4,998
Depreciation and impairment losses at 01/01/2017	-	2,061	2,061
Amortization, depreciation	-	106	106
Impairment/(reinstatement of value)	-	-	-
Disposals	-	-	-
Other changes	-	-	-
Depreciation and impairment losses at 31/12/2017	-	2,167	2,167
Net book value at 01/01/2017	1,032	1,905	2,937
Net book value at 31/12/2017	**1,032**	**1,799**	**2,831**

The directors estimate that the fair value of investment property at December 31, 2017 is not lower than the net book value.

Depreciation of investment property

Depreciation accounted for in the income statement for the year under “Depreciation of property, plant and equipment” amounted to 106 thousand euro.

It should be noted that there are no restrictions on the use of assets classified as investment property.

Land is not subject to depreciation.

3. Property, plant and equipment

Property, plant and equipment (Euro/thousands)	Land	Instrumental buildings	Plant and equipment	Other tangible assets	Total
Cost at 01/01/2016	1,114	13,601	16,795	35,380	66,890
Capital expenditure	-	4	178	378	560
Disposals	-	-	(34)	(1,645)	(1,679)
Historical cost at 31/12/2016	1,114	13,605	16,939	34,113	65,771
Provision for depreciation and impairment loss at 01/01/2016	-	9,075	15,004	34,610	58,689
Amortization, depreciation	-	361	530	304	1,195
Impairment/(reinstatement of value)	-	-	-	-	-
Disposals	-	-	(34)	(1,645)	(1,679)
Provision for depreciation and impairment loss at 31/12/2016	0	9,436	15,500	33,269	58,205
Net book value at 01/01/2016	1,114	4,526	1,791	770	8,201
Net book value at 31/12/2016	**1,114**	**4,169**	**1,439**	**844**	**7,566**

Property, plant and equipment (Euro/thousands)	Land	Instrumental buildings	Plant and equipment	Other tangible assets	Total
Cost at 01/01/2017	1,114	13,605	16,939	34,113	65,771
Capital expenditure	-		247	549	796
Disposals	(211)	(7,160)	(5,552)	(128)	(13,051)
Merger of Banzai	-	-	66	2,117	2,183
Historical cost at 31/12/2017	903	6,445	11,700	36,651	55,699
Provision for depreciation and impairment loss at 01/01/2017	-	9,436	15,500	33,269	58,205
Amortization, depreciation	-	215	363	520	1,098
Impairment/(reinstatement of value)	-	-	-	-	-
Disposals	-	(5,692)	(5,387)	(95)	(11,174)
Merger of Banzai	-	-	62	1,741	1,803
Provision for depreciation and impairment loss at 31/12/2017	0	3,959	10,538	35,435	49,932
Net book value at 01/01/2017	1,114	4,169	1,440	844	7,566
Net book value at 31/12/2017	**903**	**2,486**	**1,162**	**1,216**	**5,767**

Other tangible assets (Euro/thousands)	**31/12/2017**	**31/12/2016**
Industrial and commercial equipment	212	95
Electronic office equipment	523	365
Office furniture, and machines	306	358
Leasehold improvements	82	-
Assets under construction and advances	93	26
Total other tangible assets	**1,216**	**844**

Investments in the year regarded upgrades to:
- the technology made available to the magazine editing offices;
- data processing tools (personal computers and local networks);
- the Segrate offices (editorial office automation, office automation, furniture and equipment, plant) for 208 thousand euro;
- the new Florence offices in via Lambruschini for 148 thousand euro;
- the Sporting Club Verona property for 54 thousand euro.

Disposals totaling 1,894 thousand euro related mainly to the sale of the property in via Montelungo, Verona, as part of the disposal of the Group's logistics business line in April 2017 to the CEVA Logistics group, involving the operating structures of the subsidiaries Mondadori Libri S.p.A. and Mondadori Retail S.p.A. The disposal generated a net gain of 4,155 thousand euro posted to the income statement.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment (Euro/thousands)	**2017**	**2016**
Instrumental buildings	215	361
Plant and equipment	364	530
Equipment	104	36
Electronic office equipment	261	170
Office furniture	102	98
Motor and transport vehicles	-	-
Leasehold improvements	52	-
Total depreciation of property, plant and equipment	**1,098**	**1,195**

In 2017, no indications suggesting an impairment loss were identified.

The availability and use of property, plant and equipment recognized in these financial statements are not subject to any lien or restriction.

4. Financial fixed assets

Investments

As already explained in the paragraph "Other information", in 2017 the Group decided to exercise the right granted by the amendment to IAS 27 – *Equity Method in Separate Financial Statements*, to measure investments in subsidiaries, joint arrangements and associates using the equity method.

The change has been applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, as this amendment does not have any transitional provisions. The tables below show the amount of the investments and changes to them, as if the new accounting standard had always been applied. For greater clarity, the changes over the last two years have been provided.

"Investments", amounting to 487,464 thousand euro, consists of the cost of investments for 584,152 euro, of the negative measurement at equity of investments for 97,122 thousand euro, and of the effect deriving from the application of IFRS 2 on the long-term incentive plan (performance share) for the granting of Arnoldo Mondadori Editore S.p.A. shares to executives and directors of subsidiaries who perform strategic functions for the fulfilment of Group targets, for the amount of 434 thousand euro. The detail for each subsidiary and associate is shown in Annexes A and B, to which reference is made.

Investments are broken down as follows:

Investments (Euro/thousands)	**2017**	**2016**	**2015**
Subsidiaries	461,526	472,314	278,648
Associates	25,871	31,200	34,393
Other companies	67	63	63
Total investments	**487,464**	**503,577**	**313,104**

Changes in investments in subsidiaries over the past two years:

Subsidiaries (Euro/thousands)	2017	2016
Restated initial amount	**472,314**	**278,648**
Increases:		
• Purchases, establishments and capital contributions	4,700	164,265
• Granting of performance share	434	-
• Pro-rata share of the result	52,384	53,687
• Reversal of dividends	(44,070)	(12,000)
• Other changes	582	543
Total increases	**14,030**	**206,495**
Decreases:		
• Pro-rata share of the result	(5,127)	(10,766)
• Disposal of investments	(16,509)	(413)
• Other changes	(3,182)	(1,650)
Total decreases	**(24,818)**	**(12,829)**
Closing amount	**461,526**	**472,314**

"Purchases, establishments and capital contributions" includes:
- capital contribution in Mondadori Retail S.p.A. for an amount of 3,700 thousand euro;
- capital contribution in Mondadori International Business S.r.l. for an amount of 1,000 thousand euro.

"Disposal of investments/Banzai merger" includes:
- elimination of the investment in Banzai Media S.r.l., following the merger by incorporation in January 2017, net of the recording of the investment in AdKaora S.r.l. which was a Banzai Media S.r.l. subsidiary at December 31, 2016.

Increases in investments as a result of the performance share plan are the following:
- Mondadori Libri S.p.A. for 287 thousand euro;
- Mondadori France S.A. for 100 thousand euro;
- Mondadori Retail S.p.A. for 36 thousand euro;
- Mondadori International Business S.r.l. for 11 thousand euro.

The "Pro-rata share of the result" included in the increases reflects the positive results of the following companies:
- Mondadori Libri S.p.A. for 42,820 thousand euro;
- Mondadori France S.A. for 3,293 thousand euro;
- Press-di Abbonamenti S.p.A. for 1,946 thousand euro;
- Mondadori Scienza S.p.A. for 1,365 thousand euro;
- Mondadori International Business S.r.l. for 1,232 thousand euro;
- Press-di Distribuzione Stampa e Multimedia S.r.l. for 1,142 thousand euro;
- AdKaora S.r.l. for 586 thousand euro.

"Reversal of dividends" refers to the dividends received in the year from:
- Mondadori Libri S.p.A. for 42,070 thousand euro;
- Press-di Distribuzione Stampa e Multimedia S.r.l. for 2,000 thousand euro.

The “Pro-rata share of the result” included in the decreases reflects the negative results of the following companies:
• Mondadori Retail S.p.A. for 3,644 thousand euro;
• Inthera S.p.A. for 1,483 thousand euro.

Other changes reflect all the changes in the equity of the subsidiaries that have no effect on the income statement.

Changes in investments in associates over the past two years:

Associates (Euro/thousands)	**2017**	**2016**
Restated initial amount	**31,200**	**34,393**
Increases:		
• Purchases, establishments and capital contributions	1,845	-
• Granting of performance share	-	-
• Pro-rata share of the result	317	338
Total increases	**2,162**	**338**
Decreases:		
• Pro-rata share of the result	(2,891)	(1,004)
• Value adjustments	(4,600)	(2,000)
• Disposal of investments	-	(527)
Total decreases	**(7,491)**	**(3,531)**
Closing amount	**25,871**	**31,200**

“Purchases, establishments and capital contributions” refers to the capital contributions in Società Europea di Edizioni S.p.A.

The “Pro-rata share of the result” included in the increases reflects the positive results of Attica Publications S.A.

The “Pro-rata share of the result” included in the decreases reflects the negative results of the following companies:
• Monradio S.r.l. for 816 thousand euro;
• Società Europea di Edizioni S.p.A. for 2,075 thousand euro;

“Value adjustments” includes the write-down of investments following impairment testing on the following companies:
• Società Europea di Edizioni S.p.A. for 2,900 thousand euro;
• Attica Publications S.A. for 1,700 thousand euro.

Impairment test

As above, starting from these financial statements, the Company has changed how it measures equity investments, switching from the cost method to the equity method. The value of the equity investments is therefore aligned with the value of the net assets of the investee, including goodwill and assets with indefinite useful life recognized on first acquisition. Therefore, to test the recoverability of the investments, reference was

made to the impairment test developed in line with IAS 36 on the individual CGUs pertaining to the various investments.
Under IAS 36, a first-level impairment test was carried out on the single Cash Generating Units, based on the data contained in the budget plans, the guidelines of which were firstly reviewed by the meeting of the Board of Directors of 8 February 2018, approved by the meeting on today's date, before approval of the financial statements.

After analyzing the results of the test, the directors concluded that there was no need to prepare a second-level test.

For the purpose of calculating the recoverable value of assets - whichever is the higher of fair value and value in use - the Mondadori Group identified Cash Generating Units, broken down by the sectors in which the Group operates, with book values net of impairment losses identified in the year, as shown in the table below:

Cash Generating Unit (Euro/thousands)	**Magazines**	**Trademarks and series**	**Other assets**	**Goodwill**	**Total**
Group of CGU magazines former Silvio Berlusconi Editore	83,579			731	84,310
Group of CGU magazines former Elemond	1,647			228	1,875
Einaudi CGU		2,991		286	3,277
Sperling & Kupfer CGU		1,847		731	2,578
Education CGU		29,483		12,042	41,525
Piemme CGU		8,287		5,059	13,346
Group of CGU Mondadori France	144,738			222,203	366,941
Group of CGU former Gruner+Jahr Mondadori		3,144	842	2,251	6,237
Trade Books CGU		4,005		1,634	5,639
Digital CGU		11,540	4,778	23,865	40,183
Other CGUs		626		2,894	5,233
	229,964	**61,923**	**5,620**	**271,924**	**569,431**

Key elements used to calculate the recoverable value:

Cash Generating Unit	**Criterion used**	**Economics**	**Growth rate on terminal value**	**Discount rate**
Group of CGU magazines former Silvio Berlusconi Editore	Value in use	MOL PMT 2018-2020	g = 0	6.86%
Group of CGU magazines former Elemond	Fair value	Revenue PMT 2018-2020	g = 0	6.86%
Einaudi CGU	Value in use	Cash flow PMT 2018-2020	g = 0	6.86%
Sperling & Kupfer CGU	Value in use	Cash flow PMT 2018-2020	g = 0	6.86%
Education CGU	Value in use	Cash flow PMT 2018-2020	g = 0	6.86%
Piemme CGU	Value in use	Cash flow PMT 2018-2020	g = 0	6.86%
Group of CGU Mondadori France	Value in use Fair value	MOL PMT 2018-2022 Revenue PMT 2018-2022	g = 0 g = 0	5.84% 5.84%
Group of CGU former Gruner+Jahr Mondadori	Value in use	MOL PMT 2018-2020	g = 0	6.86%
Trade Books CGU	Value in use	Cash flow PMT 2018-2020	g = 0	6.86%
Digital CGU	Value in use	MOL PMT 2018-2020	g = 0	6.86%
Other CGUs	Value in use	MOL PMT 2018-2020	g = 0	6.86%

Cash Generating Unit magazines former Elemond
The value of magazines with indefinite useful life, each of which represents a Cash Generating Unit, refers to the acquisition of the Elemond Group, completed in more than one tranche between 1989 and 1994.
The only magazine with a book value is *Interni*.

The recoverable value of the magazine was determined based on the higher between value in use and fair value.

The value in use was calculated, based on the projections of the cash flows deriving from the relevant budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018 and approved on today's date, considering uncertainties regarding growth expectations in the sector.

Data is derived from the income statement of the magazine, considered representative of the relevant cash flows, taking into account the immediate collection of revenue characterizing magazines. The margins from the magazines also include overhead and operating costs.

The operating results used for the projections include tax; the discount rate before tax, applied to cash flow projections, is equal to 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

The directors also deemed it appropriate to determine the fair value of the individual magazines by applying the royalty method, based on estimated revenue in the medium term of each magazine.

To calculate the fair value, in addition to assumed revenue, the following parameters were taken into account:
- a 6% royalty rate, representing the average rates contracted by the Group with foreign publishers for the international editions of the magazine;
- a residual useful life of 15 years;
- a revenue growth rate, beyond the last year included in the medium-term plan, equal to zero.

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review, nor on their goodwill. The book value coverage percentage is equal to approximately 130%.

Einaudi Cash Generating Unit
This Cash Generating Unit includes *Casa Editrice Einaudi* series, acquired indirectly through the transaction completed in more than one instalments between 1989 and 1994 with the Elemond Group.
Considering the changes occurred over time in the structure and in the positioning of the different series of the company acquired, the entire legal entity to which also goodwill acquired upon acquisition is attributed, was considered as cash generating unit for the purpose of the impairment test.

The recoverable value of the Cash Generating Unit was determined on the basis of the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant financial budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

The cash flows used for the projections include tax and financial income and costs; the discount rate before tax, applied to cash flow projections, is 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review. The book value coverage percentage is equal to approximately 5,000%.

Sperling & Kupfer Cash Generating Unit
This Cash Generating Unit includes the series published by Sperling & Kupfer, a company acquired in 1995.
Considering the changes occurred over time in the structure and in the positioning of the different series of the company acquired, the entire Publisher to which also goodwill acquired upon acquisition is attributed, was considered as cash generating unit for the purpose of the impairment test.

The value in use was determined based on the projections of the cash flows deriving from the relevant financial budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors of 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

The cash flows used for the projections include tax and financial income and costs; the discount rate before tax, applied to cash flow projections, is 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review. The book value coverage percentage is equal to approximately 2,000%.

Education Cash Generating Unit
The Cash Generating Unit includes series and publishing lines referring to the production of textbooks for the different levels and grades of the Italian school system.
The Cash Generating Unit groups the values deriving from acquisition transactions completed over time. In particular: some publishers acquired through the Elemond Group transaction between 1989 and 1994 (6,483 thousand euro), the acquisition of the Le Monnier Group between 1999 and 2001 (12,070 thousand euro) and the acquisition of Texto, publisher of school textbooks under the Piemme Scuola trademark, completed in 2004 (380 thousand euro). Goodwill deriving from the abovementioned transactions as a residual portion compared to the higher price paid, and from other acquisitions completed in 1992 (Juvenilia), between 1999 and 2002 (Poseidonia), in 1999 (Mursia) and in 2008 (Edizioni Electa Bruno Mondadori) for a total of 12,042 thousand euro, add up to the abovementioned values.

Lastly, the decision was taken to also bring the amounts attributed to the Rizzoli trademarks (10,550 thousand euro) under this CGU, as a result of the acquisition in 2016, given the integration of the operating structures of Mondadori Education and Rizzoli Education, initiated following acquisition.

The recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the financial budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

The cash flows used for the projections include tax and financial income and costs; the discount rate before tax, applied to cash flow projections, is 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review. The book value coverage percentage is equal to approximately 1,000%.

Piemme Cash Generating Unit
This Cash Generating Unit includes Casa Editrice Edizioni Piemme series, acquired in more than one tranche between 2003 and 2012.
Upon acquisition, the higher price paid compared to accounting values, had not been considered in relation to the attribution to the single series and publishing lines. As a result, for the purpose of pursuing the decision made at that time, the cash generating unit coincides, for the purpose of impairment test, with the Publisher to which also goodwill transferred upon acquisition is allocated.

The recoverable value of the Cash Generating Unit was determined on the basis of the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant financial budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date.

The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

The cash flows used for the projections include tax and financial income and costs; the discount rate before tax, applied to cash flow projections, is 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review. The book value coverage percentage is equal to approximately 250%.

Mondadori France Cash Generating Unit
In August 2006, Mondadori acquired 100% of Emap Group France, the third largest publisher of magazines in France with over forty magazines dedicated to men, women, sports, entertainment and TV programmes.
The most important magazines are: *Télé Star*, *Télé Poche*, *Top Santé*, *Biba*, *Pleine Vie*, *Le Chasseur Français*.

Following acquisition and after completion of the purchase price allocation process, the higher price paid against the book values acquired, was attributed to the different magazines included in the portfolio and for the residual portion to goodwill.

At first, the magazines, considered assets with indefinite useful life, had been clustered, each identifying a cash generating unit, but already in July 2008 they have been redefined as separate cash generating units and subjected to amortization based on their useful life estimated in thirty years.

Goodwill, that had been initially allocated proportionately to the clusters, is attributed to the Cash Generating Units, coinciding with the entire French Group.

The recoverable value of the cash generating unit was calculated on the basis of the higher of value in use and fair value. In particular, the recoverable value was measured on the single magazines and then, in order to calculate the recoverable value on goodwill, a second test was performed on the entire French Group.

The value in use was calculated, based on the projections of the cash flows deriving from the relevant budgets of each magazine for the 2018-2022 period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018 and approved on today's date. The abovementioned cash flows were measured based on the current market scenario.

Data is derived from the income statements of the individual magazines, considered representative of the relevant cash flows, taking into account the immediate collection of revenue typical of magazines. The margins from the magazines also include overhead and operating costs.

The operating results used for the projections include tax; the discount rate before tax, applied to cash flow projections, is equal to 5.84% (6.19% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

The directors also deemed it appropriate to determine the fair value of the individual magazines by applying the royalty method, based on estimated revenue in the medium term of each magazine.

To calculate the fair value, in addition to assumed revenue, the following parameters were taken into account:
- a royalty rate (ranging from 2% to 9%), measured on each single magazine based on the specific characteristics of the magazine and also based on similar market transactions;
- a residual useful life of 20.5 years, aligned with the life defined for the calculation of the value in use;
- a revenue growth rate, beyond the last year included in the medium-term plan, equal to zero.

Royalty rates used were determined in 2016, with the aid of independent experts, and are deemed to comply with current market conditions.

After completing the analysis, the directors concluded that there was a need for impairment on a number of magazines for the amount of 1,540 thousand euro.

Subsequently, a second level impairment test was performed with a view to verifying the recoverable value of goodwill allocated to the group of cash generating units represented by the individual magazines.

First, the value in use was calculated based on the financial pre-tax result of the entire French Group, deriving from the relevant plans for the 2018-2022 period and for the projection of the relevant cash flows a pre-tax rate equal to 5.84% (6.19% in 2016).

After completing the analysis, the directors concluded that there was no need for impairment.

It should be noted however that the value in use determined as described above is basically in line with the relating book value; therefore, changes in the assumptions adopted in the preparation of the impairment test may result in even significant adjustments to the carrying amounts of the assets under the Mondadori France CGU. Based on the elements available to date, the directors believe that the estimates reflect the uncertainties of the relevant market, which has witnessed further downturns in the current year as well, closely monitoring the situation to verify that the final results match the forecasts, and promptly reflecting any deviations.

Cash Generating Unit former Gruner+Jahr Mondadori
Effective as of 1 July 2015, Arnoldo Mondadori Editore S.p.A. acquired control over the entire share capital of Gruner+Jahr Mondadori S.p.A. (now Mondadori Scienza S.p.A), from its previous 50%.
The company is the publisher of several magazines, the most popular including those published under the *Focus* trademark.

Following the acquisition, upon completion of the purchase price allocation process, also supported by the valuation of intangible assets by an independent expert, the higher price paid against the book values acquired, was attributed to the Focus trademark and to the relating subscriber list, and the remaining portion to goodwill.

The assets identified in the purchase price allocation are qualified as having finite useful life, except for goodwill; the trademark is amortized over 20 years and the subscriber list over 4 years, starting from 2016.

The recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

Data is derived from the income statements of the individual magazines, considered representative of the relevant cash flows, taking into account the immediate collection of revenue typical of magazines. The margins from the magazines also include overhead and operating costs.

The operating results used for the projections include tax; the discount rate before tax, applied to cash flow projections, is equal to 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review, nor on their goodwill. The book value coverage percentage is equal to approximately 250%.

Trade Books Cash Generating Unit
The CGU includes the BUR trademark (4,005 thousand euro) and goodwill (1,634 thousand euro), determined on conclusion of the purchase price allocation process carried out with regard to the acquisition of Rizzoli Libri S.p.A. in 2016.

The recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on the projections of the cash flows deriving from the relevant budgets for the 2018-2020 three-year period, the guidelines of which were reviewed by the meeting of the Board of Directors held on 8 February 2018, and approved on today's date. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

The cash flows used for the projections include tax and financial income and costs; the discount rate before tax, applied to cash flow projections, is 6.86% (6.59% in 2016) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review. The book value coverage percentage is equal to approximately 1,250%.

Other Cash Generating Units

This group of Cash Generating Units includes the values of residual assets.

These assets include the value of the Mondolibri S.p.A. bookclub member database, 50% of which was acquired in 2010, for a total of 2,500 thousand euro, as well as the Grazia China trademark regarding the local editions of the weekly.

The recoverable value of the cash generating unit was calculated on the basis of the higher of value in use and fair value.

Data used to calculate the value in use are: pre-tax results included in the medium-term plan for the 2018-2020 three-year period; pre-tax discount rate equal to 6.86% (6.59% in 2016), growth factor applied to data in addition to those indicated in the plan, equal to zero (g=0).

After completing the analysis, the directors concluded that there was no need for impairment on the assets belonging to the Cash Generating Units under review.

The book value coverage percentage is equal to approximately 1,500% for bookclubs and 727% for the Grazia China trademark.

Determination of the rate

The discount rate was defined in terms of weighted average cost of capital (WACC) for the individual Cash Generating Unit/country taken into account and it includes tax, consistently with the flows used, as requested by IAS 36.55.

WACC is an adjusted risk rate, measured directly based on the cost that the company must bear to collect resources from lending entities, internal and external, to finance any specific investment. WACC expresses an opportunity cost of capital and is calculated as the weighted average of the cost of the risk capital and the cost of the debt capital.

The individual parameters that contribute to the determination of WACC are the following:

- cost of equity (ke) is quantified based on the model of CAPM (Capital Asset Pricing Model) as also requested in IAS 36. Based on CAPM, the cost of equity is determined as the sum resulting from risk free investment performance and a risk premium, determined as a function of the systematic risk on the investment under examination. The risk premium is quantified through the product resulting from the beta coefficient and the difference between the market performance (mp) and risk free (equity risk premium), determined taking into account a sufficiently large time horizon.
  For the purpose of quantifying the individual parameters, the following parameters were taken into account to properly measure the level of risk included in the Company's cash flows. The risk free rate was determined taking into account the yield to maturity for the securities of the countries to which the Cash Generating Units are referred as at the date of the impairment test. Therefore, the reference rate is not pure risk free, but it includes a premium for the country risk, which is consequently considered and included in the model. This quantification considers also any market data affected by marked market speculations. The beta coefficient was calculated by considering the normalized average of market unlevered betas of a panel of comparable companies. The equity risk premium was assumed equal to 5.08% (source: Damodaran, January 2018);
- the cost of debt (kd) was quantified by making reference to the rate that the company would pay under current market conditions in order to obtain a new medium/long-term loan. The calculation of the Cost of Debt (kd) is based on the analysis of the specific financial structure of the Cash Generating Unit/country of

reference. This, considered the specific financial structures of the Cash Generating Units/countries, makes reference to the available market data;
- the average cost of debt is de-taxed as a result of deductibility of interest due from taxable income according to the specific tax rate “t” of the individual Cash Generating Unit/country;
- the weight attributed to equity and third party equity was calculated based on the market normalized average of a panel of comparable companies.

Based on the above parameters it was possible to determine the WACC by individual Cash Generating Unit/country.
The discounting rate obtained is an amount net of tax and, therefore, it was subject to conversion to include tax as specifically requested by IAS 36.55.

Sensitivity to changes in the assumptions
A sensitivity analysis was performed on the discounting rate and the growth rate.

No sensitivity analysis was performed on future cash flows, as they were considered reasonable and achievable, deeming to be able to represent possible execution risks in the discounting rate analysis.

The findings of this analysis confirmed that the results obtained are reasonable and, consequently, confirmed the recoverability of the book values recognized in these financial statements.

Associates
The Company measures the value in use in order to verify the recoverable value of equity investments in associates; when in determining this value an impairment loss is identified, before write-down, the fair value is calculated after having deducted the estimated cost of disposal.

Impairment tests are carried out for each individual investment representing a separate Cash Generating Unit.

For the purpose of calculating value in use, projections contained in the 3-5-year plans prepared by the individual companies were used, as integrating part of the medium-term Plan, the guidelines of which were reviewed by the meeting of the Board of Directors of 8 February 2018, approved on today’s date.

The expected cash flows of each investment was discounted, based on a country-specific WACC: for Italian companies, 6.86%, for French companies, 5.84%, and for the Greek investment in the Attica Group, 10.39%.

For the Italian and French subsidiaries, the growth rate on the terminal value was kept equal to zero (g = 0); for Attica growth rates in the range from zero to 3% were taken into account (g comprised between 0 and 3%) in order to account for the differences between businesses and the geographic areas in which the Group operates.

The performance of the impairment test required the write-down for 1.7 million euro of the investment in the Attica S.A. Group, and for 2.9 million euro of the investment in Società Europea di Edizioni S.p.A.

The book value coverage percentage is equal to approximately 100%.

Non-current financial assets
The composition of other financial assets, amounting to 165,000 thousand euro (178,582 thousand euro), refers to the intercompany loan granted by Arnoldo Mondadori Editore S.p.A. to the subsidiary Mondadori France S.A. for 164,500 thousand euro, and to the associate Attica Publications S.A. for 500 thousand euro.

5. Pre-paid tax assets and deferred tax liabilities

Tax assets of 12,898 thousand euro (18,089 thousand euro) and tax liabilities of 28,832 thousand euro (24,264 thousand euro) were recognized and determined based on the temporary differences between balance sheet values stated in the financial statements and the corresponding values recognized for tax purposes:

(Euro/thousands)	31/12/2017	31/12/2016
IRES on tax losses	5,265	9,975
Pre-paid IRES	7,411	7,931
Pre-paid IRAP	222	183
Total pre-paid tax assets	**12,898**	**18,089**
Deferred IRES	24,913	21,223
Deferred IRAP	3,919	3,041
Total deferred tax liabilities	**28,832**	**24,264**

"IRES on tax losses", amounting to 5,265 thousand euro, referred to future benefits resulting from the offsetting use of the losses generated by the Company in the last financial years, transferred to the fiscal unit under the parent company Fininvest S.p.A. following the adherence to the national tax consolidation regime (pursuant to Articles 117 and the following of Presidential Decree no. 917/1986) for the 2016-2018 three-year period. The decrease in this item is attributable to the tax due to be collected from the payment relating to the 2017 tax return, which will be completed in June 2018.

The directors believe that the amounts recognized are fully recoverable, considering:

- the possibility of a pre-deduction of up to 80% of the Group's prior-years' tax losses from taxable income, under the agreement governing relations with the consolidating entity Fininvest S.p.A.;
- the right to carry forward tax losses without time restrictions;
- the projections made in the 2018-2020 three-year Plan approved by the Board of Directors and the prepared tax planning documents.

Pre-paid tax and deferred tax is calculated based on the tax rates that will become applicable when these differences arise (IRES 24%, IRAP 3.9%).

Description of temporary differences that led to the recognition of pre-paid tax

(Euro thousands)	31/12/2017			31/12/2016		
	Amount of temporary differences	Current tax rate	Pre-paid tax	Amount of temporary differences	Current tax rate	Pre-paid tax
Difference between book value and fiscal value of assets	2,272	24.00%	545	1,301	24.00%	312
Provision for bad debt	515	24.00%	124	505	24.00%	121
Depreciation of inventory	121	24.00%	29	117	24.00%	28
Provisions	23,017	24.00%	5.524	25,287	24.00%	6,069
Prior-years' tax losses	21,938	24.00%	5.265	41,563	24.00%	9,975
Other temporary differences	4,953	24.00%	1.189	5,833	24.00%	1,400
Total for IRES purposes	**52,816**		**12.676**	**74,606**		**17,906**
Difference between book value and fiscal value of assets	5,574	3.9%	217	4,584	3.9%	179
Depreciation of inventory	121	3.9%	5	117	3.9%	4
Total for IRAP purposes	**5,695**		**222**	**4,701**		**183**

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

(Euro thousands)	31/12/2017			31/12/2016		
	Amount of temporary differences	Current tax rate	Deferred tax	Amount of temporary differences	Current tax rate	Deferred tax
Difference between book value and fiscal value of assets	103,804	24.00%	24,913	88,430	24.00%	21,223
Total for IRES purposes	**103,804**		**24,913**	**88,430**		**21,223**
Difference between book value and fiscal value of assets	100,478	3.9%	3,919	77,963	3.9%	3,041
Total for IRAP purposes	**100,478**		**3,919**	**77,963**		**3,041**

Changes in pre-paid and deferred tax amounts led to costs of 177 thousand euro as shown in Note 28.
The increase in deferred tax is attributable to the recognition of the amounts arising from the price allocation process following the acquisition of Banzai Media S.p.A. (merged by incorporation into AME on 1 January 2017).
It should be noted that all assets are covered by the Company's provisions for pre-paid tax amounts, except for impairment losses deriving from investments, for which no disposal is expected due to tax-relevant transactions and for audits in progress which led to the recognition of cost under income statement.

6. Other non-current assets

“Other non-current assets”, amounting to 323 thousand euro (351 thousand euro), is broken down and commented on below:

Other non-current assets (Euro/thousands)	**31/12/2017**	**31/12/2016**
Guarantee deposits	97	116
Medium/long-term tax receivables from Fininvest	140	140
Other	86	95
Total other non-current assets	**323**	**351**

The receivable from Fininvest S.p.A., amounting to 140 thousand euro, includes the amount due from Fininvest S.p.A. on foreign withholding tax amounts not yet reimbursed.

7. Tax receivables

“Tax receivables”, amounting to 25,965 thousand euro (27,186 thousand euro), is broken down as follows:

Tax receivables (Euro/thousands)	**31/12/2017**	**31/12/2016**
Advances to the Inland Revenue for disputes	9,208	10,626
Receivables from the Inland Revenue for VAT	8,997	-
Receivables from the Inland Revenue for direct and indirect tax to recover	403	114
Receivables from Fininvest for IRES	7,357	14,327
Receivables from Fininvest for VAT	-	1,944
Receivables from the Inland Revenue for IRAP	-	175
Total tax receivables	**25,965**	**27,186**

Advances, amounting to 9,208 thousand euro (10,626 thousand euro), refer to payments made provisionally for pending disputes. The decrease refers to the amounts cashed in during the year following relief on penalties for tax payment demands relating to 2004-2005.

Receivables from the Inland Revenue for VAT, amounting to 8,997 thousand euro, include 8,950 thousand euro from the Group’s VAT receivable accrued in the last quarter of 2017, still pending a reimbursement claim. The change versus 2016 is explained by the fact that the Company is no longer part of the Fininvest Group’s VAT settlement. Indeed, as of 2017 the Company has had a Group VAT settlement regime with all its subsidiaries (art. 73, paragraph 3, Presidential Decree 633/72 and Ministerial Decree 13.12.1979); this option concentrates the obligations on periodic settlements with the parent and ensures that any credit positions can be used to offset the debit positions of the participating companies. The system adopted by the Mondadori Group involves the monthly settlement of credit/debit positions of subsidiaries, thereby concentrating the exposure to the Inland Revenue with the parent company.

Receivables from the Inland Revenue for direct and indirect tax to recover, amounting to 403 thousand euro (114 thousand euro), refer to the receivable for withholdings paid abroad of 248 thousand euro, to VAT receivables remaining from the liquidation of ACI Mondadori of 83 thousand euro, to VAT receivables from the merger of Banzai Media S.r.l. of 35 thousand euro and the liquidation of Gold 5 S.r.l. and Glaming S.r.l. of 26 thousand euro and 11 thousand euro, respectively.

The receivable from Fininvest S.p.A. relating to IRES of 7,357 thousand euro includes 27 thousand euro owed by Fininvest for the tax receivable accrued in the period and 7,328 thousand euro in tax on prior losses forecast to be recovered in the Fininvest Group's tax return in June 2018, in view of the taxable profit made by Mondadori Group in the current year.
Given that the Company contributes to the Group taxable amount with Fininvest acting as the consolidating entity, which, on behalf of the entire Group, pays IRES amounts, but also applies for the relevant reimbursement, the receivable was recognized due from Fininvest S.p.A.

The sharp drop in receivables from Fininvest S.p.A. for IRES is due to the lower tax loss incurred in 2017 versus the prior year; additionally, in 2017 the Company received a reimbursement of 4,081 thousand euro, referring to the higher IRES amount paid in the 2007-2011 tax periods, as a result of the non-deductibility of IRAP relating to the taxable amount of the cost of personnel and other labour costs net of the deductions envisaged pursuant to art. 11, par. 1, letter a), 1-*bis*, 4-*bis* 1 of Legislative Decree no. 446/1997. Art. 2, par. 1-quater of Legislative Decree no. 201/2001 (introduced by Legislative Decree no. 16/2012) envisaged the possibility to apply for reimbursement of the higher IRES amount paid as a result of the abovementioned non-deductibility for the 2007-2011 tax periods.

Receivables from the Inland Revenue for IRAP, amounting to 175 thousand euro in 2016 and referring to higher advances paid on the IRAP amount due, were used for offsetting purposes in 2017.

8. Other current assets

"Other current assets", amounting to 4,290 thousand euro (4,925 thousand euro), includes:

Other current assets (Euro/thousands)	**31/12/2017**	**31/12/2016**
Prepayments	3,073	2,903
Receivables from personnel	180	286
Receivables from suppliers	170	68
Receivables from social security institutions	94	1,055
Other receivables from Group companies	25	33
Other	748	580
Total other current assets	**4,290**	**4,925**

“Prepayments”, amounting to 3,073 thousand euro (2,903 thousand euro), refers to:

(Euro/thousands)	31/12/2017	31/12/2016
Freelance prepayments	690	-
Promotional campaigns	573	547
Rents	482	462
Accrued income	11	11
Other prepayments (rents, subscriptions, membership fees)	1,317	1,883
Total prepayments	**3,073**	**2,903**

Prepayments for freelance costs refer to costs previously incurred for the purchase of content, journalistic reports or pictures that are suspended as they pertain to future publications. Other prepayments refer to rents, subscriptions and membership fees, and to promotional costs already accounted for but relating to future years.

9. Inventory

“Inventory”, amounting to 6,034 thousand euro (7,702 thousand euro), is broken down as follows:

Inventory (Euro/thousands)	31/12/2017	31/12/2016
Raw and ancillary materials and consumables	2,447	2,468
Depreciation of raw and ancillary materials and consumables	(121)	(117)
Total raw and ancillary materials and consumables	**2,326**	**2,351**
Work in progress and semi-finished goods	3,688	5,338
Depreciation of work in progress and semi-finished goods	-	-
Total work in progress and semi-finished goods	**3,688**	**5,338**
Finished products and goods	20	13
Depreciation of finished products and goods	-	-
Total finished products and goods	**20**	**13**
Total inventory	**6,034**	**7,702**

Raw materials consist mainly of paper to be used in the printing of magazines; work in progress consists of production costs (paper, printing, rights and add-on sales) previously incurred for issues and initiatives published at a later time.

Decrease (increase) in inventory to the income statement

Decrease (increase) in inventory (Euro/thousands)	**2017**	**2016**
Changes in finished products and goods	(7)	13
Provision for finished products and goods	-	-
Utilization of the provision for finished products and goods	-	-
Total changes in inventory of finished products and goods	**(7)**	**13**
Changes in semi-finished products	1,650	1,389
Provision for semi-finished products	-	-
Utilization of the provision for semi-finished products	-	-
Total changes in inventory of semi-finished products	**1,650**	**1,389**
Changes in raw and ancillary materials and consumables	21	902
Provision for raw and ancillary materials and consumables	4	33
Utilization of the provision for raw and ancillary materials and consumables	-	-
Total changes in inventory of raw and ancillary materials and consumables	**25**	**935**
Total decrease (increase) in inventory	**1,668**	**2,337**

No inventory is subject to restriction to cover liabilities.

10. Trade receivables

"Trade receivables", amounting to 50,550 thousand euro (39,933 thousand euro), is broken down as follows:

Trade receivables (Euro/thousands)	**31/12/2017**	**31/12/2016**
Receivables from customers	7,031	3,962
Receivables from associates	31,786	21,940
Receivables from subsidiaries	11,733	14,031
Receivables from parent companies	-	-
Total trade receivables	**50,550**	**39,933**

Trade receivables do not include amounts due over five years; in 2017, the average collection period, calculated with the count back method, was 134.9 days, increasing sharply versus 108.9 days in 2016, due mainly to the reduction in financial advances, under the current advertising concession agreement, with the associate Mediamond S.p.A.

Information by geographical area is provided in the relevant separate section.

Receivables from subsidiaries of 11,733 thousand euro (14,031 thousand euro) and receivables from associates of 31,786 thousand euro (21,940 thousand euro) refer to trade transactions performed at standard market conditions. The breakdown by company and the changes versus 2016 are shown in Annex C1. The increase in trade receivables from associates is attributable exclusively to Mediamond S.p.A. for two reasons: the reduction in the financial advance and the discontinuity of the merger with Banzai Media S.r.l., which has also shifted advertising sales from all the Mondadori websites to the agency.

Receivables from customers include receivables from Fininvest Group companies for 366 thousand euro (94 thousand euro), mainly regarding RTI S.p.A. for 351 thousand euro (17 thousand euro) and mainly related to the sale of rights of the Panorama d'Italia tour, Fininvest Gestione Servizi S.p.A. for 2 thousand euro (45 thousand euro), and Radiomediaset S.p.A. for 13 thousand euro (28 thousand euro).
Trade transactions with the Fininvest Group are carried out under standard market conditions.

Receivables from customers amount to 7,031 thousand euro (3,962 thousand euro):

Trade receivables - Receivables from customers (Euro/thousands)	**31/12/2017**	**31/12/2016**
Receivables from customers	7,653	4,467
Provision for bad debt	(622)	(505)
Total receivables from customers	**7,031**	**3,962**

The changes in the provision for bad debt of 622 thousand euro (505 thousand euro) are detailed below:

Trade receivables - Receivables from customers - Bad debt provision (Euro/thousands)	**31/12/2017**	**31/12/2016**
Balance at beginning of year	505	582
Changes in the year:		
- provisions	-	-
- merger of Banzai Media S.p.A.	165	-
- utilizations	(48)	(77)
Total provision for bad debt	**622**	**505**

The provision, considered appropriate to cover presumable risks of insolvencies, was determined by analytically considering receivables under dispute and a general impairment, in addition to the specific analysis of non-performing positions, for the other receivables.

11. Other current financial assets

“Other current financial assets”, amounting to 90,044 thousand euro (100,363 thousand euro), includes:

Other current financial assets (Euro/thousands)	31/12/2017	31/12/2016
Financial receivables from subsidiaries	89,615	100,112
Financial receivables from associates		-
Other financial receivables	429	251
Total financial receivables	**90,044**	**100,363**
Total other current financial assets	**90,044**	**100,363**

Financial receivables from subsidiaries of 89,615 thousand euro (100,112 thousand euro) refer mainly to current accounts amounting to 77,011 thousand euro, bearing interest in line with market rates, the short-term portion of the loan to the subsidiary Mondadori France of 11,354 thousand euro, and the financial receivable from the subsidiary Press-di Abbonamenti S.p.A. of 1,250 thousand euro.
The breakdown by company and the changes versus 2016 are shown in Annex C1.

Other financial receivables of 429 thousand euro (251 thousand euro) include accrued income relating to financial items and other financial receivables from others.

12. Cash and cash equivalents

“Cash and cash equivalents”, amounting to 61,026 thousand euro (72,619 thousand euro), includes receivables from banks of 61,025 thousand euro (72,581 thousand euro), and 1 thousand euro (1 thousand euro) in cash and cash on hand.

Cash and cash equivalents (Euro/thousands)	31/12/2017	31/12/2016
Cash and cash on hand	1	1
Bank deposits	61,025	72,581
Postal deposits	-	37
Total cash and cash equivalents	**61,026**	**72,619**

The fair value of cash and cash equivalents at December 31, 2017 is equal to the relevant book value.
The changes in the item are explained in the cash flow statement section.

It should be noted that there are no restrictions on the use of cash and cash equivalents, except for the indications provided in Note 16 “Financial liabilities”.

LIABILITIES

13. Equity

The share capital of 67,979 thousand euro is fully underwritten and paid up and is divided into 261,458,340 ordinary shares with a par value of 0.26 each euro.

The following tables show the changes in equity items over the past two years and the change in the measurement method of investments:

(Euro/thousands)	Share capital	Treasury shares	Performance share reserve	Discounting reserve TFR IAS 19	Cash flow hedge reserve	Other reserves	Result for the year	Total equity
Balance at 31/12/2015	**67,979**	**-**	**268**	**592**	**(2,523)**	**126,284**	**(31,982)**	**160,618**
Effects of the change in accounting policies					-	103,368		103,368
Balance at 01/01/2016 Restated	**67,979**	**-**	**268**	**592**	**(2,523)**	**229,652**	**(31,982)**	**263,986**
Changes in:								
- Allocation of result						(31,982)	31,982	-
- Purchase of treasury shares		(73)						(73)
- Performance share			(268)			268		-
- Other reserves						1,584		1,584
- Comprehensive profit/(loss)				(265)	283	(736)	22,544	21,826
Balance at 31/12/2016 Restated	**67,979**	**(73)**	**-**	**327**	**(2,240)**	**198,786**	**22,544**	**287,323**

(Euro/thousands)	Share capital	Treasury shares	Performance share reserve	Discounting reserve TFR IAS 19	Cash flow hedge reserve	Other reserves	Result for the year	Total equity
Balance at 31/12/2016 Restated	**67,979**	**(73)**	**-**	**327**	**(2,240)**	**198,786**	**22,544**	**287,323**
Changes in:								
- Allocation of result						22,544	(22,544)	-
- Purchase of treasury shares		(1,581)						(1,581)
- Performance share			850					850
- Other reserves						179		179
- Comprehensive profit/(loss)				101	1,300	(2,775)	30,417	29,043
Balance at 31/12/2017	**67,979**	**(1,654)**	**850**	**428**	**(940)**	**218,734**	**30,417**	**315,814**

The table below is an analysis of equity with reference to the origin, availability and possible distribution of each single sub-item:

Nature/description (Euro/thousands)	**Amount**	**Possible use**	**Available Portion**
Share capital	**67,979**		
Income reserves:			
- revaluation reserves			
Law 72 of 19/03/1983	12,022	A,B	
Law 413 of 30/12/1991	4,689	A,B	
- legal reserve	13,490	B	
- extraordinary reserve	67,574	A,B,C	40,961
IAS/IFRS:			
- negative reserve for change in accounting policies	(21,416)		
- reserve for change in accounting policies (investments)	92,198	A,B,C	43,619
- prior years' profit reserve (change in accounting policies)	52,779	A,B,C	451
- reserves for investments measured at equity	(2,603)		
- post-employment discounting reserve	428	A,B,C	428
- performance share reserve	850	B	
- cash flow hedge reserve	(940)		
Treasury shares in portfolio	**(1,654)**		
Total	**285,397**		**85,459**
Undistributable portion (1)			4,806
Residual distributable portion			80,653

Key: A: for capital increases - B: to cover losses - C: for distribution to Shareholders
(1) This represents the undistributable portion determined under the provisions in Legislative Decree 38/2005

The table "Changes in equity" includes details regarding the individual sub-items under equity and, specifically:

Treasury shares

In the period from 28 June to 28 December, the Company purchased a total of no. 913,000 treasury shares (0.349% of the share capital) on the Electronic Stock Market (MTA) at an average unit price of 1.9521 euro, for a total amount of 1,581 thousand euro.
Purchases were authorized by the Annual General Meeting on April 28, 2017 and are instrumental in the implementation of the long-term incentive plan (performance share) approved at the same meeting.

14. Provisions

“Provisions”, amounting to 33,101 thousand euro (33,772 thousand euro) in the year is broken down as follows:

Provisions (Euro/thousands)	**31/12/2016**	**Merger of Banzai**	**Provisions**	**Utilizations**	**31/12/2017**
Provision for legal risks	14,117			(673)	13,444
Provision for INPGI contribution dispute	1,899				1,899
Provision for equity investment risks	340			(340)	-
Provision for charges on advertising receivables	6,039		207	(580)	5,666
Provision for charges on subscription receivables	575		60	(146)	489
Provision for charges on tax disputes	8,527		1,930		10,457
Provision for other charges	2,275	340	1,146	(2,615)	1,146
Total provisions	**33,772**	**340**	**3,343**	**(4,354)**	**33,101**

The provisions above are intended to cover potential liabilities from legal disputes, bad debt, contractual clauses and commitments, and tax and contribution disputes.

15. Post-employment benefits

Post-employment benefits, amounting to 11,856 thousand euro (11,610 thousand euro) are composed as follows:

Post-employment benefits (Euro/thousands)	**31/12/2017**	**31/12/2016**
Provision for post-employment benefits (TFR)	11,722	11,479
Provision for journalists (IFGP)	134	131
Total post-employment benefits	**11,856**	**11,610**

Changes in the year are detailed below:

Post-employment benefits - Details (Euro/thousands)	**Post-employment benefits**	**IFGP**	**Total**
Balance at 31/12/2016	**11,479**	**131**	**11,610**
Changes in 2017:			
- merger of Banzai	1,457		1,457
- provisions		3	3
- utilizations	(1,166)		(1,166)
- disposals/acquisitions of Group companies	(76)		(76)
- discounting	(133)		(133)
- other	161		161
Balance at 31/12/2017	**11,722**	**134**	**11,856**

The liability relating to post-employment benefits was subject to discounting pursuant to IAS 19.
It should be noted that for the calculation, a discounting rate based on the iBoxx Corporate EUR benchmark, with a 10+ duration and AA rating was used.

As for the prior year, the following assumptions were used to measure the current value of post-employment benefits:

Actuarial assumptions to measure TFR	31/12/2017	31/12/2016
Economic assumptions:		
- increase in cost of living	1.00%	1.00%
- discounting rate	1.30%	1.31%
Demographic assumptions:		
- probability of death	IPS.55 tables	IPS.55 tables
- probability of disability	INPS-2000 tables	INPS-2000 tables
- probability of leaving for other reasons	14.51%	13.66%
- retirement age	Regulations in force	Regulations in force

It should also be noted that by increasing or decreasing the discounting rate by 0.5%, the effect on “Post-employment benefits provision” would be equal to approximately 0.1 million euro.

“Provision for retirement” was not subject to discounting because the effects are irrelevant.

The cost for post-employment benefits under income statement amounted to 4,215 thousand euro and is broken down as follows:

Cost of post-employment benefits (Euro/thousands)	2017	2016
Cost of post-employment benefits allocated to supplementary pension plans	4,053	3,763
Borrowing costs	162	224
Total cost of post-employment benefits	**4,215**	**3,987**

It should be noted that “Current cost of employee post-employment benefits” and “Actuarial (income)/loss” are recognized in a specific reserve under equity, while the financial component is accounted for under financial expenses for the period.

16. Financial liabilities

"Financial liabilities", amounting to 232,799 thousand euro (302,934 thousand euro), is broken down as follows:

Non-current financial liabilities (Euro/thousands)	**Actual interest rate**	**Expiry over 5 years**	**31/12/2017**	**31/12/2016**
Liabilities from derivatives	-		341	1,616
Other financial liabilities			2,788	-
Medium/long-term loans and borrowings	2.81%		229,670	301,318
Total non-current financial liabilities	**2.81%**		**232,799**	**302,934**

In December 2017, the Mondadori Group renegotiated the existing committed credit lines, underwriting a new amortizing loan agreement with a pool of major banks (Banca Popolare di Milano, Intesa Sanpaolo, UniCredit) for a total of 450.0 million euro, coming to maturity in December 2022.
The agreement sets improved conditions in terms of interest rate and commissions: the initial margin for the Term Loan line is 1.20%, with a reduction of approximately 130 bps compared to the cost in previous loan agreements. The rate may vary, on an annual basis, depending on changes in the debt/EBITDA ratio, from a low of 95 bps to a high of 200.

The significant reduction (70,135 thousand euro) versus the prior year reflects the improved cash flow and, consequently, the lower bank debt cost.

"Loans and borrowings" consists entirely of the medium-long portion (due beyond one year) of the Amortizing Term Loan of the new amortizing pool loan, coming to maturity in December 2022, specifically:
- 129,919 thousand euro from the amortized cost of the Line A Amortizing Term Loan, taken out with a pool of banks, coming to maturity in December 2022;
- 99,751 thousand euro from the amortized cost of the Line B Amortizing Term Loan, taken out with a pool of banks, coming to maturity in December 2022.

Other financial liabilities, amounting to 2,788 thousand euro, refer exclusively to the medium/long-term portion of the fair value of the Banzai earn out.

Liabilities in derivative instruments, amounting to 341 thousand euro, include the fair value relating to the transactions to hedge the existing interest rate risk (with BPM, Intesa Sanpaolo, and Unicredit), applying to the A and B Term Loan Tranches of the new amortizing pool loan agreement concluded in December 2017, coming to maturity in December 2022 for a total notional amount of 175.0 million euro and a weighted average rate of 0.028%.

The Group has adopted a Financial Risk Management policy. The use of derivative instruments is in line with the guidelines contained in such policy. In order to verify hedging efficiency, the Company performs a series of perspective and retroactive tests at least on a quarterly basis.

Trading derivatives refer to transactions that, though established for hedging purposes, do not fully meet the requirements envisaged by the international accounting standards to qualify for hedge accounting. In the case of the Mondadori Group, trading derivatives only referred to exchange risk management, which is not present in the Group's financial statements at December 31, 2017.

In addition, the Group calculates the fair value of current hedge transactions on a quarterly basis.

Changes in the drawdowns of committed credit lines are shown below:

(Euro/thousands)	Balance at 1/1/2017	Drawdowns	Repayments	Other changes	Balance at 31/12/2017
Line A1 maturity 2020	190,763		(190,763)		-
Line A2 maturity 2020	104,288		(104,288)		-
Line C maturity 2020	36,184		(36,184)		-
Term Loan A maturity 2022	-	150,000		(5,080)	144,920
Term Loan B maturity 2022	-	100,000		(250)	99,750
Balance at 31/12/2017	**331,235**	**250,000**	**(331,235)**	**(5,330)**	**244,670**

Repayments and drawdowns refer to the renegotiation of credit lines made by the Company in December 2017.

The above loans are tied, *inter alia*, to financial obligations (financial covenants), checked every six months, which include Group debt/EBITDA ratio and net financial exposure limits; at the date of drafting of these financial statements, the obligations have been met. At December 31, 2017, the Financial Covenant Leverage Ratio (debt/EBITDA) resulting from the consolidated annual report was equal to 1.87, far below the cap of 3.25 under the pool loan agreement.

"Payables to banks and other financial liabilities" amounted to 292,083 thousand euro (272,993 thousand euro):

Payables to banks and other financial liabilities (Euro/thousands)	31/12/2017	31/12/2016
Financial payables to subsidiaries	273,943	246,977
Short-term loans	15,000	24,934
Other financial liabilities	3,091	607
Accrued liabilities and deferred income	49	475
Total payables to banks and other financial liabilities	**292,083**	**272,993**

Payables to subsidiaries of 273,943 thousand euro (246,977 thousand euro) refer mainly to current account transactions negotiated at interest rates in line with market rates. The breakdown by company and the changes versus 2016 are shown in Annex D1.
Short-term loans amounting to 15,000 thousand euro (24,934 thousand euro) include the portion of the Line A Amortizing Term Loan of the new amortizing pool loan, reclassified under short-term loans repayable by end 2018.
Other financial liabilities, amounting to 3,091 thousand euro, refer mainly to the short-term portion of the fair value of the Banzai earn out.
Accrued liabilities and deferred income of 49 thousand euro (475 thousand euro) were determined on an accrual basis and refer to short-term loan interest rates.

The Company's comprehensive financial position at December 31, 2017, outlined as per Consob recommendations, indicates a net debt of 373,812 thousand euro (402,944 thousand euro).

Net debt (Euro/thousands)	**31/12/2017**	**31/12/2016**
A Cash	1	1
- Bank deposits	61,025	72,581
- Postal deposits	-	37
B Other cash and cash equivalents	61,025	72,618
C Cash and cash equivalents and other financial assets (A+B)	**61,026**	**72,619**
D Securities held for trading	-	-
- Financial receivables from subsidiaries	88,365	98,863
- Financial receivables from affiliates	1,250	1,250
- Derivatives and other financial assets	429	251
E Receivables and other current financial assets	90,044	100,364
F Current financial assets (D+E)	**90,044**	**100,364**
G Current payables to banks	-	-
- Borrowings	15,049	25,409
H Current portion of non-current debt	15,049	25,409
- Financial payables to subsidiaries	273,943	246,977
- Derivatives and other financial liabilities	3,091	607
I Other current financial liabilities	277,034	247,584
L Payables to banks and other current financial liabilities (G+H+I)	**292,083**	**272,993**
M Current net financial position (C+F-L)	**(141,013)**	**(100,010)**
- Borrowings	229,670	301,318
N Debt non-current portion	229,670	301,318
O Other non-current financial liabilities	3,129	1,616
P Non-current net debt (N+O)	**232,799**	**302,934**
Q Net debt (M-P)	**(373,812)**	**(402,944)**

The Company's net financial position, if one includes the balance of "Non-current financial assets" represented by the loans amounting to 165,000 thousand euro granted to the subsidiary Mondadori France S.A. and to the associate Attica Publications Media S.A., stands at -208,812 thousand euro (224,362 thousand euro).

For the analysis of the Company's net financial position and the relevant changes, reference should be made to the Cash flow statement in these financial statements.

17. Income tax payables

The Company's income amounts are defined for fiscal purposes along with the corresponding tax amounts paid until 2012, except for the indications provided in note 28 "Commitments and potential liabilities".

In case of criminally relevant cases, art. 37 of Legislative Decree no. 223/2006, amended and converted in Law no. 248/2006, has doubled the ordinary investigation terms: "*in case of violations leading to obligatory reporting pursuant to art. 331 of the Criminal Procedure Code for one of the crimes listed in Legislative Decree no. 74 of 10 March 2000*".

As to fiscally open financial years, tax amounts have been allocated and paid on the basis of taxable income and the currently applicable tax regulations upon allocation of the relevant provision.

18. Other current liabilities

"Other current liabilities", amounting to 47,858 thousand euro (45,995 thousand euro), is detailed and commented on below:

Other current liabilities (Euro/thousands)	**31/12/2017**	**31/12/2016**
Advances to customers	72	18
Tax payables	5,710	3,062
Cost of post-employment benefits allocated to supplementary pension plans	1,596	1,661
Payables to welfare and social security entities	7,133	7,177
Other payables	32,542	33,258
Accrued liabilities and deferred income	682	696
Associates for transparent income	123	123
Total other current liabilities	**47,858**	**45,995**

Tax payables of 5,710 thousand euro (3,062 thousand euro) regard IRPEF withholdings on employee salaries and professional fees paid in January 2018 for 2,960 thousand euro, and payables to subsidiaries for the VAT receivable balance from their settlement in January, following participation in the Group VAT settlement regime for 2,750 thousand euro.

Post-employment benefits allocated to supplementary pension plans of 1,596 thousand euro (1,661 thousand euro) refer to pension funds in which post-employment benefits flow, also paid in January 2018.

Payables to welfare and social security entities of 7,133 thousand euro (7,177 thousand euro) include 3,453 thousand euro (3,433 thousand euro) for contributions on salaries relating to December and paid in January 2018; 3,680 thousand euro (3,744 thousand euro) for contributions allocated for deferred salary items.

"Other payables" amounts to 32,542 thousand euro versus 33,258 thousand euro in 2016 and is broken down as follows:

Other current liabilities - Other payables (Euro/thousands)	31/12/2017	31/12/2016
Payroll and other amounts to personnel	12,230	13,944
Payables to collaborators	8,306	7,426
Payables to agents	13	13
Payables to directors and statutory auditors	3,879	3,043
Press-di for pre-paid subscription fee collection	6,445	7,254
Other	1,669	1,578
Total other payables	**32,542**	**33,258**

"Accrued liabilities and deferred income" of 682 thousand euro (696 thousand euro) was determined on an accrual basis and is broken down as follows:

(Euro/thousands)	31/12/2017	31/12/2016
Insurance, membership fees and other prepayments	150	214
Total accrued liabilities	**150**	**214**
Revenue from advertising for magazines of the current period	401	437
Other	131	45
Total accrued liabilities	**532**	**482**
Total accrued liabilities and deferred income	**682**	**696**

19. Trade payables

"Trade payables", amounting to 75,281 thousand euro (72,513 thousand euro):

Trade payables (Euro/thousands)	31/12/2017	31/12/2016
Payables to suppliers	67,469	63,624
Payables to subsidiaries	3,582	3,418
Payables to associates	4,179	5,447
Payables to parent company	51	24
Total trade payables	**75,281**	**72,513**

Payables to suppliers amount to 67,469 thousand euro (63,624 thousand euro) and include payables for the purchase of fixed assets for a total of 1,806 thousand euro (770 thousand euro). The increase in payables to suppliers is attributable to the discontinuity from the merger of Banzai Media S.r.l.

The item also includes trade payables to Fininvest Group companies amounting to 1,940 thousand euro (816 thousand euro), the largest portion of which refer to Publitalia ‘80 S.p.A. for 1,596 thousand euro (774 thousand euro), RTI S.p.A. for 324 thousand euro (0 thousand euro) and other minor payables for a total of 20 thousand euro (42 thousand euro).

Payables to associates refer to trade transactions performed at standard market conditions.

Trade payables to subsidiaries of 3,582 thousand euro (3,418 thousand euro) and trade payables to associates of 4,179 thousand euro (5,447 thousand euro) refer to trade transactions performed at standard market conditions.

The breakdown by company and the changes versus 2016 are shown in Annex D1. Information by geographical area is provided in the relevant separate section.

No trade payables are due over five years; in 2017, the average payment period, calculated with the count back method, was 167.3 days (165.6 days in 2016).

(Intercompany trade transactions in 2017 with related parties are detailed in Annexes C2 and D2)

20. Revenues from sales and services

Sales performance by sector is exhaustively detailed in the Directors' Report on Operations.

Revenues are detailed in the following tables:

Revenue from sales and services (Euro/thousands)	**2017**	**2016**	**Var. %**
Revenue from the sale of products:			
- disposal of book rights	15	15	-
- magazines/publications	114,097	127,589	(10.57%)
- magazines/subscriptions	12,337	13,489	(8.54%)
- corporate and other business:			
Reproduction rights	3,216	3,416	(5.87%)
Commercial items and special initiatives	1,804	882	104.55%
Sub-products and scrap material	877	1,360	(35.50%)
Revenue from the sale of services:			
- print advertising services	58,134	60,566	(4.02%)
- online advertising services	18,068	5,773	212.97%
- corporate and other business:			
On-line revenue, content deal and website management	175	-	100%
Revenue from administrative services	30,509	24,194	26.10%
Other services, consulting and assistance	2,327	1,943	19.81%
Total revenues	**241,559**	**239,227**	**0.97%**

The decrease in revenues from the sale of magazines/publications of 13,492 thousand euro and of magazines/subscriptions of 1,152 thousand euro, is due mainly to the performance of the relevant market, which witnessed a drop in 2017 too.
The increase in revenues from online advertising services is mainly attributable to the discontinuity from the Banzai Media S.r.l. merger.

Revenues by geographical area:

Geographical area (Euro/thousands)	Magazines	Advertising	Rights and other	2017	2016
Italy	128,648	75,301	32,933	236,880	237,268
EU countries	589	891	2,319	3,800	1,228
USA	187	-	43	230	195
Switzerland	7	-	-	7	1
Other countries	220	10	413	642	535
Total	**129,650**	**76,202**	**35,707**	**241,559**	**239,227**

21. Cost of raw and ancillary materials, consumables and goods

Cost of raw and ancillary materials, consumables and goods decreased by 3,616 thousand euro versus the prior year:

Cost of raw and ancillary materials, consumables and goods (Euro/thousands)	2017	2016
Paper	21,308	21,659
Recovery of paper purchasing costs	(1,792)	(1,894)
Production material	7	11
Total cost of raw and ancillary materials	**19,523**	**19,776**
Goods for re-sale	5,184	9,031
Purchase of gadgets and promotional items	829	-
Consumption and maintenance materials	159	280
Stationery and printed materials	3	176
Packaging	80	2
Other consumables and goods	-	128
Total cost of consumption materials and goods	**6,254**	**9,617**
Total cost of raw and ancillary materials, consumables and goods	**25,777**	**29,393**

22. Cost of services

“Cost of services” amounted to 147,428 thousand euro (150,972 thousand euro), and is broken down below:

Cost of services (Euro/thousands)	2017	2016
Third-party graphical processing	34,534	37,171
Rights and royalties	22,581	24,967
Third-party collaborations	14,587	12,561
Advertising services	15,346	15,920
Transport and shipping	10,094	13,164
Consultancy services	6,610	8,765
Administrative and EDP services	6,341	5,059
Rental expense	6,199	2,980
Subscription management	4,207	4,631
Fees to Directors and Statutory Auditors	3,897	3,938
Catering and cleaning services	2,425	2,276
Maintenance	2,933	2,275
Temporary employment and internships	2,236	2,221
Participation in events	2,199	1,268
Rental of vehicles and other	2,096	1,862
Market research	1,669	1,590
Storage	1,565	1,925
Travel and other expense reimbursements	1,424	1,417
Utilities (electricity, gas, water)	1,180	1,582
Insurance	724	705
Staff selection and courses	648	712
Postal costs and telephone	521	603
Audit and certification expenses	518	474
Press agency	429	437
Commissions	304	280
Utilization of the provision for agents' contractual risks	(220)	(98)
Other services	2,380	2,285
Total cost of services	**147,428**	**150,972**

23. Cost of personnel

“Cost of personnel” amounted to 76,035 thousand euro (72,961 thousand euro):

Cost of personnel (Euro/thousands)	**2017**	**2016**
Salaries and wages and related costs	55,491	52,707
Capitalization of cost of personnel	(389)	-
Stock options	415	-
Charging/(recovery) of costs for seconded staff	(2,623)	(3,541)
Social security charges	16,493	16,003
Post-employment benefits, retirement indemnity and supplementary pension scheme plans	6,852	7,928
Provision/utilization for risks from personnel reorganization	(203)	(136)
Total cost of personnel	**76,035**	**72,961**

Cost of personnel includes the net balance between the charging and recovery of costs for staff seconded from and to Group companies.

“Capitalization of cost of personnel” refers to the costs for the resources working specifically on the SAP project launched in the year and ending with the go live on January 1, 2019, and for the man-days dedicated to the development of property websites.

Cost of personnel by category is broken down here below:

(Euro/thousands)	**2017**	**2016**
Executives	14,368	14,554
White collars and managers	35,689	29,441
Journalists	29,147	32,550
Blue collars	279	291
IAS adjustment to provision for post-employment benefits (TFR)	(233)	(198)
Costs/Recovery seconded staff	(2,623)	(3,541)
Provision/utilization for risks from personnel reorganization	(203)	(136)
Capitalization of cost of personnel	(389)	-
Total	**76,035**	**72,961**

At December 31, 2017, the Company counted 930 employees, increasing by 103 employees versus December 31, 2016, due mainly to the merger with Banzai Media S.r.l.

Employees	Actual 31/12/2017	Actual 31/12/2016	Average 2017	Average 2016
Executives	53	45	52	46
Journalists	234	250	235	252
White collars and managers	638	527	642	516
Blue collars	5	5	5	5
Total	**930**	**827**	**934**	**819**

In the reporting period, there were an average 934 employees (819 employees in 2016).

Information on the 2017-2019 long-term incentive plan (Performance Share Plan)

On 27 April 2017, the Shareholders' Meeting approved an incentive plan for employees of the Mondadori Group, including some members of the Board of Directors of Arnoldo Mondadori S.p.A., granting the Board the necessary powers to set up and execute the Plan.

The reasons for the introduction of the Plan are:

- to create a stronger link between the creation of medium- and long-term value and the remuneration of Management;
- to support Mondadori's growth following the completion of the optimization of its assets, using a system that reflects the growth in the value of the company;
- to stimulate teamwork at management level, supporting the shared objective of value creation.

The Plan involves 12 Group resources and envisages the right to receive a bonus in the form of Company shares, subject to the achievement of Performance Objectives set and measured at the end of a three-year performance period.

Beneficiaries gain the right to receive the Bonus upon receipt of a Letter of Assignment. Earning the Bonus is subject to the continuity of the relationship and the performance of work duties during the Vesting Period and until the time of actual payment of the Bonus, as well as achieving the specific Performance Targets.

The Performance Targets to which the Bonus is subject are:

- Total Shareholder Return (TSR) over the three years compared to the FTSE All Share index, with a weighting of 25%
- Cumulative EBITDA over the three years, with a weighting of 25%
- Cumulative Net Profit over the three years, with a weighting of 25%
- Cumulative Free Cash Flow over the three years, with a weighting of 25%

The Board – or its representative, the CEO – has the power to amend the Performance Targets in extraordinary and/or unforeseeable situations or circumstances that could have a significant impact on the results of the Group and/or its area of operations. These situations and circumstances could, for example, include mergers, demergers, acquisitions, disposals or spin-offs.

At December 31, 2017, the total cost recognized in the income statement under Cost of personnel for the fair value of shares granted under the Plan amounted to 415 thousand euro.

Pursuant to IFRS 2, the financial instruments underlying the Plan were stated at fair value on their granting. They are measured considering the four components of the Plan:

- the "market based" component connected to the measurement of the performance of Arnoldo Mondadori Editore S.p.A. in terms of Total Shareholder Return (TSR);
- the "non-market based" component relating to the achievement of targets on cumulative Net Profit, cumulative EBITDA and cumulative Free Cash Flow.

The fair value measurement, which takes account of the current share price at the grant date, volatility, the expected flow of dividends, the duration of the Plan and the free-risk rate, has been entrusted to an independent third-party expert and carried out using the Monte Carlo model.

The information document pursuant to art. 114-*bis* of Legislative Decree 58/98, which describes the features of the above plan, is available to the public on the Governance section of Arnoldo Mondadori Editore S.p.A.'s website (www.mondadori.it), at the registered office and at Borsa Italiana S.p.A.

24. Other (income) costs

Other (income) costs (Euro/thousands)	**2017**	**2016**
Other revenue and income	(13,511)	(8,340)
Other operating costs	2,228	2,714
Total other (income) costs	**(11,283)**	**(5,626)**

"Other revenue and income", amounting to 13,511 thousand euro (8,340 thousand euro), refers to:

Other (income) costs - Other revenue and income (Euro/thousands)	**2017**	**2016**
Capital gains and contingent assets	(4,809)	(128)
Supplier rebates and paper contributions	(57)	(72)
Rental income	(4,517)	(3,533)
Third-party expense reimbursements	(4,046)	(3,932)
Other (promotions, publishing facilities)	(83)	(675)
Total other revenue and income	**(13,511)**	**(8,340)**

The increase versus the prior year refers mainly to the capital gain of 4,155 thousand euro from the disposal of the property in via Montelungo, Verona, as part of the sale to CEVA Logistics of the logistics business unit made by the Group in April 2017, and to the higher rental from Group companies for shared premises.

“Other operating costs”, amounting to 2,228 thousand euro (2,714 thousand euro), includes:

Other (income) costs - Other operating costs (Euro/thousands)	**2017**	**2016**
Compensation, settlements and allowances	552	953
Bad debt	48	76
Contractual charges for advertising and subscriptions	496	1,293
Contributions and grants	1,190	1,237
Capital loss/contingent liabilities	706	220
Provisions for bad debt	-	-
Provisions for other risks	267	739
(Utilization) provision for bad debt	(48)	(76)
(Utilization) provision for legal risks	(673)	(867)
(Utilization) provision for other risks	(826)	(1,714)
Council tax	118	198
Other tax and duties	323	284
Other costs	75	371
Total other operating costs	**2,228**	**2,714**

The provision for bad debt and the provision for other risks are allocated to cover potential losses that may arise in future years.

25. Financial income (costs)

The item, amounting to 4,758 thousand euro in costs (4,778 thousand euro), consists of:

Financial income (costs) (Euro/thousands)	2017	2016
Interest from subsidiaries	8,754	11,418
Interest from associates	24	24
Interest from banks and post offices	3	7
Other interest and financial income	397	554
Total interest and other financial income	**9,177**	**12,003**
Interest on loans and borrowings	(8,608)	(10,854)
Financial costs from derivatives	(1,095)	(1,615)
Other financial costs for discounting assets/liabilities	(162)	(224)
Interest to banks and post offices	(1)	(39)
Other interest paid and financial costs	(4,093)	(4,057)
Total interest expense and other financial costs	**(13,959)**	**(16,789)**
Financial income from the management of securities	-	1
Financial costs from the management of securities	-	(6)
Utilization of the provision for security depreciation	11	16
Total income (cost) from management of securities	**11**	**11**
Realized currency gains	13	8
Unrealized currency gains	-	(11)
Total income (loss) on currency transactions	**13**	**(3)**
Total financial income (costs)	**(4,758)**	**(4,778)**

The rates applied on current accounts held with subsidiaries and associates are in line with the average costs of money collection of Arnoldo Mondadori Editore S.p.A.

26. Income (costs) from investments

The breakdown of the item is detailed in the following table, where 2016 figures are shown on a like-for-like basis with the current year, as if the measurement at equity of investments were consistent:

Income (costs) from investments (Euro/thousands)	**2017**	**Restated 2016**
Revaluations	52,701	52,898
Impairment loss	(12,618)	(14,265)
Other	-	972
Total income (costs) from investments	**40,083**	**39,616**

Revaluations refer to:

(Euro/thousands)	**2017**	**2016**
Subsidiaries:		
Press-di Abbonamenti S.p.A.	1,946	-
Press-di Distribuzione e Stampa Multimedia S.r.l.	1,142	2,335
AdKaora S.r.l.	586	-
Mondadori International Business S.r.l.	1,232	-
Mondadori France S.A.	3,293	5,598
Mondadori Libri S.p.A.	42,820	43,717
Mondadori Scienza S.p.A.	1,365	910
Total subsidiaries	**52,384**	**52,560**
Associates:		
Attica Publications S.A.	317	50
Società Europea Edizioni S.p.A.	-	288
Total associates	**317**	**338**
Total revaluations	**52,701**	**52,898**

Writedowns, which include the negative performance of the companies and the value adjustments of the investments following impairment testing, refer to:

(Euro/thousands)	2017	2016
Subsidiaries:		
Press-di Abbonamenti S.p.A.	-	722
Inthera S.p.A.	1,483	1,160
Mondadori Retail S.p.A.	3,644	4,707
Glaming S.r.l. (in liquidation)	-	13
Banzai Media S.r.l.	-	2,715
Mondadori International Business S.r.l.	-	1,933
Total subsidiaries	**5,127**	**11,250**
Associates:		
Monradio S.r.l.	816	1,015
Attica Publications S.A. - Impairment	1,700	2,000
Società Europea di Edizioni S.p.A. - Result	2,075	-
Società Europea Edizioni S.p.A. - Impairment	2,900	-
Total associates	**7,491**	**3,015**
Total writedowns	**12,618**	**14,625**

During the year, the Company received dividends from its subsidiaries for a total of 44,070 thousand euro: 42,070 thousand euro from Mondadori Libri S.p.A. and 2,000 thousand euro from Press-di Distribuzione Stampa e Multimedia S.r.l.

27. Income tax

“Income tax” amounted to a cost of 1,896 thousand euro (income of 282 thousand euro). The main items for the years ended at December 31, 2016 and 2017 are shown in the table below:

Income tax (Euro/thousands)	2017	2016
Income from tax consolidation (IRES tax on income for the year)	(25)	(4,602)
IRAP for the period	-	-
Total current tax	**(25)**	**(4,602)**
Deferred (pre-paid) tax for IRES	(25)	905
Deferred (pre-paid) tax for IRAP	202	313
Total deferred (pre-paid) tax	**177**	**1,218**
Prior-years’ tax	(186)	102
Provision for tax disputes	1,930	3,000
Total income tax	**1,896**	**(282)**

As shown in the sections relating to tax receivables and payables, since the Company adheres to the tax consolidation regime of Fininvest S.p.A., it recorded an income from the adhesion to tax consolidation relating to the tax loss of the current year of 25 thousand euro, which will be paid by the consolidating entity in 2018, and used to offset the current tax profit transferred from Mondadori companies to tax consolidation.

In relation to the changes in current tax, reference should be made to Note 28 "Commitments and contingent liabilities".

Reconciliation between the financial statement tax charge and the theoretical tax charge

(Euro/thousands)	2017			2016		
	Pre tax result	**Tax amount**	**Current tax rate**	**Current tax rate**	**Tax amount**	**Current tax rate**
Theoretical IRES tax amount	32,313	7,755	24.00%	(16,430)	(4,518)	27.50%
Theoretical IRAP tax amount		1,260	3.90%		(641)	3.90%
Total theoretical tax amount/rate	**32,313**	**9,015**	**27.90%**	**(16,430)**	**(5,159)**	**31.40%**
Actual IRES tax amount	32,313	1,695	5.25%	(16,430)	(1,567)	9.54%
Actual IRAP tax amount		201	0.62%		313	(1.91%)
Total actual tax amount/rate	**32,313**	**1,896**	**5.87%**	**(16,430)**	**(1,254)**	**7.63%**
Theoretical tax amount/rate	**32,313**	**9,015**	**27.90%**	**(16,430)**	**(5,159)**	**31.40%**
Effects of dividends	2,203	529	1.64%	(11,400)	(3,135)	19.08%
Effects of investments	(40,083)	(9,620)	(29.77%)	11,631	3,199	(19.47%)
Effects of non-deductible interest expense	4,510	1,082	3.35%	907	249	(1.52%)
Effects of other permanent increases	9,233	2,216	6.86%	10,444	2,770	(16.86%)
Effects of different taxable amount for IRAP (collaborations, financial and extraordinary cost/income, bad debt)	(4,413)	(1,059)	(3.28%)	3,468	954	(5.81%)
Effects of other permanent decreases	(1,112)	(267)	(0.83%)	(480)	(132)	0.80%
Current tax amount/rate		**1,896**	**5.87%**		**(1,254)**	**7.63%**

28. Commitments and contingent liabilities

The following table shows Company commitments at December 31, 2017:

(Euro/thousands)	Total	
	31/12/2017	**31/12/2016**
Guarantees, sureties, endorsements:		
- in favour of subsidiaries	26,733	31,399
- in favour of associates		-
- in favour of other companies	40,772	32,044
	67,505	63,443
Rental expense:	-	-
- in favour of other companies	68,512	74,399
Total	**136,017**	**137,842**

Guarantees, sureties, endorsements:

- ***in favour of subsidiaries:*** 26,733 thousand euro (31,399 thousand euro) refer mainly to letters of patronage issued in favour of subsidiaries, 9,000 thousand euro of which refer to a letter of patronage issued in favour of SIIC de Paris on behalf of Mondadori Magazine France;

- ***in favour of other companies:*** 40,772 thousand euro (32,044 thousand euro) refer to counter-guarantees issued by the Company against sureties issued by credit institutes:
  - in the interest of the Lombardy Regional Inland Revenue Office and the Italian Ministry of Production Activities to support premium contests attached to the sale of magazines of 2,548 thousand euro;
  - to the Gaming Monopoly Authority for 261 thousand euro;
  - to the Lombardy Regional Inland Revenue Office for VAT reimbursements of 23,840 thousand euro;
  - to other entities and companies for a total of 14,123 thousand euro, 10,000 thousand euro of which for the lease of the new property in France.

Rental expense

The Company leases its operating offices through operating leases to conduct its business. The leases expire between 2018 and 2030 and are renewable. Future rental commitments for leases in place at December 31, 2017 amount to 68,512 thousand euro.

In relation to **Contingent liabilities**, the following pending litigations should be taken into account:

- Years 1996, 1997, 1998, 1999, following an inspection by INPGI (National Journalists' Social Security Association), assessment notices were notified containing tax for a total of 186,267.00 and penalties for failure to apply withholding tax for a total of 209,684.00. All these assessments have been challenged and are now pending before the Regional Tax Commission. The Company has made use of the settlement concession for tax disputes pursuant to art. 11, c. 8, Legislative Decree no. 50 of 24/4/2017; the relating rulings have, therefore, been suspended until 31/12/2018.
- Year 2004: the Central Division of the Lombardy Region submitted findings relating to the omitted application of a 12.50% withholding tax on the interest paid on a loan stock in favour of a subsidiary for a total of 999 thousand euro, plus applicable ancillary charges; against such assessment, an appeal is pending before the Court of Cassation.
- Year 2005: the Central Division of the Lombardy Region challenged the omitted payment of a 12.50% withholding for a total of 3,051 thousand euro plus applicable ancillary charges by means of a tax assessment, in relation to interest paid on a loan stock stated in 2004. An appeal is pending against such assessment before the Court of Cassation.

For the above indicated potential liabilities, while taking account of the substantial grounds of defense, the risk of a negative outcome is considered likely, covered by a specific provision for risks.

29. Non-recurring (income) costs

In accordance with Consob Resolution no. 15519 of 27 July 2006, it should be noted that the Company did not carry out non-recurring transactions in 2017.

30. Related parties

Transactions carried out with related parties, including intercompany transactions, do not qualify as either atypical or unusual, since they refer to standard business activities performed by Group companies. When performed out of the scope of standard conditions or when they are imposed by specific regulatory conditions, transactions with related parties are in any case carried out under market conditions.
Annexes C1, C2, D1, D2 detail the operating and financial impacts of transactions with parent companies, subsidiaries, associates and affiliates performed in 2016 and 2017.

31. Financial risk management and other information required by the application of IFRS 7

In carrying out its business activities, the Company is exposed to various financial risks, including interest rate risk, exchange rate risk, price risk, credit/counterparty risk, issuer risk and liquidity risk.

The Company drafted a "General Policy for Financial Risk Management" aimed at regulating and defining financial risk management. The Policy also envisaged the setting up of a Risk Committee, whose task is to identify any changes. The Policy was adopted by the Parent Company, Arnoldo Mondadori Editore S.p.A., and all Group companies.

The Company analyzes and measures its exposure to financial risks for the purpose of defining management and hedge strategies. The criteria used by the Company to measure the risks include the sensitivity analysis of positions subject to risk, involving "mark to market" analysis of variations and/or future cash flow variations in relation to small variations in risk factors.

The overall Policy objective is to minimize financial risks, by using appropriate tools available on the market. Financial derivative instruments are exclusively used to hedge against financial risks directly referring to Arnoldo Mondadori Editore S.p.A. or its subsidiaries.
Financial derivative instruments may not be used for speculative purposes.

Specific company functions are responsible for risk management and monitoring and reports are drafted periodically for each type of risk.

Interest rate risk

Interest rate risk may refer to the possibility that losses be incurred in financial management, in terms of lower business activity performance or increased liability costs (existing or potential) as a result of interest rate fluctuations.

Interest rate risk is therefore correlated to interest rate uncertainty. The key objective of interest rate risk management is to protect the Company's financial margin against market interest rate fluctuations, by steadily monitoring interest rate volatility, and prudently managing the risk consistently with the Group risk profiles and the Group financial assets and liabilities performance in a logic of asset and liability management.

The Company exposure to interest rate risk refers mainly to medium/long-term loans, and, in particular, the new pool loan granted in December 2017, and the interest rate swaps taken out to partly hedge the loan.

The following table shows the findings of the sensitivity analysis with indication of the relevant impact on income statement and equity, gross of any tax effects, pursuant to IFRS 7.

While identifying potential impact correlated to positive and negative interest rate variations, floating-rate loans (short-term credit lines) were also analyzed.

The impact of the sensitivity analysis refers to future cash flows on the payment of floating-rate loans.

The basic assumptions underlying the sensitivity analysis are:
- an initial parallel shift of the interest curve of + 100/-20 basis points (+100/-20 basis points in 2016);
- the analysis is carried out on the assumption that all the other risk variables remain constant;
- for the purpose of comparability, the same analysis is performed both on the current and prior year.

Sensitivity analysis (Euro/millions)	**Underlying**	**Interest rate increase/ (decrease)**	**Income (costs)**	**Equity increase (decrease)**
2017	123.3	1%	2.6	4.5
2016	83.6	1%	2.0	4.8
2017	123.3	(0.2%)	(0.5)	(0.9)
2016	83.6	(0.2%)	(0.4)	(1.0)

Currency risk
Currency risk refers to a set of negative effects on the margin or the value of an asset or a liability as a result of exchange rate fluctuations.

The Company, though operating internationally, is not particularly exposed to exchange rate risks since the euro is the currency used in the Company's main business areas.

In 2017, the type of exposure and the hedge policy adopted for exchange rate risks did not show any particular variations against prior years.

The results of the sensitivity analysis performed on the currency risk showed an irrelevant economic impact, considering the low level of average exposure in 2016 and 2017.

Liquidity risk
Liquidity risk refers to the possibility that the Company may not be able to face payment obligations as a result of its inability to raise new funds (funding liquidity risk), or its inability to sell assets on the market (asset liquidity risk), thereby being forced to sustain excessively high costs for the purpose of meeting obligations. The Company's exposure to liquidity risk refers mainly to existing loans and borrowings.

In addition, if deemed necessary, the Company may resort to pre-authorized short-term credit lines.

The Company's objective is to maintain a constant balance and flexibility between financial sources and commitments. For detailed information regarding current and non-current financial liabilities, reference should be made to Note 16 "Financial liabilities".

At December 31, 2017, liquidity risk was managed by the Company using its own financial resources and the financial resources of its subsidiaries.

The table below details the Company's exposure to liquidity risk and the relevant maturity dates:

Liquidity risk (Euro/millions)	**Analysis of maturity periods at 31/12/2016**						
	< 6 months	**6-12 months**	**1-2 years**	**2-5 years**	**5-10 years**	**> 10 years**	**Total**
Trade payables	63.6						63.6
Intercompany loans medium/long-term							
Third-party loans medium/long-term	6.0	31.0	44.7	293.6			375.3
Other financial liabilities:							
- committed lines							
- uncommitted lines	1.1						1.1
Other liabilities	12.6						12.6
Intercompany payables	263.4						263.4
Total	**346.7**	**31.0**	**44.7**	**293.6**			**716.0**
Derivatives on rate risk	(0.3)	(0.3)	(0.5)	(0.2)			(1.3)
Total exposure	**347.0**	**31.3**	**45.2**	**293.8**			**717.3**

Liquidity risk (Euro/millions)	**Analysis of maturity periods at 31/12/2017**						
	< 6 months	**6-12 months**	**1-2 years**	**2-5 years**	**5-10 years**	**> 10 years**	**Total**
Trade payables	67.5						67.5
Intercompany loans medium/long-term							
Third-party loans medium/long-term	1.6	16.6	120.1	122.9			261.2
Other financial liabilities:							
- committed lines							
- uncommitted lines	3.1						3.1
Other liabilities	14.6						14.6
Intercompany payables	288.3						288.3
Total	**375.1**	**16.6**	**120.1**	**122.9**			**634.7**
Derivatives on rate risk	(0.3)	(0.2)	(0.5)	(0.4)			(1.4)
Total exposure	**375.4**	**16.8**	**120.6**	**123.3**			**636.1**

Maturity dates were analyzed by using undiscounted cash flows and the amounts were accounted for by taking into account the first date upon which payment becomes due. For this reason, uncommitted credit lines are shown in the first column.

For the purpose of meeting liquidity requirements, the Company relies on credit lines and liquidity, as already commented on above, and on cash flow from operations.

Credit risk

Credit risk refers to the possibility of incurring financial losses as a result of counterparty default in complying with contractual obligations.
A special type of credit risk is represented by the counterparty/replacement risk in case of derivative exposure. In this case, the risk is associated with any capital gains positions as a result of the possibility that the counterparty fails to live up to its contractual obligations and thus no positive cash flow is generated in favour of the Company. In the case of the Company, this potential risk is limited, since the counterparties of derivative instrument contracts are leading financial institutions with high ratings.

The objective is to limit the risk for losses due to the unreliability of market counterparties or to the difficulty of converting or replacing existing financial positions. Hence, transactions with non-authorized counterparties are not allowed.
When approving the Policy, the Board of Directors also approved a list of authorized counterparties for financial risk hedging. Transactions with such authorized counterparties are constantly monitored and reports are periodically drafted.

Each individual Company Division is responsible for the management of trade receivables in compliance with the Company's financial objectives, commercial strategies and operating procedures, restricting the sale of products and services to customers whose credit profile or provision of collateral guarantees does not conform to the standards set. The balance relating to trade receivables is monitored throughout the year, to ensure that the amount of exposure to losses is kept low.
The table below shows maximum exposure to credit risk for financial statements items. Maximum risk exposure is accounted for before the effects of mitigation deriving from compensation agreements and guarantees.

Credit risk (Euro/millions)	**31/12/2017**	**31/12/2016**
Deposits	61.0	72.6
Receivables and loans:		
- trade receivables and other current financial assets	142.1	113.8
- trade receivables and other non-current financial assets	166.5	208.6
- Guarantees		
Total maximum exposure to credit risk	**369.6**	**395.0**

As to trade receivables, the table below illustrates the Company's exposure to credit risk by geographical area and business unit:

	Credit risk concentration			
	31/12/2017 (Euro/millions)	**31/12/2016** (Euro/millions)	**31/12/2017** (%)	**31/12/2016** (%)
By business area:				
Magazines (print + web)	39.8	29.5	78.7%	73.9%
Other	10.8	10.4	21.3%	26.1%
Total	**50.6**	**39.9**	**100.0%**	**100.0%**
By geographical area:				
Italy	48.1	39.4	95.1%	98.7%
Other countries	2.5	0.5	4.9%	1.3%
Total	**50.6**	**39.9**	**100.0%**	**100.0%**

Below is a description of management criteria used for the main business segments:

Magazines (print + web)
Sale and distribution in the newsstands and subscription channels is performed by the subsidiaries Press-di Distribuzione Stampa e Multimedia S.r.l. and Press-di Abbonamenti S.p.A.
Regarding sales in the newsstands channel, it should be noted that the Company is not exposed to credit risk, as the subsidiary responsible for the activity is liable for any losses and, as a result, is in charge of defining the relevant criteria to manage the risk.
Regarding sales in the subscription channel, losses on receivables incurred by Press-di Abbonamenti S.p.A. are charged back to the Company. However, considering the fragmentation of the balance receivable and the small amounts involved, receivables management does not involve the use of credit lines, but the adoption of measures aimed at limiting exposure vis-à-vis the individual subscription.

Advertising
Receivables from advertising refer to the sale of advertising space of the Company's magazines and space on its websites. Sales are managed by the associate Mediamond S.p.A., which is therefore responsible for the definition of the relevant criteria to efficiently manage and monitor the related receivables.

Price risk
Price risk mainly refers to variations in the market price of equity instruments and financial assets/liabilities value impairment as a result of variations in commodity prices. The key objective of price risk management is to reduce the impact of fluctuations in the price of raw materials on the financial results of the Company.

Due to the nature of its core business, the Company is exposed to variations in the price of paper.

Other information requested pursuant to IFRS 7

The table below summarizes financial assets and liabilities classified according to the categories defined by IAS 39 and the relevant fair value:

(Euro/millions)	Classification							
	Book value						Fair value	
	Total		of which current		of which non-current			
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Receivables and loans:								
- cash and cash equivalents	61.0	72.6	61.0	72.6			61.0	72.6
- trade receivables	5.4	2.2	5.4	2.2			5.4	2.2
- other financial assets	4.9	5.4	4.7	5.2	0.2	0.2	4.9	5.4
- receivables from subsidiaries, associates	298.1	314.7	131.9	106.4	166.3	208.3	298.1	314.7
Available-for-sale financial assets (investments)	0.1	0.1	0.1	0.1			0.1	0.1
Cash flow hedges								
Total financial assets	**369.6**	**395.0**	**203.2**	**186.5**	**166.4**	**208.5**	**369.6**	**395.0**
Financial liabilities at amortized cost:								
- trade payables	67.5	63.6	67.5	63.6			67.5	63.6
- payables to banks and other financial liabilities	265.2	340.0	32.7	38.7	232.5	301.3	273.9	375.9
- payables to subsidiaries, associates	288.3	263.4	288.3	263.4			288.3	263.4
Cash flow hedges	0.3	1.6			0.3	1.6	1.6	1.6
Total financial liabilities	**621.3**	**668.6**	**388.5**	**365.7**	**232.8**	**302.9**	**630.0**	**704.5**

The table below summarizes income and costs recognized under income statement and attributable to financial assets and liabilities, classified according to the categories defined by IAS 39:

(Euro/millions)	Income and loss from financial instruments	
	2017	**2016**
Net income on financial liabilities at amortized cost		
Net income on derivative instruments		
Interest earned on financial assets not measured at fair value:		
- deposits		
- intercompany receivables	8.8	11.4
- other financial assets	0.4	0.6
Total income	**9.2**	**12.0**
Net loss on derivative instruments	1.1	1.6
Net loss on financial liabilities, loans and receivables		
Interest due on financial liabilities not measured at fair value		
- deposits	-	-
- borrowings	10.7	12.6
- intercompany payables		
- other	1.9	2.3
Losses from financial instrument impairment:		
- trade receivables	0.5	1.4
Total costs	**14.3**	**17.9**
Total	**(5.1)**	**(5.9)**

32. Fair value measurement

Some of the Company's financial assets and liabilities were measured at fair value at closing. The table below provides information on the measurement of the abovementioned fair value:

Financial assets/liabilities (Euro/thousands)	**Fair value at 31/12/2017**	**Fair value hierarchy**	**Valuation method and main inputs**
Interest rate swap contracts	(341)	Level 2	*Discounted cash flow* Projected flows are discounted based on the forward rate curve expected at the end of the period and on the contractual fixing rates, also taking the counterparty default risk into account.
Investments in other companies	67	Level 3	Based on the nature of the investments held in other companies, the cost may be considered representative of the fair value.

33. Information pursuant to art. 149-duodecies of Consob Issuer Regulation

The table below, drafted pursuant to art. 149-*duodecies* of the Consob Issuer Regulation, shows the fees paid in 2017 (net of ancillary expenses) for auditing activities and other services provided by Deloitte & Touche S.p.A. and by other entities belonging to the same network.

(Euro/thousands)	Entity providing the service	Amount in 2017
Auditing	Deloitte & Touche S.p.A.	368.8
Certification	Deloitte & Touche S.p.A. (1)	92.7
Total		**461.5**

(1) Attività di Accertamento Diffusione Stampa (circulation auditing), auditing of the Company financial statements, tax returns

34. Draft resolutions of the Board of Directors

The financial statements at December 31, 2017 show a net profit for the year of 30,417,414.68 euro.

First resolution:
The Shareholders' Meeting of Arnoldo Mondadori Editore S.p.A., convened in ordinary session, having acknowledged the Statutory Auditors' report and the Independent Auditors' report,

resolves

to approve the Board of Directors' Report on Operations and the Financial Statements at December 31, 2017, including all the information and results therein contained.

Second resolution:
The Shareholders' Meeting of Arnoldo Mondadori Editore S.p.A., convened in ordinary session, with regard to allocation of the net profit of 30,417,414.68 euro resulting from the Financial Statements at December 31, 2017,

resolves

to fully allocate profit for the year of 30,417,414.68 euro at December 31, 2017 to the extraordinary reserve under "Other reserves and profit/(loss) carried forward", prior to allocation of 105,482.42 euro to the Legal Reserve.

For the Board of Directors
The Chairman
Marina Berlusconi

Annexes to the financial statements

ANNEX A: STATEMENT OF INVESTMENTS

Description (Euro/thousands)	Registered office	Share capital	Equity
Subsidiaries			
AdKaora S.r.l.	Milan	15	563
Inthera S.p.A.	S. Mauro Torinese (TO)	3,835	5,304
Mondadori Retail S.p.A.	Milan	2,700	5,801
Mondadori International Business S.r.l.	Milan	200	668
Mondadori Libri S.p.A.	Milan	30,050	251,892
Mondadori France S.a.s	Montrouge (FR)	50,000	186,051
Press-di Abbonamenti (former Mondadori Pubblicità S.p.A.)	Milan	3,120	2,717
Mondadori Scienza S.p.A.	Milan	2,600	3,136
Press-di Distribuzione Stampa e Multimedia S.r.l.	Milan	1,095	2,774
Total			
Associates (*)			
Monradio S.r.l.	Milan	3,030	44,898
Società Europea di Edizioni S.p.A.	Milan	2,529	2,662
Attica Publications S.A.	Athens	4,590	3,813
Total			
Other companies (*)			
Confidimpresa			
Consorzio Edicola Italiana	Milan	60	
Consuledit Società consortile ar.l. (in liquidation)	Milan	20	40
Immobiliare Editori Giornali S.r.l.	Rome	830	5,890
Total			
Total direct equity investments			

(*) Figures at 31/12/2016
Note: the amounts refer to balance sheet and income statement data, in accordance with the accounting standards adopted for the preparation of the financial statements of the individual subsidiaries

Profit (loss) 2017	Total equity	% of Interest	Share of equity	Balance sheet values
586	1,149	100.00%	1,149	6,315
(1,484)	3,820	100.00%	3,820	3,821
(3,986)	1,815	100.00%	1,815	(3,634)
1,232	1,900	100.00%	1,900	1,894
35,378	287,270	100.00%	287,270	343,828
2,272	188,323	100.00%	188,323	89,833
1,600	4,317	100.00%	4,317	7,905
1,087	4,223	100.00%	4,223	7,644
1,143	3,917	100.00%	3,917	3,920
			495,585	**461,526**
(4,090)	40,808	20.00%	8,162	7,162
999	3,661	36.90%	1,351	6,467
264	4,077	41.98%	1,712	12,242
			11,224	**25,871**
				5
		16.67%		10
	40	9.56%	4	1
	5,890	7.88%	464	51
			468	**67**
			507,277	**487,464**

ANNEX B1: MAIN INDIRECT SUBSIDIARIES AND ASSOCIATES AT 31 DECEMBER 2017

Description (Values in currency/thousands)	**Registered office**		**Share capital**	**Equity**
Subsidiaries				
Giulio Einaudi editore S.p.A.	Turin	Euro	23,920	35,209
Mondadori Education S.p.A.	Milan	Euro	10,608	47,527
Mondadori Electa S.p.A.	Milan	Euro	1,594	7,109
Rizzoli Libri S.p.A.	Milan	Euro	42,405	145,429
EMAS “Editions Mondadori Axel Springer” S.n.c.	France	Euro	153	817
Mondadori Magazines France S.a.s.	Montrouge	Euro	60,557	186,451
Total				
Associates:				
Attica group companies:				
Airlink S.A.	Athens	Euro	801	
Argos S.A.	Athens	Euro	2,910	
Attica Publications S.A.	Athens	Euro	4,590	
Attica Media Bulgaria Ltd	Sofia	Lev	155	
Attica Media Serbia Ltd	Belgrade	Euro	1,659	
Attica-Imako Media Ltd	Bucharest	Ron	700	
Civico Ltd	Cyprus	Usd	2	
E-One S.A. (in liquidation))	Athens	Euro	339	
Ennalaktikes Publications S.A. (in liquidation)	Athens	Euro	487	
HRS Ltd	Athens	Euro	18	
International Radio Networks Holdings S.A.	Luxembourg	Euro	2,507	
International Radio Networks S.A.	Athens	Euro	380	
Ionikes Publishing S.A.	Athens	Euro	1,374	
Lampsi Publishing Radio & Radio Enterprises S.A.	Athens	Euro	3,251	
Attica Media Romania Ltd (former PBR Publication Ltd)	Bucharest	Ron	1	
Radio Zita	Thessaloniki	Euro	746	
Tilerama S.A.	Athens	Euro	1,467	
(Attica consolidated financial statement figures) (b)	Athens	Euro	4,590	3,813
Campania Arte S.c.ar.l.	Rome	Euro	100	100
Consorzio Covar (in liquidation)	Rome	Euro	15	7
Consorzio Forma	Pisa	Euro	4	3
Edizioni EL S.r.l. (b)	Trieste	Euro	620	5,484
GD Media Service S.r.l. (b)	Peschiera Borromeo (MI)	Euro	789	1,570
Mediamond S.p.A.	Milan	Euro	2,400	4,053
Mondadori Seec (Beijing) Advertising Co. Ltd (b)	Beijing	Cny	40,000	62,773
Selcon S.r.l.	Milan	Euro	21	945
Venezia Accademia Società per i servizi museali S.c.ar.l.	Venice	Euro	10	10
Venezia Musei Società per i servizi museali S.c.ar.l. (in liquidation)	Venice	Euro	10	22
Total				

(a) Exchange rates: USD Euro 1.20; Cny Euro 7.80
(b) at 31/12/2016

Profit (loss) 2017	Total equity	Group interest	Share of equity denominated in currency	Share of equity in euro [(a)]
9,864	45,073	100.00%	45,073	45,073
12,423	59,950	100.00%	59,950	59,950
7,327	14,436	100.00%	14,436	14,436
1,652	147,081	99.99%	147,066	147,066
5,535	6,352	50.00%	3,176	3,176
674	187,125	100.00%	187,125	187,125
				456,826
		41.98%		
		2.75%		
		41.98%		
		28.90%		
		38.18%		
		20.99%		
		41.98%		
		10.50%		
		20.57%		
		41.98%		
		41.98%		
		41.85%		
		27.92%		
		41.98%		
		41.98%		
		20.99%		
		20.99%		
264	4,077	41.98%		
	100	22.00%	22	22
	7	25.00%	2	2
	3	25.00%	1	1
1,238	6,722	50.00%	3,361	3,361
(875)	695	38.00%	264	264
14	4,067	50.00%	2,034	2,034
20,931	83,704	50.00%	41,852	4,255
	945	25.60%	242	242
	10	25.00%	3	3
	22	34.00%	7	7
				10,190

ANNEX B2: LIST OF RELEVANT INVESTMENTS (EQUAL OR ABOVE 10% OF SHARE CAPITAL OF DIRECTLY OR INDIRECTLY HELD THROUGH SUBSIDIARIES)

Arnoldo Mondadori Editore S.p.A.

Company name	Share capital		% owned	Ownership mode
AdKaora S.r.l. (Italy)	Euro	15,000	100%	direct
Aranova Freedom Soc. Cons. a r.l. (Italy)	Euro	19,200	16.67%	indirect
Campania Arte S.c. a.r.l. in liquidation (Italy)	Euro	100,000	23.41%	indirect
Club Dab Italia Società consortile per azioni (Italy)	Euro	240,000	12.50%	indirect
Edizioni EL S.r.l. (Italy)	Euro	620,000	50%	indirect
Giulio Einaudi editore S.p.A. (Italy)	Euro	23,920,000	100%	indirect
Inthera S.p.A. (Italy)	Euro	3,835,000	100%	direct
Mondadori Scienza S.p.A. (Italy)	Euro	2,600,000	100%	direct
Mach 2 Libri S.p.A. (Italy)	Euro	646,250	44.91%	indirect
GD Media Service S.r.l. (Italy)	Euro	789,474	38.00%	indirect indirect
Gold 5 S.r.l. in liquidation (Italy)	Euro	250,000	20%	indirect
MDM Milano Distribuzione Media S.r.l. (Italy)	Euro	611,765	17%	indirect
Mediamond S.p.A. (Italy)	Euro	2,400,000	50%	indirect
Mondadori Retail S.p.A. (Italy)	Euro	2,700,000	100%	direct
Mondadori Education S.p.A. (Italy)	Euro	10,608,000	100%	indirect
Mondadori Electa S.p.A. (Italy)	Euro	1,593,735	100%	indirect
Mondadori International Business S.r.l. (Italy)	Euro	200,000	100%	direct
Mondadori Libri S.p.A. (Italy)	Euro	30,050,000	100%	direct
Monradio S.r.l. (Italy)	Euro	3,030,000	20%	direct
Press-di Abbonamenti S.p.A. (ex Mondadori Pubblicità S.p.A.) (Italy)	Euro	3,120,000	100%	direct
Press-di Distribuzione Stampa e Multimedia S.r.l. (Italy)	Euro	1,095,000	100%	direct
Rizzoli Libri S.p.A. (Italy)	Euro	42,405,000	99.99%	indirect
Società Europea di Edizioni S.p.A. (Italy)	Euro	2,528,875	36.90%	direct
Venezia Accademia Società per i servizi museali S.c.ar.l. (Italy)	Euro	10,000	25%	indirect
Venezia Musei Società per i servizi museali S.c.ar.l. (in liquidation)	Euro	10,000	34%	indirect
Attica Publications S.A. (Greece)	Euro	4,590,000	41.99%	direct
Editions Mondadori Axel Springer S.n.c. (France)	Euro	152,500	50%	indirect
EMAS Digital S.a.s. (France)	Euro	27,275,400	50%	indirect
Mondadori France S.a.s. (France)	Euro	50,000,000	100%	direct
Mondadori Magazines France S.a.s. (France)	Euro	60,557,458	100%	indirect
Mondadori Seec (Beijing) Advertising Co. Ltd	Cny	40,000,000	50%	indirect
Mondadori UK Limited (United Kingdom)	Gbp	15,000,00	100%	indirect
Rizzoli International Publications Inc. (USA)	Usd	26,900,000	100%	indirect
Rizzoli Bookstore Inc. (USA)	Usd	3,498,900	100%	indirect

At 31 December 2017

Holder	% owned	Registered office	Tax code	Date of incorporation
			08105480969	16/01/2013
			02532501208	24/01/2005
Mondadori Electa SpA	23.41%	Rome - via Tunisi 4	09086401008	18/07/2006
Monradio S.r.l.	12.5%	Milan - Foro Bonaparte 71	97174850152	01/02/1996
Giulio Einaudi editore S.p.A.	50%	Trieste - San Dorligo della Valle - via J. Ressel 5	00627340326	07/05/1984
Mondadori Libri S.p.A.	100%	Torino - via U. Biancamano 2	08367150151	03/06/1986
Arnoldo Mondadori Editore S.p.A.	100%	Torino - corso Giulio Cesare 268	04742700018	13/12/1984
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Luisa Battistotti Sassi 11/A	09440000157	19/09/1988
Mondadori Libri S.p.A.	44.91%	Peschiera Borromeo (MI) - via Galileo Galilei 1	03782990158	06/05/1983
Press-di Distribuzione Stampa e Multim. S.r.l. Mach 2 Libri S.p.A.	24% 14%	Peschiera Borromeo (MI) - via Galileo Galilei 1	07014150960	27/04/2010
Arnoldo Mondadori Editore S.p.A.	20%	Milan - via dei Martinitt 3	08730930966	18/07/2017
Press-di Distribuzione Stampa e Multim. S.r.l.	17%	Milan - via Carlo Cazzaniga 19	10463540152	02/10/1991
Press-di Abbonamenti S.p.A.	50%	Milan - via Bianca di Savoia 12	06703540960	30/07/2009
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	00212560239	19/11/1946
Mondadori Libri S.p.A.	100%	Milan - via Bianca di Savoia 12	03261490969	01/10/2001
Mondadori Libri S.p.A.	100%	Milan - via Bianca di Savoia 12	01829090123	23/02/1989
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	08009080964	29/10/2012
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	08856650968	02/12/2014
Arnoldo Mondadori Editore S.p.A.	20%	Milan - via Paleocapa 3	04571350968	15/10/2004
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	08696660151	12/02/1987
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	03864370964	19/02/2003
Mondadori Libri S.p.A.	99.99%	Milan - via Bianca di Savoia 12	05877160159	30/06/1980
Arnoldo Mondadori Editore S.p.A	36.90%	Milan - via G. Negri 4	01790590150	27/02/1974
Mondadori Electa S.p.A.	25%	Venice - via L. Einaudi 74	03808820272	11/01/2008
Mondadori Electa S.p.A.	34%	Venice - via L. Einaudi 74	03534350271	22/04/2004
Arnoldo Mondadori Editore S.p.A.	41.99%	Greece - Atene - Maroussi, 40 Kifissias Avenue		01/08/1994
Mondadori France S.a.s.	50%	France - Montrouge Cedex - 8, rue François Ory		09/12/1999
Mondadori France S.a.s.	50%	France - Montrouge Cedex - 8, rue François Ory		13/09/2011
Arnoldo Mondadori Editore S.p.A.	100%	France - Montrouge Cedex - 8, rue François Ory		23/06/2004
Mondadori France S.a.s.	100%	France - Montrouge Cedex - 8, rue François Ory		30/03/2004
Press-di Abbonamenti S.p.A.	50%	China - Beijing - Chaoyang District - Fan Li Plaza, 22, Chaowai Avenue, Level 10, Room B2		04/06/2008
Mondadori International Business S.r.l.	100%	United Kingdom - London 10 Salisbury Square - St. Bride's House		18/03/2010
Rizzoli Libri S.p.A.	100%	New York - 300 Park Avenue South		
Rizzoli International Publications Inc.	100%	New York - 11133 Broadway		

RELATED PARTIES
ANNEX C1: RECEIVABLES FROM SUBSIDIARIES AND ASSOCIATES AT 31 DECEMBER 2017

Current account transactions and financial receivables (Euro/thousands)	**31/12/2017**	**31/12/2016**
Subsidiaries:		
AdKaora S.r.l.	-	127
Banzai Media S.r.l.	-	12,609
Giulio Einaudi Editore S.p.A.	-	-
Librerie Rizzoli S.r.l.	-	2,089
Mondadori France S.a.s.	177,397	194,797
Mondadori International Business S.r.l.	1,217	3,008
Mondadori Retail S.p.A.	29,975	27,743
Mondadori Libri S.p.A.	44,276	32,091
Press-di Abbonamenti S.p.A. (former Mondadori Pubblicità S.p.A.)	1,250	5,731
Press-di Distribuzione Stampa e Multimedia	-	-
Associates:		
Attica Publications S.A.	500	500
Other companies for amounts lower than 52 thousand euro (*)	-	-
Total	**254,615**	**278,695**
% of incidence	**99.8%**	**99.9%**

(*) Prior-year amounts year include receivables from companies transferred in 2017

Trade transactions (Euro/thousands)	**31/12/2017**	**31/12/2016**
Subsidiaries:		
AdKaora S.r.l.	2	-
Banzai Media S.r.l.	-	70
Edizioni Piemme S.p.A.	-	333
Giulio Einaudi Editore S.p.A.	271	244
Inthera S.p.A.	464	177
Mondadori Education S.p.A.	1,208	904
Mondadori Electa S.p.A.	508	521
Mondadori France S.a.s.	221	13
Mondadori International Business S.r.l.	314	270
Mondadori Libri S.p.A.	2,951	3,749
Mondadori Magazines France S.a.s.	116	162
Mondadori Retail S.p.A.	1,743	1,351
Mondadori Scienza S.p.A.	680	649
Press-di Distribuzione Stampa e Multimedia S.r.l.	950	1,207
Press-di Abbonamenti S.p.A. (Former Mondadori Pubblicità S.p.A.)	463	3,126
Rizzoli Libri S.p.A.	1,842	1,070
Sperling & Kupfer Editori S.p.A.	-	218
Associates:		
Attica Media Serbia Srb	-	-
Attica Publications S.A.	24	37
Edizioni EL S.r.l.	4	-
Mediamond S.p.A.	31,743	21,875
Monradio S.r.l.	10	25
Società Europea di Edizioni S.p.A.	5	4
Parent company:		
Fininvest S.p.A.	-	-
Affiliates:		
Fininvest Gestione Servizi S.p.A.	2	45
RTI S.p.A.	351	58
Radiomediaset S.p.A.	13	-
Media Shopping S.p.A.	-	1
- Publieurope Ltd	-	3
Other companies for amounts lower than 52 thousand euro (*)	-	-
Total	**43,885**	**36,112**
% of incidence	**86.8%**	**90.4%**

Tax receivables	**31/12/2017**	**31/12/2016**
Parent company:		
Fininvest S.p.A.	7,497	16,411
Total	**7,497**	**16,411**

(*) Prior-year amounts year include receivables from companies transferred in 2017

RELATED PARTIES
ANNEX C2 - INTERCOMPANY TRANSACTIONS IN 2017

Related parties (Euro/thousands)	**Revenue from sales and services**	**Other income**	**Financial income**	**Income from investments***	**Total**
Parent company:					
Fininvest S.p.A.		-	-	-	-
Subsidiaries:					
AdKaora S.r.l.	-	-	-	586	586
Giulio Einaudi editore S.p.A.	700	3	-	-	703
Inthera S.p.A.	1,079	41	-	-	1,120
Mondadori Education S.p.A.	2,377	15	-	-	2,392
Mondadori Electa S.p.A.	1,577	6	-	-	1,583
Mondadori France S.a.s.	-	-	6,709	3,293	10,002
Mondadori International Business S.r.l.	789	21	70	1,232	2,112
Mondadori Libri S.p.A.	8,551	632	1,036	42,820	53,039
Mondadori Magazines France S.a.s.	495	-	-	-	495
Mondadori Retail S.p.A.	5,267	121	936	-	6,324
Mondadori Scienza S.p.A.	949	-	-	1,365	2,314
Press-di Abbonamenti S.p.A. (former Mondadori Pubblicità S.p.A.)	14,040	14	-	1,946	16,000
Press-di Distribuzione Stampa e Multimedia S.r.l.	121,688	94	2	1,142	122,926
Total	**157,512**	**947**	**8,753**	**52,384**	**219,596**

Related parties (Euro/thousands)	Revenue from sales and services	Other income	Financial income	Income from investments*	Total
Associates:					
Attica Publications S.A.	1	-	24	317	342
Edizioni EL S.r.l.	3	-	-	-	3
Mediamond S.p.A.	76,651	280	-	-	76,931
Monradio S.r.l.	-	22	-	-	22
Società Europea di Edizioni S.p.A.	-	5	-	-	5
Total	**76,655**	**307**	**24**	**317**	**77,303**
Fininvest Group companies:					
Alba Servizi Aerotrasporti S.p.A.					-
Banca Mediolanum S.p.A.					-
Elettronica industriale S.p.A.					-
Digitalia 08 S.r.l.					-
Fininvest Gestione Servizi S.p.A.		69			69
Il Teatro Manzoni S.p.A.					-
Mediaset S.p.A.					-
Media Shopping S.p.A.					-
Mediobanca S.p.A.					-
Medusa Film S.p.A.					-
Publieurope Ltd					-
Publitalia ‘80 S.p.A.	9				9
Radiomediaset S.p.A.	11				11
RTI Reti Televisive Italiane S.p.A.	303	179			482
Taodue S.r.l.					-
Videotime S.p.A.					-
Sub-total	**323**	**248**	**-**	**-**	**571**
Total	**234,490**	**1,502**	**8,777**	**52,701**	**297,470**
% of incidence	**97.07%**	**11.12%**	**95.53%**	**100.00%**	**93.85%**

* Income from investments in indirect subsidiaries is shown in direct subsidiaries

RELATED PARTIES
ANNEX D1: PAYABLES TO PARENT COMPANY, SUBSIDIARIES, ASSOCIATES AND AFFILIATES AT 31 DECEMBER 2017

Current account transactions and financial payables (Euro/thousands)	**31/12/2017**	**31/12/2016**
Subsidiaries:		
AdKaora S.r.l.	537	-
Edizioni Piemme S.p.A.	-	12,477
Giulio Einaudi editore S.p.A.	32,115	32,314
Inthera S.p.A.	3,723	4,906
Mondadori Education S.p.A.	55,990	57,228
Mondadori Electa S.p.A.	28,811	21,740
Mondadori France S.a.s.	-	13,315
Mondadori Scienza S.p.A.	10,017	7,335
Press-di Distribuzione Stampa e Multimedia S.r.l.	10,674	18,172
Press-di Abbonamenti S.p.A. (former Mondadori Pubblicità S.p.A.)	7,304	-
Rizzoli Libri S.p.A.	124,772	74,329
Sperling & Kupfer Editori S.p.A.	-	5,160
Other companies for amounts lower than 52 thousand euro (*)	-	-
Total	**273,943**	**246,976**
% of incidence	**52.2%**	**42.9%**

(*) Prior-year amounts include payables to companies transferred in 2017

Trade transactions (Euro/thousands)	**31/12/2017**	**31/12/2016**
Subsidiaries:		
Edizioni Piemme S.p.A.	-	14
Giulio Einaudi editore S.p.A.	-	5
Inthera S.p.A.	37	96
Mondadori Education S.p.A.	26	15
Mondadori Electa S.p.A.	148	43
Mondadori International Business S.r.l.	45	8
Mondadori Libri S.p.A.	304	68
Mondadori Magazines France S.a.s.	1	3
Press-di Abbonamenti S.p.A. (former Mondadori Pubblicità S.p.A.)	764	100
Mondadori Retail S.p.A.	105	8
Mondadori Scienza S.p.A.	6	147
Press-di Distribuzione Stampa e Multimedia S.r.l.	2,117	10,171
Rizzoli Libri S.p.A.	29	134
Sperling & Kupfer Editori S.p.A.	-	6
Associates:		
Edizioni EL S.r.l.	93	-
Mediamond S.p.A.	4,070	5,423
Monradio S.r.l.	5	12
Società Europea di Edizioni S.p.A.	11	136
Parent company:		
Fininvest S.p.A.	51	-
Affiliates:		
Alba Servizi Aerotrasporti S.p.A.	-	8
Fininvest Gestione Servizi S.p.A.	12	-
RTI S.p.A.	325	27
Publitalia '80 S.p.A.	1,596	969
Mediaset S.p.A.	7	-
Other companies for amounts lower than 52 thousand euro (*)	-	-
Total	**9,752**	**17,393**
% of incidence	**13.0%**	**24.0%**

Income tax payables	**31/12/2017**	**31/12/2016**
Parent company:		
Fininvest S.p.A.	-	-
Total	**0**	**0**

(*) Prior-year amounts include payables to companies transferred in 2017

RELATED PARTIES
ANNEX D2 - INTERCOMPANY TRANSACTIONS IN 2017

Related parties (Euro/thousands)	**Raw and ancillary materials, consumables and goods**	**Services**	**Other costs**	**Financial costs**	**Costs from investments**	**Total**
Parent company:						
Fininvest S.p.A.	-	50	-	-	-	50
Subsidiaries:						
Giulio Einaudi editore S.p.A.	-	-	-	-	-	-
Inthera S.p.A.	-	140	-	-	1,483	1,623
Mondadori Electa S.p.A.	-	13	50	-	-	63
Mondadori Education S.p.A.	-	-	-	-	-	-
Mondadori France S.a.s.	-	-	-	-	-	-
Mondadori International Business S.r.l.	-	41	-	-	-	41
Mondadori Magazines France S.a.s.	-	-	-	-	-	-
Mondadori Libri S.p.A.	12	182	-	-	-	194
Mondadori Retail S.p.A.	-	100	-	-	3,644	3,744
Mondadori Scienza S.p.A.	1,780	(79)	-	-	-	1,701
Press-di Abbonamenti S.p.A. (former Mondadori Pubblicità S.p.A.)	-	3,462	203	-	-	3,665
Press-di Distribuzione Stampa e Multimedia S.r.l.	-	7,289	-	-	-	7,289
Total	**1,792**	**11,148**	**253**	**-**	**5,127**	**18,320**

Related parties (Euro/thousands)	**Raw and ancillary materials, consumables and goods**	**Services**	**Other costs**	**Financial costs**	**Costs from investments**	**Total**
Associates:						
Attica Publications S.A.	-	-	-	-	1,700	1,700
Edizioni EL S.r.l.	-	82	-	-	-	82
Mediamond S.p.A.	1,825	2,205	293	-	-	4,323
Monradio S.r.l.	-	5	-	-	816	821
Società Europea di Edizioni S.p.A.	-	5	-	-	4,975	4,980
Total	**1,825**	**2,297**	**293**	**-**	**7,491**	**11,906**
Fininvest Group Companies						
Alba Servizi Aerotrasporti S.p.A.		1				1
Consorzio Campus Multimedia						-
Digitalia 08 S.r.l.		27				27
Il Teatro Manzoni S.p.A.						-
Fininvest Gestione Servizi S.p.A.		10				10
Mediaset S.p.A.						-
Mediobanca S.p.A.						-
Medusa Film S.p.A.						-
Medusa Video S.r.l.						-
Milan Entertainment S.r.l.						-
Publitalia '80 S.p.A.		3,357				3,357
Radiomediaset S.p.A.		11				11
Radio e Reti S.r.l.						-
RTI Reti Televisive Italiane S.p.A.		279				279
Taodue S.r.l.						-
The Space Cinema 1 S.p.A.						-
Total	**-**	**3,685**	**-**	**-**	**-**	**3,685**
OTHER RELATED PARTIES:						
Sin&rgetica						-
Sineris						-
Total	**-**	**-**	**-**	**-**	**-**	**-**
Total	**3,617**	**17,180**	**546**	**-**	**12,618**	**33,961**
% of incidence	**14.03%**	**11.65%**	**24.51%**	**-**	**100.00%**	**16.81%**

ANNEX E: FINANCIAL HIGHLIGHTS OF SUBSIDIARIES PREPARED ACCORDING TO IAS INTERNATIONAL ACCOUNTING STANDARDS

(Euro/thousands)	Inthera	Press-di Abbonamenti	Press-di Distrib. Stampa e Multimedia
Financial year at	**31/12/2017**	**31/12/2017**	**31/12/2017**
Balance sheet			
Assets			
Intangible assets	128	-	1
Investment property	-	-	-
Property, plant and equipment	92	9	17
Investments	-	4,140	314
Non-current financial assets	-	-	-
Pre-paid tax assets	272	2,496	656
Other non-current assets	5	-	-
Total non-current assets	**497**	**6,645**	**988**
Tax receivables	518	2,089	574
Other current assets	221	11,821	991
Inventory	111	-	-
Trade receivables	4,323	7,677	25,855
Securities and other current financial assets	3,723	7,304	10,674
Cash and cash equivalents	-	362	1
Total current assets	**8,896**	**29,253**	**38,095**
Assets held for sale or transferred	-	-	-
Total assets	**9,393**	**35,898**	**39,083**
Liabilities			
Share capital	3,835	3,120	1,095
Reserves	1,469	(403)	1,679
Profit (loss) for the year	(1,484)	1,600	1,143
Total equity	**3,820**	**4,317**	**3,917**
Provisions	35	2,509	465
Post-employment benefits	1,081	768	714
Non-current financial liabilities	-	-	-
Deferred tax liabilities	5	-	-
Other non-current liabilities	-	-	-
Total non-current liabilities	**1,121**	**3,277**	**1,179**
Income tax payables	-	454	-
Other current liabilities	1,209	20,846	1,238
Trade payables	3,243	5,753	32,747
Payables to banks and other financial liabilities	-	1,251	2
Total current liabilities	**4,452**	**28,304**	**33,987**
Assets held for sale or transferred	-	-	-
Total liabilities	**9,393**	**35,898**	**39,083**

Mondadori Retail	Mondadori International Business	Mondadori Scienza	Mondadori Libri	AdKaora	Mondadori France
31/12/2017	**31/12/2017**	**31/12/2017**	**31/12/2017**	**31/12/2017**	**31/12/2017**
854	521	-	22,582	12	-
-	-	-	-	-	-
11,033	5	63	297	50	-
-	-	-	220,693	-	402,048
-	-	-	-	-	-
4,607	97	74	6,145	8	-
27	-	13	15	26	-
16,521	**623**	**150**	**249,732**	**96**	**402,048**
2,959	1,125	152	1,259	-	-
2,396	25	450	52,504	11	4,231
56,072	-	537	27,880	-	-
30,787	5,342	2,064	120,505	2,817	2,370
-	-	10,017	13,392	541	-
2,523	4	-	13	-	1
94,737	**6,496**	**13,220**	**215,553**	**3,369**	**6,602**
-	-	-	-	-	-
111,258	**7,119**	**13,370**	**465,285**	**3,465**	**408,650**
2,700	200	2,600	30,050	15	50,000
3,101	468	536	221,842	548	135,057
(3,986)	1,232	1,087	35,378	586	2,437
1,815	**1,900**	**4,223**	**287,270**	**1,149**	**187,494**
651	-	205	6,711	-	502
4,288	100	710	6,150	68	-
-	-	-	-	-	-
31	82	-	321	-	-
-	-	-	-	-	-
4,970	**182**	**915**	**13,182**	**68**	**502**
-	142	374	5,578	223	-
10,354	723	4,628	44,037	435	1,792
64,144	2,954	3,230	67,617	1,590	49
29,975	1,218	-	47,601	-	218,813
104,473	**5,037**	**8,232**	**164,833**	**2,248**	**220,654**
-	-	-	-	-	-
111,258	**7,119**	**13,370**	**465,285**	**3,465**	**408,650**

ANNEX E: FINANCIAL HIGHLIGHTS OF SUBSIDIARIES PREPARED ACCORDING TO IAS INTERNATIONAL ACCOUNTING STANDARDS

(Euro/thousands)	Inthera	Press-di Abbonamenti	Press-di Distrib. Stampa e Multimedia
Financial year	**2017**	**2017**	**2017**
Income statement			
Revenue from sales and services	11,097	10,994	44,608
Decrease (increase) in inventory	21	60	62
Purchase of raw and ancillary materials, consumables and goods	83	76	2,079
Purchase of services	9,074	7,946	35,456
Cost of personnel	3,732	1,434	3,767
Other (income) costs	46	(502)	1,604
Result from investments valued at equity	-	-	-
EBITDA	**(1,859)**	**1,980**	**1,640**
Depreciation of property, plant and equipment	61	3	7
Amortization of intangible assets	10	-	2
EBIT	**(1,930)**	**1,977**	**1,631**
Financial income (costs)	(6)	26	(3)
Income (costs) from investments	-	-	34
Result before tax for the year	**(1,936)**	**2,003**	**1,662**
Income tax	(452)	403	519
Net result	**(1,484)**	**1,600**	**1,143**

	Mondadori Retail	Mondadori International Business	Mondadori Scienza	Mondadori Libri	AdKaora	Mondadori France
	2017	**2017**	**2017**	**2017**	**2017**	**2017**
	198,516	9,469	17,265	262,573	5,081	4,832
	2,864	-	46	5,368	-	-
	122,669	5	1,874	108,132	8	-
	52,300	6,693	9,390	112,973	3,306	444
	20,352	1,248	4,890	14,725	874	3,121
	(275)	7	(471)	3,188	37	942
	-	-	-	-	-	-
	606	**1,516**	**1,536**	**18,187**	**856**	**325**
	3,676	6	34	108	10	-
	652	1	1	572	14	-
	(3,722)	**1,509**	**1,501**	**17,507**	**832**	**325**
	(923)	(82)	3	(1,153)	(1)	(6,667)
	-	-	-	23,615	-	8,611
	(4,645)	**1,427**	**1,504**	**39,969**	**831**	**2,269**
	(659)	195	417	4,591	245	(168)
	(3,986)	**1,232**	**1,087**	**35,378**	**586**	**2,437**

ANNEX F: FINANCIAL HIGHLIGHTS OF THE MAIN INDIRECT SUBSIDIARIES

(Euro/thousands)	Mondadori Electa	Mondadori Education	Giulio Einaudi editore	Rizzoli Libri
Financial year at	**31/12/2017**	**31/12/2017**	**31/12/2017**	**31/12/2017**
Balance sheet				
Assets				
Intangible assets	26	31,633	21	17,284
Investment property	-	-	-	-
Property, plant and equipment	560	81	106	54
Investments	59	-	1,332	22,836
Non-current financial assets	-	-	-	-
Pre-paid tax assets	3,638	2,731	4,961	15,150
Other non-current assets	1	51	-	-
Total non-current assets	**4,284**	**34,496**	**6,420**	**55,324**
Tax receivables	154	364	-	1,722
Other current assets	2,212	478	11,609	1,557
Inventory	4,832	7,162	4,259	13,219
Trade receivables	9,289	7,792	14,668	13,625
Securities and other current financial assets	29,824	55,990	32,227	124,775
Cash and cash equivalents	9	12	122	20
Total current assets	**46,320**	**71,798**	**62,885**	**154,918**
Assets held for sale or transferred	-	-	-	-
Total assets	**50,604**	**106,294**	**69,305**	**210,242**
Liabilities				
Share capital	1,594	10,608	23,920	42,405
Reserves	5,515	36,919	11,289	103,024
Profit (loss) for the year	7,327	12,423	9,864	1,652
Total equity	**14,436**	**59,950**	**45,073**	**147,081**
Provisions	11,501	6,676	1,295	4,721
Post-employment benefits	580	5,109	1,867	3,595
Non-current financial liabilities	-	-	-	-
Deferred tax liabilities	1	6,182	(5)	2,757
Other non-current liabilities	-	-	-	-
Total non-current liabilities	**12,082**	**17,967**	**3,157**	**11,073**
Income tax payables	3,455	3,838	2,867	95
Other current liabilities	5,608	13,841	12,622	14,362
Trade payables	13,729	10,536	5,584	23,614
Payables to banks and other financial liabilities	1,294	162	2	14,017
Total current liabilities	**24,086**	**28,377**	**21,075**	**52,088**
Assets held for sale or transferred	-	-	-	-
Total liabilities	**50,604**	**106,294**	**69,305**	**210,242**

(Euro/thousands)	Mondadori Electa	Mondadori Education	Giulio Einaudi editore	Rizzoli Libri
Financial year at	**31/12/2017**	**31/12/2017**	**31/12/2017**	**31/12/2017**
Income statement				
Revenue from sales and services	53.251	74.317	46.205	129.280
Decrease (increase) in inventory	(967)	(969)	(355)	6.131
Purchase of raw and ancillary materials, consumables and goods	6.227	7.825	2.968	32.891
Purchase of services	33.730	38.615	25.355	71.022
Cost of personnel	4.569	7.579	5.583	11.482
Other (income) costs	(788)	(248)	95	(5.456)
EBITDA	**10.480**	**21.515**	**12.559**	**13.210**
Depreciation of property, plant and equipment	169	44	47	49
Amortization of intangible assets	6	4.593	10	5.365
EBIT	**10.305**	**16.878**	**12.502**	**7.796**
Financial income (costs)	(6)	(12)	(4)	14
Income (costs) from investments	(11)	(7)	589	(12)
Result before tax for the year	**10.288**	**16.859**	**13.087**	**7.798**
Income tax	2.961	4.436	3.223	6.146
Net result	**7.327**	**12.423**	**9.864**	**1.652**

ANNEX G: FINANCIAL HIGHLIGHTS OF ASSOCIATES PREPARED ACCORDING TO IAS INTERNATIONAL ACCOUNTING STANDARDS

(Euro/thousands)	Mediamond	Monradio	Società Europea di Edizioni *	Attica Publications
Financial year at	**31/12/2017**	**31/12/2016**	**31/12/2016**	**31/12/2016**
Balance sheet				
Assets				
Intangible assets radio frequencies	-	-	-	-
Other intangible assets	2,170	42,806	4,162	10,006
Property, plant and equipment	94	3,179	539	355
Investments	-	23	637	4
Non-current financial assets	-	-	-	19
Pre-paid tax assets	363	3,676	92	3,698
Other non-current assets	-	111	-	244
Total non-current assets	**2,627**	**49,795**	**5,430**	**14,326**
Tax receivables	1,525	-	28	-
Other current assets	68	696	1,784	5,326
Inventory	-	-	414	1,109
Trade receivables	112,871	6,264	17,657	10,031
Securities and other current financial assets	-	-	-	-
Cash and cash equivalents	-	-	63	4,699
Total current assets	**114,464**	**6,960**	**19,946**	**21,165**
Assets held for sale or transferred	-	-	-	-
Total assets	**117,091**	**56,755**	**25,376**	**35,491**
Liabilities				
Share capital	2,400	3,030	2,529	4,590
Reserves	1,654	41,868	133	(777)
Profit (loss) for the year	14	(4,090)	(384)	264
Total equity	**4,068**	**40,808**	**2,278**	**4,077**
Provisions	266	363	1,100	-
Post-employment benefits	2,743	548	2,967	1,333
Non-current financial liabilities	-	-	-	1,805
Deferred tax liabilities	70	8,752	-	-
Other non-current liabilities	-	-	-	-
Total non-current liabilities	**3,079**	**9,663**	**4,067**	**3,138**
Income tax payables	-	-	622	287
Other current liabilities	8,774	985	2,109	3,742
Trade payables	99,184	3,622	5,097	8,596
Payables to banks and other financial liabilities	1,986	1,677	11,203	15,651
Total current liabilities	**109,944**	**6,284**	**19,031**	**28,276**
Assets held for sale or transferred	-	-	-	-
Total liabilities	**117,091**	**56,755**	**25,376**	**35,491**

* Financial statements prepared according to Italian accounting standards

(Euro/thousands)	Mediamond	Monradio	Società Europea di Edizioni *	Attica Publications
Financial year at	**2017**	**2016**	**2016**	**2016**
Income statement				
Revenue from sales and services	234,527	11,744	40,643	39,922
Decrease (increase) in inventory	-	-	294	-
Purchase of raw and ancillary materials, consumables and goods	-		3,752	18,310
Purchase of services	228,878	12,120	19,572	19,481
Cost of personnel	12,284	1,844	15,330	-
Other (income) costs	(6,946)	326	1,582	(231)
EBITDA	**311**	**(2,546)**	**113**	**2,362**
Depreciation of property, plant and equipment	60	2,763	220	-
Amortization of intangible assets	-	-	843	-
EBIT	**251**	**(5,309)**	**(950)**	**2,362**
Financial income (costs)	(124)	(137)	(387)	(1,126)
Income (costs) from investments	28	-	1,022	(238)
Result before tax for the year	**155**	**(5,446)**	**(315)**	**998**
Income tax	141	(1,356)	69	734
Net result	**14**	**(4,090)**	**(384)**	**264**

* Financial statements prepared according to Italian accounting standards

ANNEX H: BREAKDOWN OF PAYABLES AND RECEIVABLES BY GEOGRAPHICAL AREA

(Euro/thousands)	Italy	Other EU countries	USA	Switzerland	Canada	Other countries	Total
Receivables:							
Non-current assets							
Non-current financial assets	-	165,000	-	-	-	-	165,000
Pre-paid tax assets	12,898	-	-	-	-	-	12,898
Other non-current assets	323	-	-	-	-	-	323
Current assets:							
Tax receivables	25,965	-	-	-	-	-	25,965
Other current assets	4,263	15	1	11	-	-	4,290
Trade receivables	48,084	2,294	53	11	-	107	50,549
Securities and other current financial assets	77,147	12,897	-	-	-	-	90,044
Cash and cash equivalents	61,026	-	-	-	-	-	61,026
Total receivables	**229,706**	**180,206**	**54**	**22**	**-**	**107**	**410,095**
Payables:							
Non-current liabilities:							
Non-current financial liabilities	232,799	-	-	-	-	-	232,799
Deferred tax liabilities	28,832	-	-	-	-	-	28,832
Other non-current liabilities	-	-	-	-	-	-	-
Current liabilities:							
Income tax payables	-	-	-	-	-	-	-
Other current liabilities	46,868	615	183	86	6	100	47,858
Trade payables	69,715	5,287	127	1	-	151	75,281
Payables to banks and other financial liabilities	292,083	-	-	-	-	-	292,083
Total payables	**670,297**	**5,902**	**310**	**87**	**6**	**251**	**676,853**

CERTIFICATION OF THE COMPANY'S FINANCIAL STATEMENTS

CERTIFICATION OF THE COMPANY'S FINANCIAL STATEMENTS PURSUANT TO ART. 81-*TER* OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned Ernesto Mauri, in his capacity as CEO, and Oddone Pozzi, in his capacity as Financial Reporting Manager of Arnoldo Mondadori Editore S.p.A., also in compliance with the provisions set out in art. 154-*bis*, par. 3 and 4, of Legislative Decree no. 58 of 24 February 1998, hereby certify:

   • the adequacy in relation to the Group's characteristics and
   • the effective application,

   of the administrative and accounting procedures for the drafting of the Company's financial statements in 2017.

2. The valuation of the adequacy of the administrative and accounting procedures for the drafting of the Company's financial statements at 31 December 2017 was carried out based on a specific process defined by Arnoldo Mondadori Editore S.p.A. consistently with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which groups together a set of general principles of reference generally accepted at the international level.

3. We also hereby certify that:

   3.1 the financial statements at 31 December 2017:

   a) were drafted in compliance with the applicable international accounting standards acknowledged at the EU level pursuant to EC Regulation no. 1606/2002 of the EU Parliament and Council of 19 July 2002, as well as with the provisions set out for the implementation of art. 9 of Legislative Decree no. 38/2005;

   b) reflect the accounting books and entries;

   c) provide a true and fair description of the financial position and results of operations of the Company.

   3.2 the Report on Operations includes a reliable analysis of the Company's performance and results, the financial position of the Company and the companies included in the consolidation scope, along with the description of the main risks and uncertainties they are exposed to.

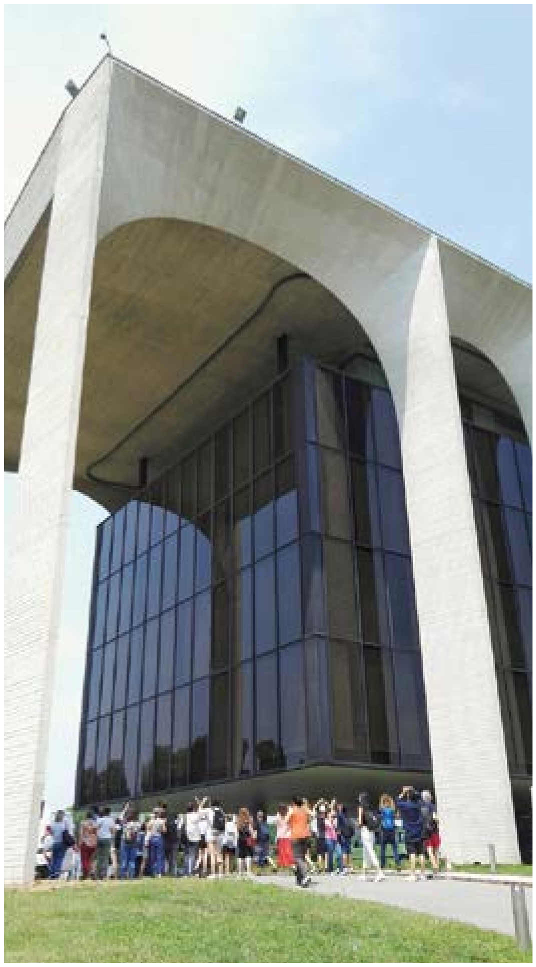
13 March 2018

The CEO (Ernesto Mauri)	The Financial Reporting Manager (Oddone Pozzi)

24 October 2017
A day with Adidas and evening run for our staff and associates from Palazzo Niemeyer to Idroscalo.

14 November 2017
Editor-in-chief of *Tv Sorrisi e Canzoni* Aldo Vitali interviews Biagio Antonacci at the Segrate Auditorium.

19 December 2017
Students of the Bologna University Master Program in print and digital publishing visit the offices.



13 June 2017
Palazzo Niemeyer is one of the destinations in *Milano Arch Week*, organized by the Municipality of Milan together with the Triennale and the Politecnico, with Stefano Boeri as artistic director.

Statutory Auditors' report

ARNOLDO MONDADORI EDITORE S.P.A.
BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING CALLED FOR THE APPROVAL OF THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017 (ART. 153 OF LEGISLATIVE DECREE NO. 58/98)

Dear Shareholders,
in 2017, we carried out auditing activities as required by law and in compliance with the provisions set out in Consob Communication no. 1025564 of 6 April 2001 as subsequently amended, taking also into account the Code of Conduct recommended by the Italian National Association of Certified and Professional Accountants.
Specifically:

- we oversaw compliance with the law, the Company by-laws and the principles of correct administration;
- we attended the Shareholders' Meetings, the Board of Directors' meetings and the meetings of the Board Committees, and we obtained from the Directors, also pursuant to art. 150 of Legislative Decree no. 58/1998, regular reports on the general performance of operations, on the outlook, as well as on transactions of greater operating, financial and equity relevance completed by the Company, making sure that the resolutions made and implemented were not openly incautious and risky, generating a potential conflict of interest, in contrast with the resolutions made by the Shareholders' Meeting or such as to jeopardize the integrity of the Company's capital;
- we obtained knowledge of and oversaw the adequacy of the Company's organizational structure for the aspects falling under our competence, through direct auditing, collection of information and meetings with the representatives of Deloitte & Touche S.p.A., the Independent Auditors responsible for statutory auditing on the Group's consolidated and Company's financial statements as well as for limited auditing on the Group's consolidated and Company's interim reports, for the purpose of also exchanging relevant data and information. In this respect, no specific aspects were identified which needed to be reported;
- we oversaw the adequacy of the internal control and risk management system and the activity performed by the Internal Audit Officer, by also analyzing the information collected from the relevant company departments, and through specific audits carried out during our meetings or during those held jointly with the Internal Control and Risk Committee;
- we oversaw the adequacy of the administrative-accounting system, as well as the latter's reliability to correctly reflect data on operations by collecting information, examining corporate documents and analyzing the outcomes resulting from the audits carried out by the Independent Auditors on compliance with the principles of correct administration;
- we oversaw the correct implementation of corporate governance rules as envisaged in the relevant Corporate Governance Code, with which the Company complies according to the criteria set out in the Report on Corporate Governance and Ownership Structure. Specifically, we checked, on an annual basis, compliance with the independence requirements of non-executive Directors qualified as independent by the Board of Directors, and we also verified the fulfilment of the same requirements of independence by the Statutory Auditors;
- with reference to Legislative Decree no. 39/2010, we verified the compliance with independence requirements by the Independent Auditors, Deloitte & Touche S.p.A. also based on the statement released;
- we assessed and oversaw the adequacy of the guidelines given to subsidiaries pursuant to art. 114, par. 2, of Legislative Decree no. 58/1998. These guidelines enabled the subsidiaries to promptly provide the parent company with the necessary information to comply with the disclosure obligations required by law;
- we verified compliance with law provisions in relation to the preparation of the Group's consolidated and Company's annual financial statements at 31 December 2017, drafted according to IAS/IFRS international accounting standards, the relevant reports on operations, through direct audits and information obtained from

the Independent Auditors; this Board of Statutory Auditors shared the criteria adopted by the Board of Directors in relation to the impairment tests reflected in the Group's consolidated and Company's financial statements;
- with regard to the Consolidated Non-Financial Statement (NFS), which supplements the Directors' Report on Operations, the Board of Statutory Auditors oversaw, in a summary form, the systems and processes involving non-financial reporting in the frame of its control duties over correct administration;
- we oversaw compliance of the procedures regarding transactions with related parties, adopted by the Board of Directors, with the principles set out in Consob Regulation no. 17221 of 12 March 2010 as subsequently amended, and their effective observance;
- we issued, pursuant to art. 2389, par. 3, of the Italian Civil Code, our favourable opinion on the proposals made to the Board of Directors by the Remuneration Committee in relation to the determination of compensation to the directors holding special offices.

The Board of Directors held no. 7 meetings and the Board of Statutory Auditors held no. 17 meetings.

In the performance of the auditing activities described above, no omissions, reprehensible events or irregularities were identified that would have required reporting to the competent supervisory boards or mentioning in this report.

In 2017, the Committee responsible for overseeing the effectiveness, compliance and updating of the Company's organizational, management and control model adopted pursuant to Legislative Decree no. 231/2001, did not report any relevant events to us, or irregularities related to the offences covered by the provisions of Legislative Decree 231/2001, as amended.

The annual Report on Corporate Governance and Ownership Structure drafted by the Board of Directors did not identify any issues that would need to be submitted to your attention.

In compliance with the recommendations and indications provided by Consob, this Board of Statutory Auditors also points out that it verified that no atypical and/or unusual transactions, both at intercompany level or with related parties, were carried out.

The information provided by the Board of Directors also with specific reference to intercompany transactions and transactions with related parties is considered adequate. Specifically, the latter transactions are to be considered correlated and inherent to the Company's purpose. The characteristics and the economic effects of the ordinary transactions performed are reported in the Notes to the Financial Statements and are considered congruent and fulfilling the Company's interests. In addition, in this respect, no conflicts of interest were identified.

The Company has adhered to the Code of Corporate Governance for Listed Companies issued by Borsa Italiana S.p.A.

During the financial year:

the Company assigned to Deloitte & Touche S.p.A., the Independent Auditors tasked with auditing the Group's consolidated and the Company's financial statements, the following additional tasks:
- ADS audits for 2016 for a fee of 61,000.00 euro (55,000.00 euro of which relating to the parent);
- auditing of the Company's financial statements at 31 December 2017 for a fee of 35,000.00 euro;
- audits for the underwriting of the tax returns for a fee of 11,200.00 euro (2,700.00 euro of which relating to the parent);
- The company assigned the following tasks to entities having ongoing relations with the Independent Auditors:
- Deloitte & Associates S.A. was given the task to carry out audits for the purpose of obtaining reduced postage rates for a fee of 35,500.00 euro;
- Deloitte Financial Advisory S.r.l. was given the task to perform due diligence for a fee of 39,000.00 euro.

The Board of Statutory Auditors regularly met and exchanged information with the representatives of Deloitte & Touche S.p.A., from which no noteworthy aspects emerged. On today's date, the Independent Auditors issued the reports on the Group's consolidated and the Company's financial statements, which do not contain any event subject to disclosure.

The Independent Auditors also deem that the Directors' Report on Operations and the information pursuant to art. 123-bis of the TUF presented in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements at 31/12/2017 and comply with the law.

Finally, the Independent Auditors identify as key points of the audit:
a) the impairment test on intangible assets with indefinite useful life, goodwill and equity investments;
b) the change in the measurement method of equity investments;
c) the recognition of revenue from advertising services;
d) the merger of Banzai Media S.r.l.

The Board of Statutory Auditors did not receive any reports, pursuant to art. 2408 of the Italian Civil Code, nor complaints. Lastly, in light of the above and within the scope of its duties, this Board of Statutory Auditors did not identify any events or facts that may prevent the approval of the financial statements at 31 December 2017, which show a profit of 30,417,414.68 euro, nor of the proposed allocation to the extraordinary reserve under "Other reserves and profit/(loss) carried forward".

With the approval of the financial statements, the Board of Directors and the Board of Statutory Auditors' term expires. We thank you for the trust you have granted us and we invite you to proceed accordingly.

Milan, 29 March 2018

The Board of Statutory Auditors

Ferdinando Superti Furga – Chairman

Flavia Daunia Minutillo

Francesco Giampaolo

INDEPENDENT AUDITOR'S REPORTS

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Arnoldo Mondadori Editore S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated income statement and the consolidated comprehensive income statement, the statement of changes in consolidated equity and the consolidated cash flow statement of for the year then ended, and explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Arnoldo Mondadori Editore S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment Test on intangible assets with indefinite useful lives, goodwill and investments

Description of the Key Audit Matter

The Group's consolidated financial statements as at December 31, 2017 include intangible assets with indefinite useful lives that include magazines, for Euro 85 million, and trademarks and book series, for Euro 47 million, in addition to goodwill, for Euro 272 million, which refers to the Cash Generating Units ("CGU") defined by the Group. These intangible assets with indefinite useful lives along with the goodwill are not amortized, rather they are subject to an impairment test at least annually, as required by IAS 36.

In addition, the consolidated financial statements include investments in joint ventures and associated entities accounted according to the equity method, for Euro 37 million, each of which represents a CGU. Such investments are also subjected to impairment tests for the purpose of verifying the recoverability of their carrying amounts.

Impairment tests are carried out by comparing the CGU recoverable amount- defined as the higher of fair value less costs of disposal or value in use – and its carrying amount, which includes goodwill, other intangible assets allocated to the CGU and the investment value.

The impairment process carried out by Management is complex since it includes several assumptions regarding the forecasted future cash flows from the CGUs, the definition of an appropriate discount rate (WACC) and a long-term growth rate (g-rate).

In order to determine the recoverable amounts, the Company takes into account cash flows as reported in the Group medium-term forecasts, which were approved by the Board of Directors on March 13, 2018. The determination of cash flow forecasts is influenced by future expectations and external factors, among which the most relevant are the market evolution, both in terms of volumes and prices, the discount rates, and the long-term growth rate.

Considering the relevant value of intangible assets with indefinite useful lives, goodwill and investments accounted for within the financial statements and the subjectivity of estimates used to determine the future cash flows, as well as the key variables of the impairment tests, we considered the impairment test to be a key audit matter for the Group's financial statements.

Notes 6.6 and 7 of the explanatory notes include a description of criteria and assumptions adopted in performing the impairment tests. Notes 12 and 15 of the explanatory notes report information on intangible assets and investments, including a sensitivity analysis performed by Management, which shows the effects that may occur on the recoverable value of assets resulting from changes in the discount rate and the long-term growth rate used for the impairment test.

Audit procedures

As part of our audit, we have, among others, carried out the following procedures, also with the support of experts:

- analysis of the methodologies used by Management in determining value in use;
- assessment of the compliance with applicable accounting standards of the procedures implemented by Management for the impairment tests;
- observation and understanding of relevant procedures and controls carried out by the Group over the impairment tests process;
- analysis of the reasonableness of the key assumptions used to forecast cash flow, also through analysis of sector-based data, such as estimates on market growth rate obtained from external sources as well as through information obtained from Management;
- analysis of the actual figures compared to the planned amounts in order to assess the nature of the deviations and the reliability of the financial forecasting process;
- assessment of the reasonableness of the discount rate (WACC) and long-term growth rate (g-rate) and review of the mathematical accuracy of the model used to estimate the value in use of the CGUs;
- review of Management's sensitivity analysis as well as the development of an independent sensitivity analysis;
- assessment of the adequacy and compliance of the disclosure provided by the Company on the impairment test based on IAS 36 disclosure requirements.

Revenue recognition for book sales – expected returns estimate

Description of key audit matter

Revenues from book sales of the Group amounted to Euro 524 million, equal to approximately 41% of total revenues, and are accounted for net of actual and expected returns, which in total, amounted to Euro 113 million. The quantities of books that are expected to be returned in the years subsequent to the one in which the sales occurred are subject to an estimation process based on historical trends that are adjusted, if needed, in order to consider the average level of the product print runs made during the year, as well as other factors that can affect the amount of returned books.

We concluded that the estimate of the adjustments to revenues due to expected returns is a key audit matter for the Group's financial statements given the relevance of their total amount, the discretionary component of the estimation process, the large number of publishers and products of the Group as well as the complexity of the calculation method used to estimate the returns to be received.

Notes 6.19 and 7 of the explanatory notes include a description of revenue recognition criteria and the estimate of expected returns. Note 31 of the explanatory notes reports information on revenues for the year.

Audit procedures

As part of our audit, we have, among others, carried out the following procedures:

- observation and understanding of relevant procedures and controls carried out by the Group for the estimation process of expected returns and over the identification of actual returns;
- assessment of compliance with applicable accounting standards over the principles and methods used by the Group to recognize adjustments to sales revenues;
- critical analysis of the assumptions and key variables impacting the estimation of expected returns, such as the historical trends, the print runs of the year and the period of time within the largest volume of returns is expected to be returned, which is also based on the characteristics of the publishers and product lines;
- comparative analysis between initial forecasted returns and returns actually received ;
- substantial analytical procedures and tests of detail on a sample basis in order to assess the completeness and accuracy of adjustments to revenues due to returns;
- assessment of the adequacy and compliance of the disclosure provided by the Company on the revenues based on applicable accounting standards disclosure requirements.

Revenues recognition – advertising services

Description of key audit matter

The Group's consolidated income statement for the year ended December 31, 2017 includes revenues from advertising services of Euro 151 million, equal to approximately 12% of total revenues. These revenues are related to the considerations granted to the Group, as publisher of magazines and web sites, over the advertising sales made by advertising agencies.

We concluded that revenue recognition of advertising services constitutes a key audit matter of the Group's financial statements, both for the relevance of the amounts and for the complexities connected with the reporting and recognition process of such revenues. These complexities are linked to the articulated underlying contractual agreements between the Group and the advertising agencies, as well as between the advertising agencies and the final customer, together with the relevance of systems and processes adopted to determine revenues and assess service completion.

Note 3.19 of the explanatory notes includes a description of revenue recognition criteria and Note 31 of the explanatory notes reports information on revenues for the year.

Audit procedures

As part of our audit, we have, among others, carried out the following procedures:

- observation and understanding of relevant procedures and controls carried out by the Group on advertising revenues recognition, performed with the support of IT specialist;
- assessment of compliance with applicable accounting standards over the recognition criteria adopted by Management for advertising revenues;
- analysis of contractual agreements between the Group and the advertising agencies and tests of details, on a sample basis, over related transactions;
- performance of substantive analytical procedures and tests of details, on a sample basis, in order to verify the service completion;
- assessment of the adequacy and compliance of the disclosure provided by the Company on the revenues based on applicable accounting standards disclosure requirements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Arnoldo Mondadori Editore S.p.A. has appointed us on April 27, 2010 as auditors of the Company and the Group for the years from December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Arnoldo Mondadori Editore S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Arnoldo Mondadori Editore S.p.A. Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Arnoldo Mondadori Editore S.p.A. Group as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Arnoldo Mondadori Editore S.p.A. Group as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

The Directors of Arnoldo Mondadori Editore S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Vittorio Camosci
Partner

Milan, Italy
March 29, 2018

This report has been translated into the English language solely for the convenience of international readers.

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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

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

REPORT ON THE AUDIT OF THE SEPARATED FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Arnoldo Mondadori Editore S.p.A. (the "Company"), which comprise the balance sheet as at December 31, 2017, the income statement, the comprehensive income statement, the statement of changes in equity and the cash flow statement for the year then ended, and explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment test on intangible assets with indefinite useful lives, goodwill and investments

Description of key audit matter

The Company's financial statements as at December 31, 2017 include intangible assets with indefinite useful lives, related to magazines and trademarks *TV Sorrisi e Canzoni* and *Chi*, each representing a Cash Generating Unit (CGU), for a total amount equal to Euro 85,5 million, and goodwill, for Euro 19,5 million, mainly allocated to Digital CGU. These intangible assets with indefinite useful lives along with the goodwill are not amortized, rather they are subject to an impairment test at least annually, as required by IAS 36.

The financial statements also include investments in subsidiaries, investments in a joint venture and associated entities accounted for using the equity method, for Euro 487 million. The described investments are subject to an impairment test, performed at least annually, as the carrying amounts include goodwill and intangible assets with indefinite useful lives identified at the acquisition date. The impairment test is performed on the single CGU's included in the investments.

Impairment tests are carried out by comparing the CGU recoverable amount- defined as the higher of fair value less costs of disposal or value in use – and its carrying amount, which includes goodwill, other intangible assets allocated to the CGU and the investment value.

The impairment process carried out by Management is complex since it includes several assumptions regarding the forecasted future cash flows from the CGUs, the definition of an appropriate discount rate (WACC) and a long-term growth rate (g-rate).

In order to determine the recoverable amounts, the Company takes into account cash flows as reported in the Group medium-term forecasts, which were approved by the Board of Directors on March 13, 2018. The determination of cash flow forecasts is influenced by future expectations and external factors, among which the most relevant are the market evolution, both in terms of volumes and prices, the discount rates, and the long-term growth rate, considered equal to 0 for the majority of the CGUs.

Considering the relevant value of intangible assets with indefinite useful lives, goodwill and investments accounted for within the financial statements and the subjectivity of estimates used to determine the future cash flows, as well as the key variables of the impairment tests, we considered the impairment test to be a key audit matter for the Company's financial statements.

Notes 3.6 and 4 of the introductory part of the explanatory notes include a description of criteria and assumptions adopted in performing the impairment tests. Note 1 and Note 4 of the explanatory notes, commenting on financial statements captions, report information on intangible assets and investments, including a sensitivity analysis performed by Management, which shows the effects that may occur on the recoverable value of assets resulting from changes in the discount rate and the long-term growth rate used for the impairment test.

Audit procedures

As part of our audit, we have, among others, carried out the following procedures, also with the support of experts:

- analysis of the methodologies used by Management in determining value in use;
- assessment of the compliance with applicable accounting standards over the procedures implemented by Management for the impairment tests;
- observation and understanding of relevant procedures and controls carried out by the Company on the impairment tests process;
- analysis of the reasonableness of the key assumptions used to forecast cash flow, also through analysis of sector-based data, such as estimates on market growth rate obtained from external sources as well as through information obtained from Management;
- analysis of the actual figures compared to the planned amounts in order to assess the nature of the deviations and the reliability of the financial forecasting process;
- assessment of the reasonableness of the discount rate (WACC) and long-term growth rate (g-rate) and review of the mathematical accuracy of the model used to estimate the value in use of the CGUs;
- review of Management's sensitivity analysis as well as the development of an independent sensitivity analysis;
- assessment of the adequacy and compliance of the disclosure provided by the Company on the impairment test based on IAS 36 disclosure requirements.

Change in accounting policies on investments

Description of key audit matter

The Company's financial statements as at December 31, 2017 include investments for Euro 487 million. Staring from 2017, the Directors, in order to provide more relevant information about the entity's financial position, decided to exercise the option granted by IAS 27 to measure investments in subsidiaries, joint ventures and associates using the equity method rather than the cost method which was previously adopted. As required by IAS 8, such change has been applied retrospectively and implied an increase of the net equity as of December 31, 2016, and of the net result for the year then ended, carried over, in 2017, for comparative purposes, for an amount equal to Euro 142 million and Euro 37 million, respectively.

Considering the relevance of the above-described change on the financial position and on the net result of Arnoldo Mondadori Editore S.p.A., we considered the change in measurement criteria of investments to be a key audit matter for the Company's financial statements.

Notes 3.7 and 7 of the introductory part of the explanatory notes include a description of measurement criteria for investments and disclosure over the effects and the reasons of change of such criteria. Note 4 of the explanatory notes, commenting on financial statements captions, reports information on investments.

Audit procedures

As part of our audit, we have, among others, carried out the following procedures:

- analysis of the methodologies adopted by Management in determining the value of investments in accordance with the equity method;
- assessment of the compliance with applicable accounting standards over the procedures implemented by Management for the measurement of investments in accordance with the equity method;
- observation and understanding of relevant procedures and controls carried out by the Company on the investment measurement process;
- assessment of compliance with applicable accounting standards over the procedures implemented by Management for the investments measured according to equity method, also by a comparison with the subsidiaries, joint ventures and associates financial statements and their contribution to the Group consolidated financial statements;
- assessment of the adequacy and compliance of the disclosure provided by the Company on the accounting policy change based on IAS 8 disclosure requirements.

Revenues recognition – advertising services

Description of key audit matter

The Company's income statement for the year ended December 31, 2017 includes revenues from advertising services of Euro 76 million, equal to approximately 32% of total revenues. These revenues are related to the considerations granted to the Company, as publisher of magazines and web sites, over the advertising sales made by advertising agency.

We concluded that revenue recognition of advertising services constitutes a key audit matter of the Company's financial statements, both for the relevance of the amounts and for the complexities connected with the reporting and recognition process of such revenues. These complexities are linked to the articulated underlying contractual agreements between the Company and the advertising agency, as well as between the advertising agencies and the final customer, together with the relevance of systems and processes adopted to determine revenues and assess service completion.

Note 3.20 of the introductory part of the explanatory notes includes a description of revenue recognition criteria and Note 20 of the explanatory notes, commenting on financial statements captions, reports information on revenues for the year.

Audit procedures

As part of our audit, we have, among others, carried out the following procedures:

- observation and understanding of relevant procedures and controls carried out by the Company on advertising revenues recognition, performed with the support of IT specialist;
- assessment of compliance with applicable accounting standards over the recognition criteria adopted by Management for advertising revenues;
- analysis of contractual agreements between the Company and the advertising agency and tests of details, on a sample basis, over related transactions;
- performance of substantive analytical procedures and tests of details, on a sample basis, in order to verify the service completion;
- assessment of the adequacy and compliance of the disclosure provided by the Company on the revenues based on applicable accounting standards disclosure requirements.

Merger with Banzai Media S.r.l.

Description of key audit matter

In the wider process of corporate simplification and reorganization implement by Mondadori Group, on January 15, 2017, the merger by incorporation of the wholly owned subsidiary Banzai Media S.r.l. into Arnoldo Mondadori Editore S.p.A. became effective.

The accounting treatment of the merger by incorporation of a wholly owned company is out of scope of *IFRS 3 Business combinations.*

The operations of the incorporated company (Banzai Media S.r.l.) were included in the financial statements of the Company as of January 1, 2017. The approach chosen by the Company to account for the merger transaction is enforced by the fact that the two entities are part of the same group and, therefore, the principle of continuity, with the Group consolidated financial statements, has been adopted.

The merger of Banzai Media S.r.l. was considered to be a key audit matter considering the effects of the transaction over the Company's asset composition and financial results, as well as the fact that the recognition criteria of this kind of transaction is not addressed by international accounting standards.

Note 7 of the introductory part of the explanatory notes includes a description of the transaction and its related effect on the Company's financial statements and Directors comments.

Audit procedures

As part of our audit, we have, among others, carried out the following procedures:

- analysis of the documentation required by the Italian Civil Code to carry out the merger transaction, including minutes of the Board of Directors meetings;
- analysis of accounting criteria applied by the Company for the merger transaction;
- assessment of the consistency of the accounting treatment applied by the Directors to the merger transaction to commonly applied accounting treatment to similar cases;
- verification of the book entries and related accurate migration of Banzai Media data into the Company's. financial statements;

- assessment of the adequacy of the information disclosed by Directors in the explanatory notes.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Arnoldo Mondadori Editore S.p.A. has appointed us on April 27, 2010 as auditors of the Company for the years from December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Arnoldo Mondadori Editore S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Arnoldo Mondadori Editore S.p.A. as at December 31, 2017, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Reno De Medici S.p.A. as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Arnoldo Mondadori Editore S.p.A. as at December 31, 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Vittorio Camosci
Partner

Milan, Italy,
March 29, 2018

This report has been translated into the English language solely for the convenience of international readers.

Graphic design and composition:

mercurio GP
www.mercuriogp.eu

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