



2018
ANNUAL
REPORT

ARNOLDO MONDADORI EDITORE S.p.A.

Share Capital 67,979,168.40

Registered Office in Milan

Administrative Offices in Segrate (Milan)

**2018
ANNUAL
REPORT**

**Mondadori Group
Consolidated Financial Statements
and
Arnoldo Mondadori Editore S.p.A.
Financial Statements
at 31 December 2018**

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AT 31 DECEMBER 2018**

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LETTER TO STAKEHOLDERS

In 2018, the Mondadori Group took further major steps to improve operations and strengthen its capital structure and financial standing.

The strategic repositioning process continued to allow the Group to place greater focus on its core businesses, with the revision of the portfolio of activities that saw the start of the disposal process of the subsidiary Mondadori France and the sale of a number of assets in the Magazines Italy Area. The results achieved - higher profitability, lower financial debt - in line with the targets set, are consistent with the plan launched in 2013 to strengthen the more solid area of books and reduce exposure to magazines.

These results allow us to free up resources in support of the Company's development and ensure its future in the long term, while keeping on-going control over costs and reviewing the scope of operations.

The decisions we have taken are complex, yet the only ones possible and necessary.

We are now at a new starting point.

The future of our Group is tied to its ability to strengthen the core businesses, while retaining its leadership in the relevant markets and seizing every opportunity to leverage on the huge wealth of "editorial knowledge" that makes us stand out from the others, thanks to the new digital technologies in a multi-channel perspective.

2019 will feel the benefits of the actions undertaken last year and see the launch of many innovative projects, implemented across the different areas of our Company and with a twofold objective: one, to increase revenue and profitability of the Mondadori Group, two, to create a cutting-edge workplace for our people to grow in skills, professionalism and know-how.

We will continue to innovate because this is the prerequisite for the years to come: our markets of operation, the on-going technological advancements and the longstanding tradition of excellence of our Group urge us to do so.

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 Aino

Elena Biffi**

Francesco Currò

Patrizia Michela Giangualano**

Martina Forneron Mondadori**

Daniello Pellegrino

Roberto Poli

Odone Pozzi

Angelo Renoldi**

Mario Resca

Cristina Rossello**

Board of Statutory Auditors*

CHAIRMAN

Sara Fornasiero

STANDING AUDITORS

Flavia Daunia Minutillo

Ezio Simonelli

SUBSTITUTE AUDITORS

Mario Civetta

Annalisa Firmani

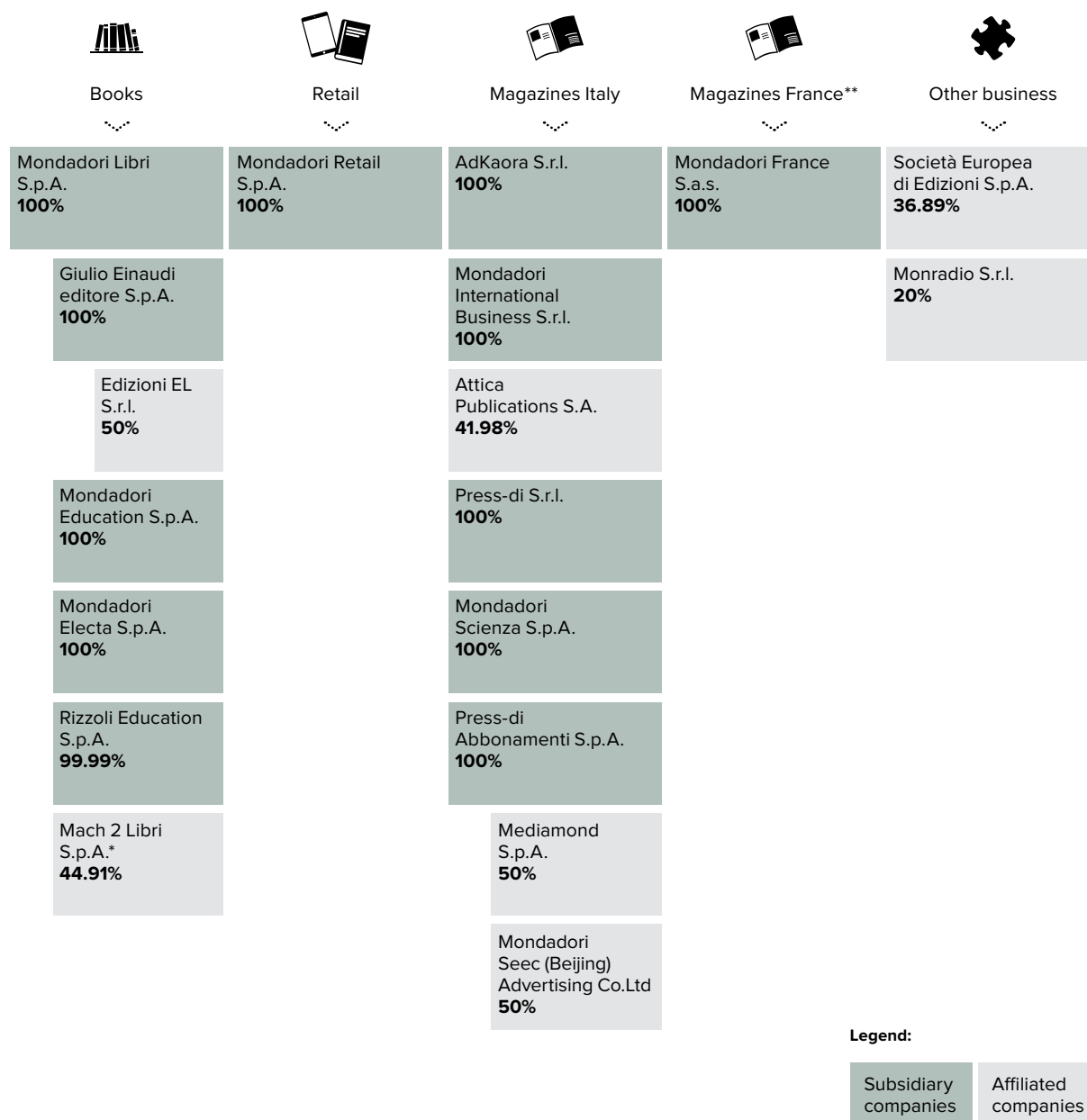
Francesco Vittadini

* The Board of Directors and the Board of Statutory Auditors currently in office were appointed by the Shareholders' Meeting of 24 April 2018

** Independent Directors pursuant to the Corporate Governance Code for Listed Companies

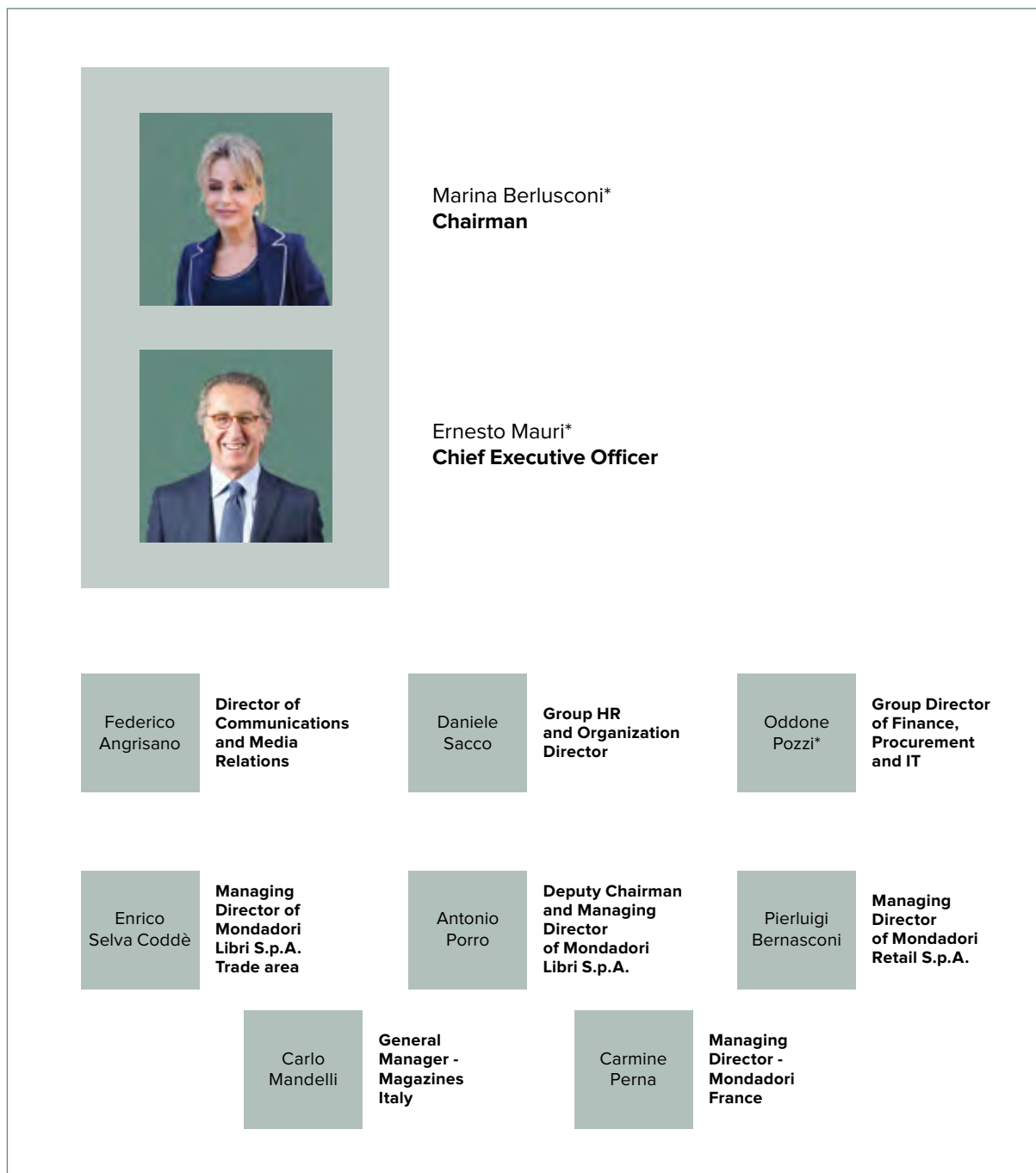
MONDADORI GROUP ORGANIZATION

ARNOLDO MONDADORI EDITORE S.P.A.



MONDADORI GROUP ORGANIZATION CHART

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As at 31 December 2018

* Members of the Board of Directors

OVERVIEW OF GROUP ACTIVITIES

Mondadori is one of Europe's top publishing groups and the **leading publisher** of books and magazines in Italy. The Group also operates in the retail business with the most extensive network of bookstores throughout the Country (approximately 600 points of sale).

BOOKS



The 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 **27.4%**¹ 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 **22.9%**² at end 2018, with a total catalogue of approximately 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).

¹ Source: GFK, December 2018 (in terms of value)

² Source: ESAIE, 2018 (adopted sections)

³ Source: GFK, December 2018 (in terms of value)

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 approximately **14%**³ in 2018 in this specific segment.

MAGAZINES ITALY



At end 2018, the Mondadori Group retained its **leadership** position in both the print segment (with a **30.7%** share of the circulation market⁴) and in the digital magazine segment (with a unique audience of approximately **30 million contacts per month**)⁵.

Mondadori is therefore Italy's leading digital publisher and boasts a consolidated leadership in the women, food, health & wellness verticals.

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.

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.

⁴ Source: Press-di, December 2018 (in terms of value)

⁵ Source: Comscore, December 2018

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, logistics, HR management and organization, legal and corporate affairs, management of Group purchasing, general location services, communications and media relations, and CRM.

Revenue consists mainly of services provided to subsidiaries and associates.

GROUP HISTORY MILESTONES

1907



Arnaldo Mondadori begins publishing activities in Ostiglia (Mantua) by launching the magazine **Luce!**

1920

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



1950

1954 - Opening of the Mondadori per voi book shop chain, to re-launch domestic book circulation.



1960

1962 - Mondadori launches Italy's first newsmagazine: **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 chain of bookstores 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 market with **R101**.

2006 - The Group acquires Emap France, France's third magazine publisher. Founding 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 - The new Mondadori headquarters is inaugurated 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 - Founding of Elemond, a publishing house that controls the well-known Electa and Einaudi brands.

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2010

2013 - The Group renews its Top Management and reorganizes operating structures; a new strategic plan is laid out to focus on core operations (trade and educational books, retail, magazines) and give fresh impetus to the development of digital activities.

2014 - Founding of Mondadori Libri S.p.A., at the head of all the activities in the Books Area; advertising sales on magazines, digital and radio stations are transferred to Mediamond, a 50-50 joint venture with Publitalia '80.

2015 - The Group increases its investment in the joint venture Gruner+Jahr/Mondadori, publisher of *Focus*, to 100%; non-core assets are sold (80% of Monradio, investment in the joint venture Harlequin Mondadori and the Rome office) to focus on the core businesses.

2016 - Mondadori acquires **RCS Libri** and the vertical content division of the Banzai Group.

2017 - Piemme and Sperling & Kupfer are merged by incorporation into Mondadori Libri S.p.A., which in turn absorbs the trade unit of Rizzoli Libri. The **Rizzoli Electa** brand is launched for the international expansion of illustrated books and the organization of international exhibitions. The **Children's Business Unit** is set up in the Books Area.

2018



Mondadori continues its focus on the core businesses, strengthening the Books Area and reducing exposure to magazines. This includes the sale of the weekly *Panorama*, completed in November, and the start of the disposal process of Mondadori France to Reworld Media.

INVESTOR RELATIONS

Arnoldo Mondadori Editore S.p.A. ordinary shares have been listed on the Italian Stock Exchange since 1982 (ISIN Code: IT0001469383).

The Mondadori share is listed in the following indexes:

- general indexes of Borsa Italiana: FTSE Italia All Share, FTSE Italia Star (since December 2016) and FTSE Italia Mid Cap (since 2 January 2019);
- Industry specific: FTSE Italia Servizi al consumo and FTSE Italia Media;
- National ethical: FTSE ECPI Italia SRI Benchmark and FTSE ECPI Italia SRI Leaders.

In 2018, Mondadori's share traded at an average price of **€ 1.61** (average market capitalization € 419.5 million).

On 28 December 2018, the last trading day of the year, Mondadori's share recorded a closing price of **€ 1.71**, with a market capitalization of € 447.1 million.

Share price and share trading data

Closing price on 28/12/2018 in Euro
Average price in Euro
High in Euro (23/01/2018)
Low in Euro (29/05/2018)
Average volume (thousands)
Maximum volume (thousands, 16/03/2018)
Minimum volume (thousands, 11/12/2018)
No. of ordinary shares (mn)*
Average market capitalization in Euro millions*
Market capitalization at 28/12/2018 in Euro millions

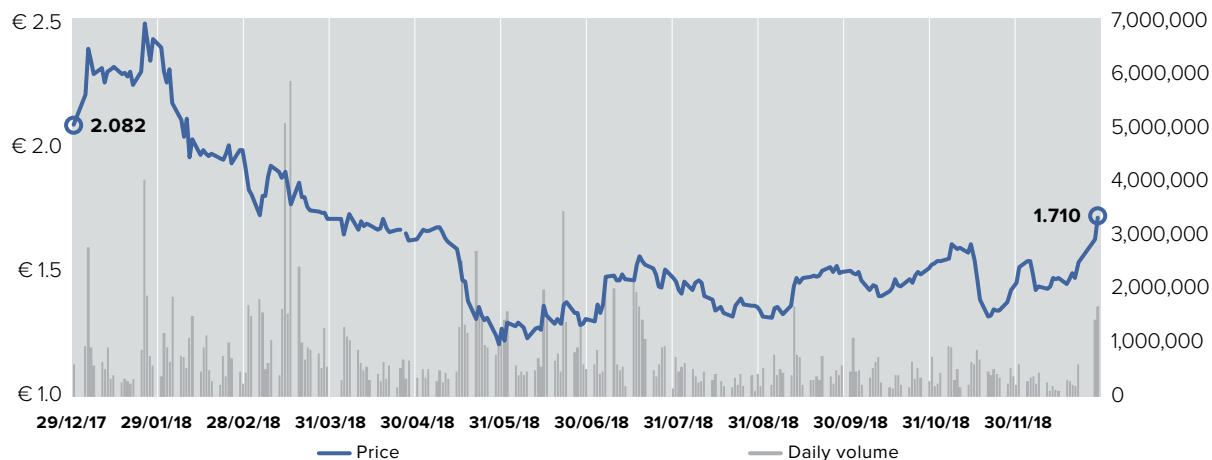
2018

1.71
1.61
2.485
1.204
721.0
5.837.3
88.1
261,458,340
419.5
447.1

Source: Borsa Italiana

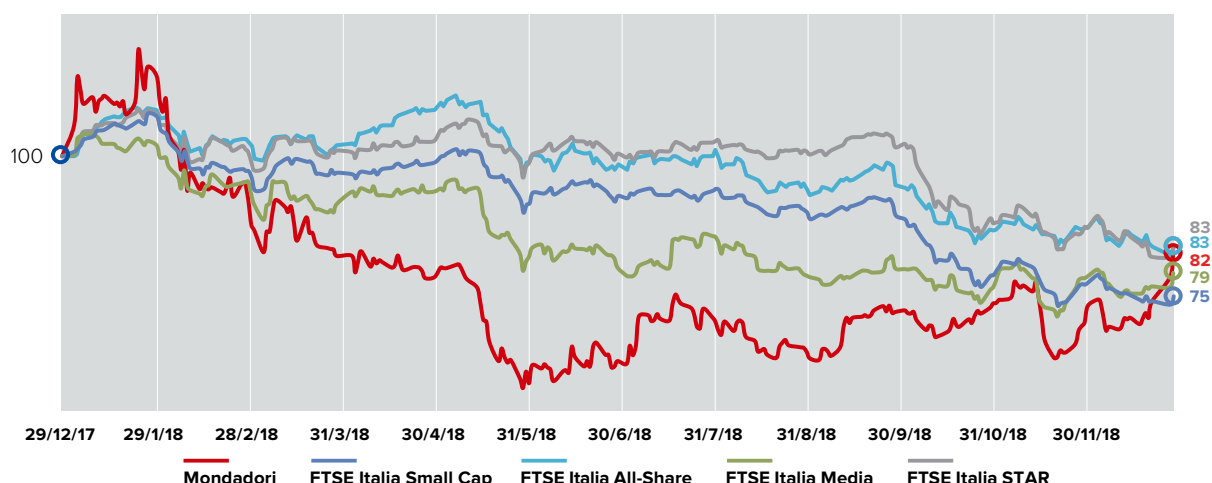
* Number of shares issued at 31 December 2018

MONDADORI SHARE PRICE PERFORMANCE IN 2018



Source: Bloomberg

MONDADORI SHARE PRICE PERFORMANCE AGAINST MAIN SE INDEXES IN 2018



Source: Bloomberg

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FINANCIAL MARKETS

International financial markets flipped into a bearish trend marked by extreme volatility; on the currency front, the Euro depreciated against the other main peers.

The Mondadori share price turned south losing approximately -18% versus end 2017; the main SE indexes posted declines: -17% for FTSE Italia All Share, -21% for FTSE Italia Media, -25% for FTSE Italia Small Cap.

In 2018, Mondadori shares traded on the market managed by Borsa Italiana S.p.A. reached the average daily equivalent of **€ 1.2 million** (a maximum of € 10.3 million recorded on 16 March 2018).

OWNERSHIP STRUCTURE

At 31 December 2018, the Company's share capital amounts to € 67,979,168.40, equal to 261,458,340 ordinary shares with a par value of € 0.26 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.

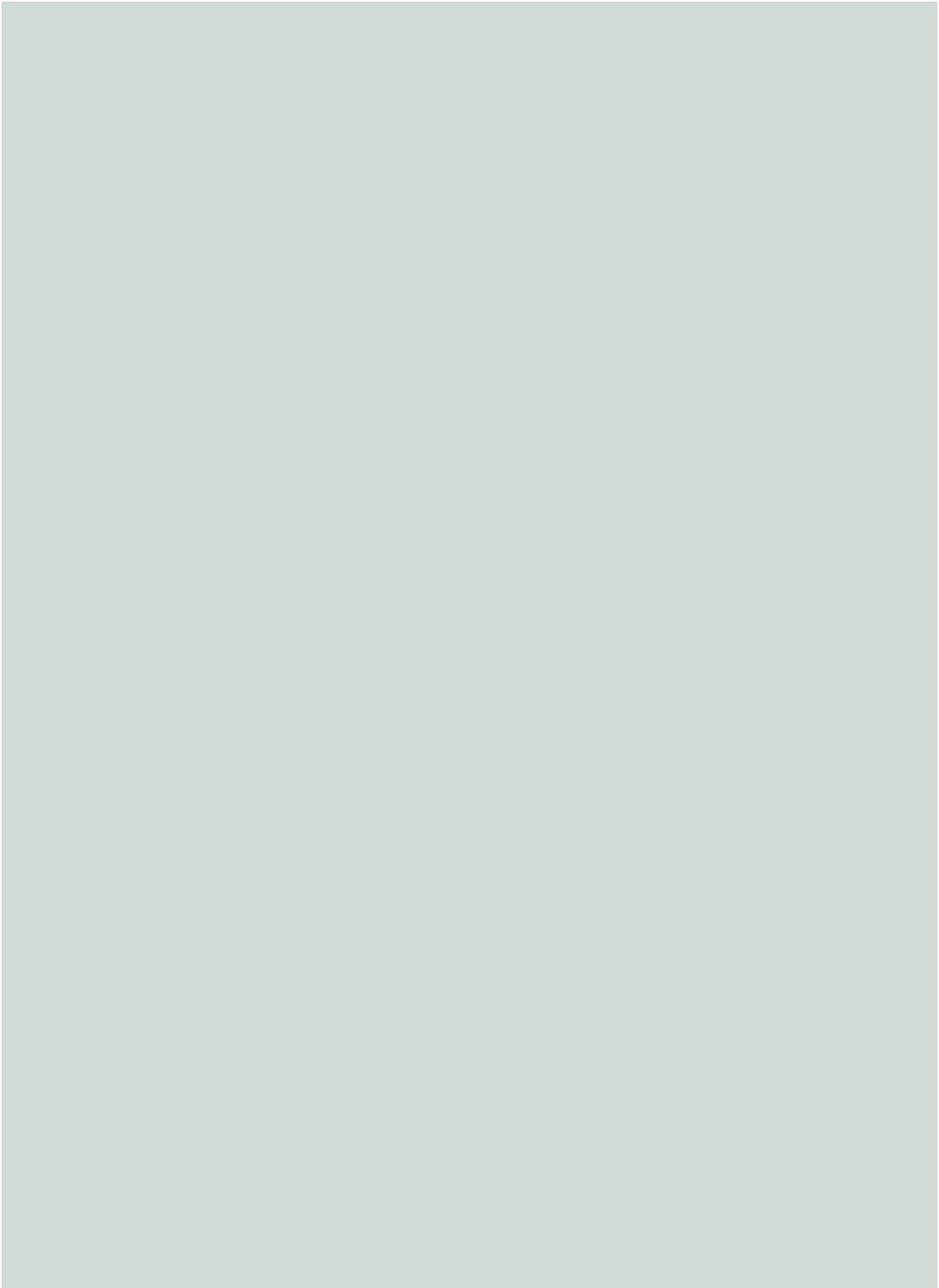
Shareholders	Equity investment at 31/12/2018
Fininvest S.p.A.	53.3%
Silchester International Investors Llp	12.4%

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 2018 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

The evening of the summer solstice is a grand opportunity to experience the Palazzo Niemeyer park outside working hours: a moment of socialization for our Group's employees and associates, shared on social media with the hashtag #NoiDellaMondadori. A pleasurable ritual inaugurated in 2017 with the artistic restoration of the exterior lighting of the headquarters, which continues in the spirit of music and conviviality.

**Directors' Report
on Mondadori Group
Operations in 2018**

MONDADORI GROUP 2018 HIGHLIGHTS*

(Euro/millions)	2018	2017**	Var. %***
Mondadori Group			
Revenue	891.1	970.1	(8%)
Adjusted EBITDA	90.1	84.5	7%
% on revenue	10.1%	8.7%	
EBITDA	77.5	86.7	(11%)
% on revenue	8.7%	8.9%	
EBIT	51.2	60.4	(15%)
% on revenue	5.8%	6.2%	
Adjusted result from continuing operations****	20.3	27.2	(25%)
Net result	(177.1)	30.4	n.s.
Business Areas			
Revenue	891.1	970.1	(8%)
Books	450.4	483.0	(7%)
Retail	191.8	198.5	(3%)
Magazines Italy	287.0	326.1	(12%)
Corporate & Shared Services	34.7	26.2	32%
Intercompany	(72.8)	(63.8)	14%
Adjusted EBITDA	90.1	84.5	7%
Books	84.7	76.3	11%
Retail	1.4	0.7	88%
Magazines Italy	11.9	14.8	(20%)
Corporate & Shared Services	(7.3)	(7.8)	(6%)
Intercompany	(0.5)	0.5	n.s.
Balance Sheet			
Equity	170.7	345.4	(51%)
Net Financial Position	(147.2)	(189.2)	(22%)
Human Resources			
End-of-period headcount (including Mondadori France)	2,875	3,026	(5%)
End-of-period headcount (excluding Mondadori France)	2,132	2,275	(6%)

* Comparative scope for continuing operations. See Note on page 21 of this Report

** 2017 revenue: comparative amounts reclassified under IFRS 15

*** Changes in this report were calculated on amounts expressed in thousands of Euro

**** In 2018, the "Adjusted Income/(loss) from discontinued operations" included the net result of Mondadori France in the current year, together with the recognition of the fair value adjustment of assets to be sold*, to reflect the negotiations in progress, previously measured at value in use. This item also includes the financial expense held by the Parent Company, but attributable to Mondadori France and charged to the latter under the intercompany loan agreement (approximately € 3 million)

In 2018, the Mondadori Group met the targets set:

- achieved further **operating and financial consolidation**,
- launched a new **strategic repositioning** phase, with the revision of the portfolio of the Magazines Italy Area and the start of the disposal of Magazines France.

In this regard, this Financial Report shows the figures for the Magazines France business area under “Result from discontinued operations” in accordance with IFRS 5.

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

- **revenue** fell by approximately 8% versus 2017;
- **adjusted EBITDA** from continuing operations **grew by** approximately **7%**, with margins increasing from 8.7% to **10.1%**;
- the increased contribution of Books to Group profitability (from approximately 83% to 87% of the total) and greater relevance of digital operations on the profitability of Magazines Italy (from approximately 14% to 50%) mark the strategic repositioning pursued in the year;
- the **result from continuing operations** decreased by approximately € 7 million, due mainly to greater non-ordinary negative components versus 31 December 2017;
- **cash flow from ordinary operations from continuing operations** amounted to approximately **€ 52 million**, allowing for an **approximately 22% reduction in net debt** (equal to approximately € 147 million) and for a reduction in the debt/adjusted EBITDA ratio to **1.6x**.

On 26 September 2018, the Board of Directors of Arnoldo Mondadori Editore S.p.A. authorized the Chief Executive Officer to open exclusive negotiations with Reworld Media S.A. with a view to the possible sale of Mondadori France.

The sale of the French operations falls in the Group's strategy to refocus on its more solid Books business; by increasing the availability of financial resources, the Group will also contribute to supporting the strategic lines of development and the competitive edge in its core businesses, also through potential new investments.

On 18 February 2019, the Mondadori Group signed a put option that guarantees the right to sell its subsidiary Mondadori France S.a.s. to Reworld Media S.A.

MAIN ELEMENTS IN MONDADORI GROUP BUSINESS AREAS

- In the **Trade Books** Area, after the strong growth witnessed in 2017 (+6.1%), the market reported a slight drop in 2018 (-1.1%); the Group was once again leader in Italy with a **27.4%** market share and with **four 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 **22.9%** share, adoptions-wise.

- In the **Retail** Area, where the Group continued to implement strategic actions to align the organization and the sales channels with the developments of the market, focusing on steady format and network revision.

In the Books segment (making for **80% of store revenue**), Mondadori Retail's **market share** stood at **14.4%**.

- The **Magazines Italy** Area recorded an approximately 6% drop in gross advertising sales in Italy versus 2017.

In the newsstands and subscriptions channels, Mondadori Group retained its market leadership with a share in terms of value of **30.7%** at 31 December 2018.

With a total audience of approximately **30 million unique visitors/month**, Mondadori was once again **Italy's top publisher in the digital business**.

2018 CONSOLIDATED FINANCIAL HIGHLIGHTS

(Euro/millions)	2018	Percentage on revenue	2017	Percentage on revenue	Var. %
Revenue from sales and services	891.1	100.0%	970.1	100.0%	(8.1%)
Cost of sold items	271.4	30.5%	302.4	31.2%	(10.2%)
Variable costs	300.9	33.8%	330.9	34.1%	(9.1%)
Fixed costs	69.1	7.8%	81.3	8.4%	(15.0%)
Cost of personnel*	159.5	17.9%	171.0	17.6%	(6.7%)
Adjusted EBITDA	90.1	10.1%	84.5	8.7%	6.6%
Restructuring costs	11.7		5.1		n.s.
Non-ordinary negative/(positive) items	0.9		(7.3)		n.s.
EBITDA	77.5	8.7%	86.7	8.9%	(10.6%)
Amortization, depreciation and impairment	26.2	2.9%	26.3	2.7%	(0.2%)
EBIT	51.2	5.8%	60.4	6.2%	(15.2%)
Net financial expense (income)	2.9	0.3%	7.0	0.7%	(58.7%)
Expense (income) from associates	13.2	1.5%	4.0	0.4%	n.s.
Expense (income) from other investments	0.0	0.0%	0.0	0.0%	
Result before tax for the year	35.2	4.0%	49.5	5.1%	(28.9%)
Income tax	14.9	1.7%	22.3	2.3%	(33.4%)
Adjusted loss from continuing operations**	20.3	2.3%	27.2	2.8%	(25.2%)
Adjusted loss from discontinued operations**	(195.5)	(21.9%)	5.8	0.6%	n.s.
Result attributable to non-controlling interests	2.0	0.2%	2.5	0.3%	(21.6%)
Net loss	(177.1)	(19.9%)	30.4	3.1%	n.s.

* Cost of personnel includes costs for collaborations and temporary employment.

** In 2018, the "Adjusted result from discontinued operations" included the net result of Mondadori France in the current year, together with the recognition of the fair value adjustment of assets to be sold*, to reflect the negotiations in progress, previously measured at value in use. This item also includes the financial expense held by the Parent Company, but attributable to Mondadori France and charged to the latter under the intercompany loan agreement (approximately € 3 million).

The "Adjusted result from continuing operations" and the "Adjusted result from discontinued operations" therefore differ by this amount from the amounts of the statements attached to this Report (equal to € -192.4 million in 2018 and € 12.6 million in 2017), prepared in accordance with IFRS international accounting standards.

To enable a like-for-like comparison, 2017 figures have been restated accordingly.

ALTERNATIVE PERFORMANCE MEASURES

This document, in addition to the statements and conventional financial measures required by IFRS, presents a number of reclassified statements

and alternative performance measures in order to better evaluate 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”.

As of 1 January 2018 (and to provide a consistent presentation, also for 2017), the Group has adopted the new IFRS 15 - Revenue from Contracts with Customers - revenue recognition standard, which applies to all contracts stipulated with customers, with the exception of those that fall within the scope of application of other IAS/IFRS standards such as leases, insurance contracts and financial instruments; the new standard provides for:

- the booking of circulation revenue based on the cover price or, in any case, on the price actually paid by the purchaser, gross of all commissions paid. Accordingly and unlike the previous accounting treatment, the commission has been recognized separately as distribution cost, no longer as a reduction in revenue. The Magazines Italy and Magazines France Area, as a result, saw an increase in revenue;
- the presentation of revenue from the distribution of third publishers' products, net of relating acquisition costs, previously booked in cost of sold items. The Books Area, as a result, saw a decrease in revenue.

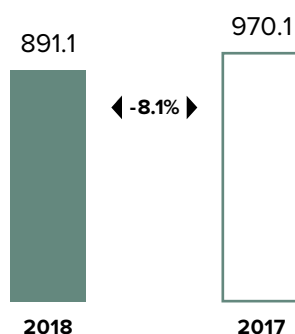
The new IFRS 15 presents revenue and costs differently, with no effect on EBITDA.

As from 2018, considering the nature of the associates and the investment held with financial characteristics, their result, previously classified under EBITDA, is shown under EBIT; for consistency, 2017 has been reclassified accordingly.

INCOME STATEMENT

REVENUE

(Euro/millions)



Consolidated net revenue in 2018 amounted to **€ 891.1 million**, down by 8% versus € 970.1 million in 2017.

Revenue from the various areas of the Group reported a general downturn.

The **Books** Area (approximately -7%) reported a drop, due to the presence in 2017 of a number of bestsellers, including D. Brown, K. Follet and F. Volo, as well as the winners of the Strega and Campiello Prizes P. Cognetti and D. Di Pietrantonio.

The **Magazines Italy** Area (-12%) reported a drop, linked partly to the contraction in both the circulation and advertising markets, due also to the change in the scope of consolidation following the disposal of Inthera and *Panorama* in 2018.

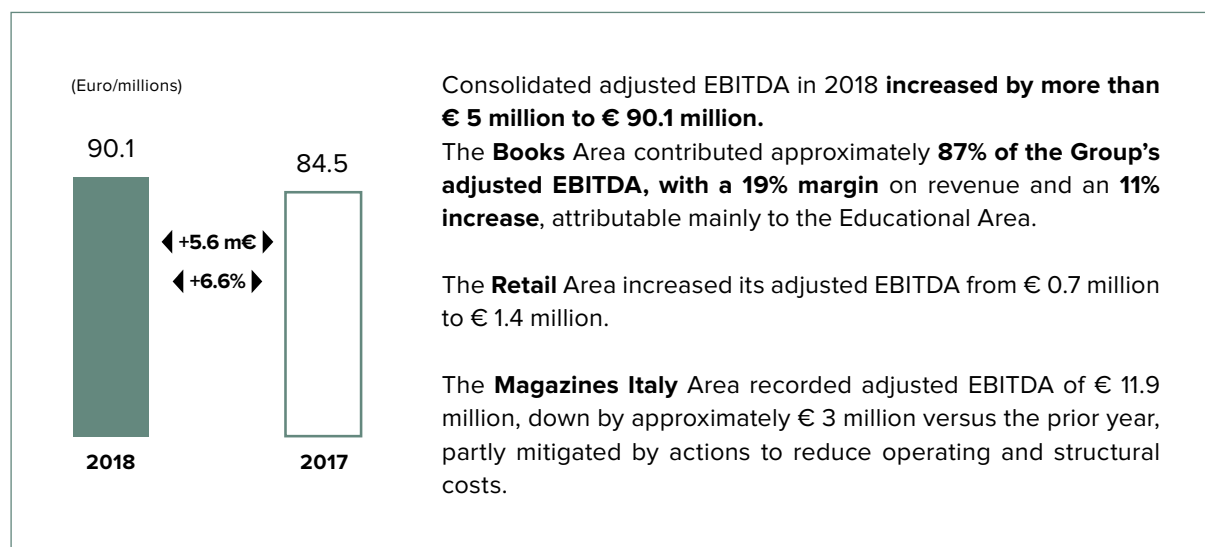
The **Retail** Area dropped by 3%, as a result also of the closure of the two Megastores in Milan S. Pietro all'Orto and Palermo.

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Revenue by Business Area (Euro/millions)	2018	2017	Var. %
Books	450.4	483.0	(6.7%)
Retail	191.8	198.5	(3.4%)
Magazines Italy	287.0	326.1	(12.0%)
Corporate & Shared Services	34.7	26.2	32.3%
Total aggregate revenue	963.9	1.033,9	(6.8%)
Intercompany revenue	(72.8)	(63.8)	14.2%
Total consolidated revenue	891.1	970.1	(8.1%)

Revenue by geographical area (Euro/millions)	2018	2017	Var. %
Italy	834.3	906.0	(7.9%)
Other EU countries	14.6	21.8	(33.0%)
Other extra EU countries	41.2	41.7	(1.2%)
Total consolidated revenue	891.1	970.1	(8.1%)

EBITDA



Adjusted EBITDA by Business Area (Euro/millions)	2018	2017	Var.	Var. %
Books	84.7	76.3	8.4	11.0%
Retail	1.4	0.7	0.6	87.7%
Magazines Italy	11.9	14.8	(2.9)	(19.7%)
Corporate & Shared Services	(7.3)	(7.8)	0.5	(6.4%)
Intercompany	(0.5)	0.5	(1.0)	n.s.
Total adjusted EBITDA	90.1	84.5	5.6	6.6%

The **EBITDA margin** increased **from 8.7% to 10.1% of consolidated revenue**, confirming the significant process of **improving operating efficiency**.

of 2,132 employees, down by approximately 6% versus 31 December 2017, excluding 743 employees of Mondadori France (751 at 31 December 2017).

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The percentage on revenue of goods sold, variable costs and overheads reduced as a result of ongoing measures to improve efficiency and contain costs across all the areas.

Additionally, the reduction in cost of personnel continued (-6.7% versus the prior year or -5.7% on a like-for-like basis⁶), with a workforce from continuing operations at the end of the period

Reported EBITDA fell by € 9.2 million, from € 86.7 million in 2017 to **€ 77.5 million** in the year under review.

Overall, non-ordinary expense increased by approximately € 14 million versus the prior year, due to business restructuring of approximately € 10 million and lower non-ordinary income versus 2017.

Consolidated EBITDA by Business Area (Euro/millions)	2018	2017	Var.	Var. %
Books	82.9	76.2	6.7	8.8%
Retail	(0.0)	0.6	(0.6)	n.s.
Magazines Italy	(0.2)	12.1	(12.3)	n.s.
Corporate & Shared Services	(4.6)	(2.7)	(1.9)	68.2%
Intercompany	(0.5)	0.5	(1.0)	n.s.
Total consolidated EBITDA	77.5	86.7	(9.2)	(10.6%)

⁶ Net of the effects of the outsourcing of logistics activities

EBIT

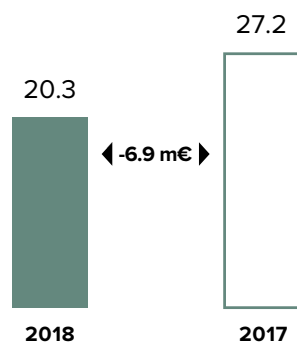


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Consolidated EBIT by Business Area (Euro/millions)	2018	2017	Var.	Var. %
Books	70.9	64.5	6.4	9.9%
Retail	(3.4)	(3.7)	0.3	(8.8%)
Magazines Italy	(7.6)	6.4	(14.0)	n.s.
Corporate & Shared Services	(8.1)	(7.3)	(0.9)	11.9%
Intercompany	(0.5)	0.5	(1.0)	n.s.
Total EBIT	51.2	60.4	(9.2)	(15.2%)

ADJUSTED NET RESULT FROM CONTINUING OPERATIONS

(Euro/millions)



The consolidated result before tax came to a positive figure of approximately € 35.2 million and included:

- the **sharp drop in financial expense** (from € 7.0 million to € 2.9 million), as a result of an **average interest rate that has more than halved** versus the prior year (**from 2.72% to 0.93%**), and of a **lower average net debt**;
- a negative performance by associates (consolidated at equity), down from € -4.0 million to € -13.2 million, due in particular to Mach2 Libri, active in the distribution of books in the Large Retailers channel and put into liquidation in 2018.

The overall tax burden for the period came to a negative € 14.9 million versus € 22.3 million in 2017.

The taxable result, net of the result of associates and of the non-ordinary items from the sale or write-down of investments (tax neutral), was down by approximately 29% versus the prior year.

Adjusted net profit from continuing operations amounted to € 20.3 million versus € 27.2 million in 2017.

NET RESULT

Mondadori France recorded net revenue in the period of € 305.6 million, down by 7.5% and adjusted EBITDA of € 26.1 million, in line with the prior year.

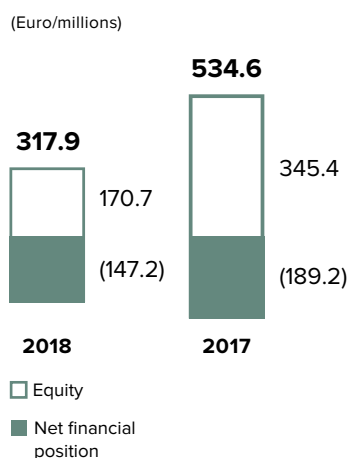
An adjustment was made in the year to the fair value of the assets being sold, to reflect the negotiations in progress, previously measured at value in use, amounting to € 200.1 million.

Accordingly, the adjusted net loss from discontinued operations came to € -195.5 million, including a net income of € 2.6 million from Mondadori France (€ 3.3 million in 2017).

The Group's net result, following the fair value adjustment of French assets, came to € -177.1 million versus € 30.4 million in 2017.

FINANCIAL RESULTS

NET INVESTED CAPITAL



Group net invested capital at 31 December 2018 amounted to € 317.9 million, down by approximately **€ 217 million** versus the prior year, of which € 208 million attributable to assets held for sale as a result of the fair value adjustment of assets being sold.

The **Group's net financial position** at 31 December 2018 stood at **€ -147.2 million**, down by approximately **22%** versus **€ -189.2 million** at 31 December 2017, thanks mainly to **cash generated from ordinary operations** of continuing operations of **€ 52.1 million**.

Net working capital was steady versus the prior year, while fixed assets decreased by approximately € 7 million and included capex of approximately € 20 million and amortization, depreciation and impairment of € 26 million. At 31 December 2018, the **cash flow from operations** for the year came to a **positive € 66.3 million**.

CONSOLIDATED FINANCIAL HIGHLIGHTS IN FOURTH QUARTER 2018

(Euro/millions)	4Q 2018	Percentage on revenue	4Q 2017	Percentage on revenue	Var. %
Revenue from sales and services	233.0	100.0%	263.1	100.0%	(11.4%)
Cost of sold items	70.1	30.1%	88.8	33.7%	(21.0%)
Variable costs	79.5	34.1%	85.0	32.3%	(6.4%)
Fixed costs	17.2	7.4%	21.7	8.2%	(20.7%)
Cost of personnel*	38.8	16.7%	43.9	16.7%	(11.5%)
Adjusted EBITDA	27.3	11.7%	23.7	9.0%	15.1%
Restructuring costs	5.8		2.9		97.5%
Non-ordinary negative/(positive) items	(2.9)		(2.7)		8.2%
EBITDA	24.5	10.5%	23.5	8.9%	4.1%
Amortization, depreciation and impairment	10.7	4.6%	10.9	4.2%	(1.7%)
EBIT	13.7	5.9%	12.6	4.8%	9.2%
Net financial expense (income)	0.8	0.3%	2.1	0.8%	(61.8%)
Expense (income) from associates	3.3	1.4%	1.8	0.7%	83.7%
Expense (income) from other investments	0.0	0.0%	0.0	0.0%	
Result before tax for the year	9.6	4.1%	8.7	3.3%	11.1%
Income tax	5.1	2.2%	7.0	2.7%	(26.9%)
Adjusted loss from continuing operations**	4.5	1.9%	1.7	0.6%	n.s.
Adjusted loss from discontinued operations**	0.2	0.1%	(1.9)	(0.7%)	n.s.
Result attributable to non-controlling interests	0.4	0.2%	0.6	0.2%	(33.3%)
Net result	4.3	1.9%	(0.8)	(0.3%)	n.s.

* Cost of personnel includes costs for collaborations and temporary employment.

** In 2018, the "Adjusted result from discontinued operations" included the net result of Mondadori France in the fourth quarter of the year, together with the recognition of the fair value adjustment of assets to be sold*, to reflect the negotiations in progress, previously measured at value in use. This item also includes the financial expense of the Parent Company, but attributable to Mondadori France and charged to the latter under the intercompany loan agreement.

The "Adjusted result from continuing operations" and the "Adjusted result from discontinued operations" therefore differ by this amount from the amounts of the statements attached to this Report (equal to € 0.9 million in 4Q 2018 and € -0.2 million in 4Q 2017), prepared in accordance with IFRS international accounting standards.

To enable a like-for-like comparison, figures for the first nine months of 2017 have been restated accordingly.

As of 1 January 2018 (and to provide a consistent presentation, also for 2017), the Group has adopted the new IFRS 15 - Revenue from Contracts with Customers - revenue recognition standard, which applies to all contracts stipulated with customers, with the exception of those that fall within the scope of application of other IAS/IFRS standards such as leases, insurance contracts and financial instruments; the new standard provides for:

- the booking of circulation revenue based on the cover price or, in any case, on the price actually paid by the purchaser, gross of all commissions paid. Accordingly and unlike the previous accounting treatment, the commission has been recognized separately as distribution cost, no longer as a reduction in revenue. The Magazines Italy and Magazines France Area, as a result, saw an increase in revenue;
- the presentation of revenue from the distribution of third publishers' products, net of relating acquisition costs, previously booked in cost of sold items. The Books Area, as a result, saw a decrease in revenue.

The new IFRS 15 presents revenue and costs differently, with no effect on EBITDA.

As from 2018, the result generated by associates (consolidated at equity), previously classified in adjusted EBITDA, is shown under EBIT; for consistency, 2017 has been reclassified accordingly.

Revenue by Business Area (Euro/millions)	4Q 2018	4Q 2017	Var. %
Books	110.8	125.8	(11.9%)
Retail	62.5	65.9	(5.1%)
Magazines Italy	71.0	82.5	(13.9%)
Corporate & Shared Services	8.8	6.0	46.8%
Total aggregate revenue	253.1	280.2	(9.7%)
Intercompany revenue	(20.1)	(17.2)	17.4%
Total consolidated revenue	233.0	263.1	(11.4%)

Consolidated revenue in fourth quarter 2018 amounted to € 233.0 million, down by approximately 11% versus € 263.1 million in the same quarter of 2017.

Adjusted EBITDA grew by 15% in the last quarter of the year to reach **€ 27.3 million** versus € 23.7 million in fourth quarter 2017, driven by the improved operating performance of school textbooks and by Magazines Italy.

Adjusted EBITDA by Business Area (Euro/millions)	4Q 2018	4Q 2017	Var.	Var. %
Books	16.7	13.8	2.9	20.7%
Retail	4.7	4.6	0.1	1.6%
Magazines Italy	7.8	6.7	1.0	15.3%
Corporate & Shared Services	(2.1)	(2.7)	0.6	(20.9%)
Intercompany	0.2	1.1	(0.9)	(77.5%)
Total adjusted EBITDA	27.3	23.7	3.6	15.1%

Consolidated EBITDA by Business Area (Euro/millions)	4Q 2018	4Q 2017	Var.	Var. %
Books	16.1	14.2	1.8	12.8%
Retail	3.7	5.2	(1.6)	(29.6%)
Magazines Italy	2.8	4.5	(1.7)	(37.7%)
Corporate & Shared Services	1.7	(1.7)	3.4	n.s.
Intercompany	0.2	1.1	(0.9)	(77.5%)
Total consolidated EBITDA	24.5	23.5	1.0	4.1%

Consolidated EBITDA came to € 24.5 million, up by 4% versus € 23.5 million in the same quarter of the prior year, thanks to the abovementioned performance of the Books Area and, for the Corporate segment, the non-recurring income from the disposal of an owned property, partly mitigated by non-recurring expense recorded mainly in the Magazines Italy Area.

Amortization, depreciation and impairment, amounting to € 10.7 million, were in line with fourth quarter 2017.

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

Adjusted net profit from continuing operations came to € 4.5 million, up sharply versus € 1.7 million in fourth quarter 2017.

PERFORMANCE BY BUSINESS AREA

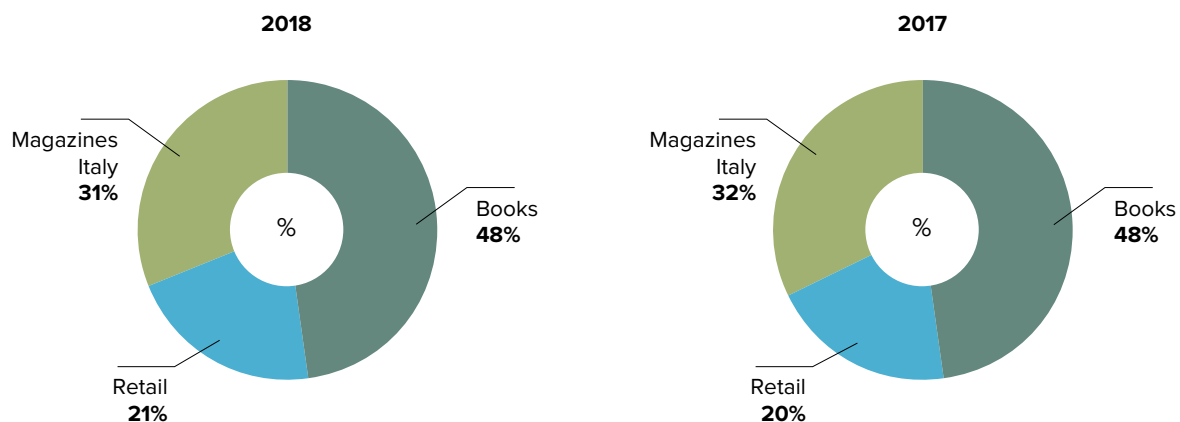
PERFORMANCE BY BUSINESS AREA

(Euro/millions)	Revenue		Adjusted EBITDA		EBITDA		Amortization, depreciation and impairment		EBIT	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Books	450.4	483.0	84.7	76.3	82.9	76.2	12.0	11.7	70.9	64.5
Retail	191.8	198.5	1.4	0.7	(0.0)	0.6	3.4	4.3	(3.4)	(3.7)
Magazines Italy	287.0	326.1	11.9	14.8	(0.2)	12.1	7.4	5.8	(7.6)	6.4
Corporate & Shared Services	34.7	26.2	(7.3)	(7.8)	(4.6)	(2.7)	3.5	4.5	(8.1)	(7.3)
Adjustments and cancellations	(72.8)	(63.8)	(0.5)	0.5	(0.5)	0.5			(0.5)	0.5
Total	891.1	970.1	90.1	84.5	77.5	86.7	26.3	26.3	51.2	60.4

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

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REVENUE



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 present in the Italian school textbooks, legal, professional and university publishing market, in art and illustrated books publishing, in the management of museum concessions and in the organization of exhibitions and cultural events.

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.

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, Miscellaneous, Non-Fiction and Tourist Guides; under the Rizzoli brand, it publishes fashion, luxury, photography and sponsor books.

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

In 2018, the national **Trade** books market recorded a slight decline of 1.1% in terms of value versus the prior year⁷, after the sharp increase of 6.1% in 2017. With the exception of *e-commerce*, sales channels suffered a general downturn:

- bookstore chains (44.6% of the market) -1.1%;
- independent bookstores (25.0% of the market) -2.7%;
- large retailers (7.4% of the market) -18.7%;
- e-commerce (22.9% of the market) +8.5%.

In 2018, the e-book market remained basically steady, confirming the overall book market penetration of around 5%.⁸

As for products, hardcovers (83% of the market in terms of value) remained basically unchanged (-0.5%), while paperbacks, accounting for the remaining 17% of the market, fell by -3.9%.

Against this backdrop, the Mondadori Group, considering all its publishers, boasts a market leadership position, with a **27.4%** share, down versus 30.0% in 2017.

The structural contraction in book sales in the Large Retailers channel, a segment where the Group has always boasted an above-average market share (33.4% at end 2018), and the growth of the e-commerce channel, where the share of small publishers is higher, impacted negatively on the dynamics of the Group's market share. Additionally, the strong concentration of bestsellers in 2017, unrepeated in 2018, had a further impact on the result.

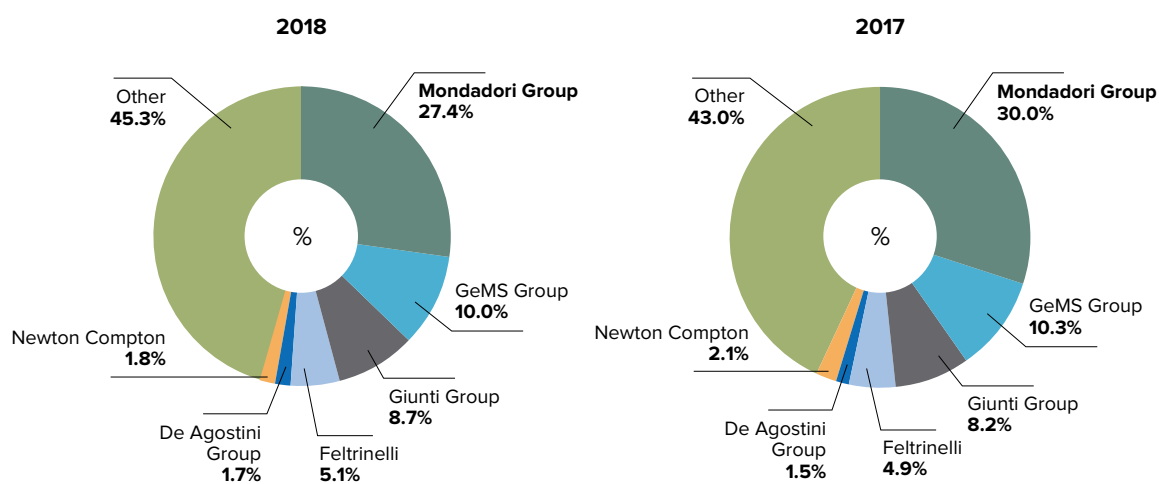
⁷ Source: GFK, December 2018 (in terms of value)

⁸ Source: internal estimate

In 2018, the Group placed four titles in the ranking of the 10 bestselling books in terms of value:

#	Title	Author	Publisher
1	L'amica geniale	Ferrante Elena	E/O
2	Il metodo Catalanotti	Camilleri Andrea	Sellerio Editore Palermo
3	Un capitano	Totti Francesco, Condò Paolo	Rizzoli
4	Storie della buonanotte per bambine ribelli 2 Ediz. a colori	Cavallo Francesca, Favilli Elena	Mondadori
5	La scomparsa di Stephanie Mailer	Dicker Joel	La Nave di Teseo
6	Storie della buonanotte per bambine ribelli Ediz. a colori	Cavallo Francesca, Favilli Elena	Mondadori
7	La ragazza con la Leica	Janeczek Helena	Guanda
8	M. Il figlio del secolo	Scurati Antonio	Bompiani
9	Divertiti con Lui e Sofi. Il fantalibro dei Me contro Te	Me contro Te	Mondadori Electa
10	Storia del nuovo cognome. L'amica geniale	Ferrante Elena	E/O

TRADE MARKET SHARES

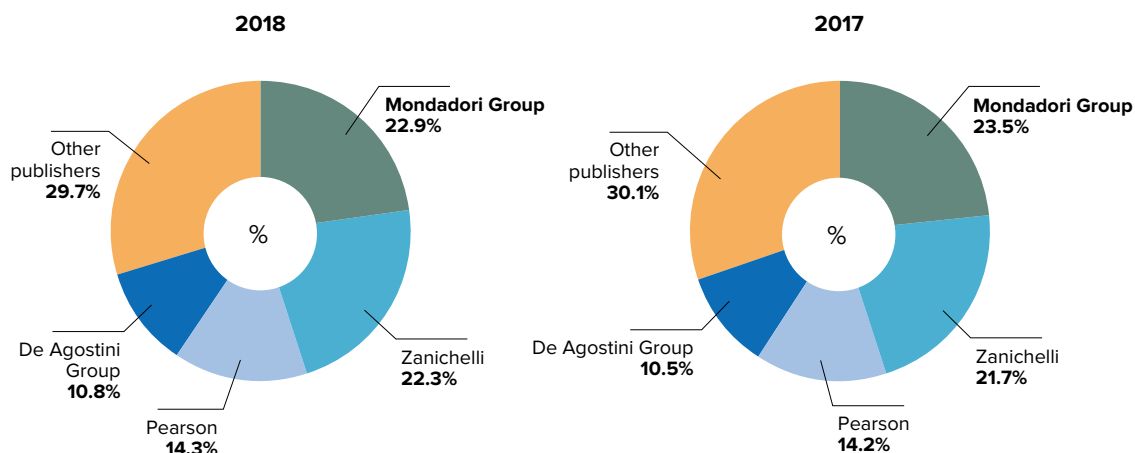


Source: GFK, December 2018 (in terms of value)

In the **school textbooks** market, the Mondadori Group retained its leadership position of the overall market, with a **22.9%** share⁹, adoptions-wise, down slightly versus the prior year.

In 2018, the market grew moderately overall, up by approximately 1% in the primary and lower secondary segments, and was steady in the upper secondary segment¹⁰.

SCHOOL TEXTBOOKS SHARES



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Performance of the Books Area

Books (Euro/millions)	2018	2017	Var.	Var. %
Revenue	450.4	483.0	(32.6)	(6.7%)
Adjusted EBITDA	84.7	76.3	8.4	11.0%
EBITDA	82.9	76.2	6.7	8.8%
EBIT	70.9	64.5	6.4	9.9%

Revenue

Revenue in 2018 amounted to € 450.4 million, down overall by 6.7% versus the prior year, specifically:

- in the Trade Area by 13.0%,
- in the Educational segment by 0.5%,
- in distribution activities by 17.7%.

The Trade segment produced 2,288 new titles in 2018 (2,265 in 2017), Mondadori Electa 238 (239 in 2017), and Mondadori Education 245 (240 in 2017).

⁹ Source: ESAIE, 2018 (adopted sections)

¹⁰ Source: Databank, 2018

Books Revenue (Euro/millions)	2018	2017	Var. %
Total Trade	194.4	223.6	(13.0%)
Education	159.8	159.5	0.2%
Mondadori Electa	52.6	53.3	(1.2%)
Rizzoli International Publications	34.7	35.0	(0.9%)
Intercompany	(1.3)	(0.8)	54.8%
Total Educational	245.8	246.9	(0.5%)
Distribution and other services	10.2	12.4	(17.7%)
Total consolidated revenue	450.4	483.0	(6.7%)

Trade Books Revenue

Revenue from the Trade Books division fell by 13.0% versus the prior year, due, as mentioned earlier, to the contraction of the Large Retailers channel and the strong concentration of bestsellers in 2017, unrepeated in 2018.

Mondadori retained its position as the top player of the market, with a 10.1% share, down versus 2017 (11.7%).

With regard to Hardcover, the bestselling titles were in the Children's segment "*Storie della buonanotte per bambine ribelli 2*" by F. Cavallo/E. Favilli, sequel to the success in 2017 "*Storie della buonanotte per bambine ribelli*".

The most relevant titles were:

- for Fiction, "*Sono sempre io*" by J. Moyes, "*Fuoco e sangue*" by G. Martin, "*Storia della mia ansia*" by D. Bignardi, "*La resa dei conti*" by J. Grisham;
- for Non Fiction, "*Giuro che non avrò più fame. L'Italia della Ricostruzione*" by A. Cazzullo, "*Rivoluzione. Uomini e retroscena della Terza Repubblica*" by B. Vespa, "*Ventuno giorni per rinascere*" by Berrino/Lumera/Mariani.

As for Paperbacks, the Publisher was once again market leader (27.1%), thanks also to the contribution of pocket-sized publications of 2017 bestsellers such as "*Origin*" by D. Brown and "*La colonna di fuoco*" by K. Follett.

In 2018, **Einaudi** confirmed its market share (5.7% versus 5.9% in 2017), making it the second largest Italian publisher after Mondadori.

The bestselling titles were "*Divorare il cielo*" by P. Giordano, "*Senza mai arrivare in cima*" by P. Cognetti and "*Il morso della reclusa*" by F. Vargas, while for Stile Libero A. Baricco with "*The game*", M. De Giovanni with "*Il purgatorio dell'angelo*" and "*Vuoto*".

Rizzoli also confirmed its 4.4% market share in 2018, basically in line with 2017.

In the Hardcover segment, the bestselling titles in 2018 were "*Un capitano*", a biography of former Roma captain Francesco Totti, "*Sara al tramonto*" by M. De Giovanni, "*Inganno*" by L. Gruber and the success "*Ops*" by youtuber Elisa Maino.

Piemme's market share at end 2018 stood at 2.8% (3.4% in 2017).

The main titles sold in 2018 were "*Il lato oscuro dell'addio*" and "*L'ultimo giro della notte*" by catalogue author M. Connelly and "*Dio è giovane*" by Pope Francis.

In the Children's Books segment, Piemme retained its top market position (8.9% share in 2018) with the character Geronimo Stilton and the brand Battello a Vapore.

Sperling & Kupfer held a 2.2% market share (2.6% in 2017), the main publications of the year including S. Casati Modignani with "*Suite 405*", N. Sparks with "*Ogni respiro*" and S. King with "*Outsider*".

Educational Books Revenue

Revenue in this segment in 2018 amounted to € 245.8 million, down slightly versus the prior year (-0.5%).

A positive performance was reported across all the activities of the Publishers.

Mondadori Education

In 2018, 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 12.7%, slightly higher than the prior year¹¹.

The year closed with a 3.2% increase in revenue (€ 76.7 million versus € 74.3 million in 2017), driven by both the positive results in terms of books adopted in the first-level secondary school segment and the improvement in the ratio of sales to adopted books in a number of segments.

- In **primary schools**, the segment with the highest percentage of adoption changes (83%), Mondadori reported an increase in its market share (from 10.5% to 10.8%);
- In **first-level secondary schools**, where the percentage was 37%, Mondadori Education grew for the fourth consecutive year, increasing by over 4% in terms of books adopted;
- In **second-level secondary schools**, the result in terms of books adopted was 1% lower than last year.

Rizzoli Education

In 2018, Rizzoli Education retained its high-ranking position in the school textbooks segment, with a market share at 10.2%¹², down versus 2017 (10.9%). The year recorded a 2.5% drop in revenue to € 83.1 million versus € 85.2 million in 2017.

- In **primary schools**, the Publisher retained a market leadership position, with a slightly lower share (from 14.3% to 13.1%), due to the performance of the distributed publisher Oxford;
- In **first-level secondary schools**, the Publisher recorded a 10% drop versus 2017;
- In **second-level secondary schools**, a positive performance was achieved by the new titles released in 2018, alleviated by a normal fall in the number of titles that have been in the catalogue for a longer time now.

Mondadori Electa

Revenue for the year amounted to € 52.6 million, down by 1.2% versus the prior year.

The segments performed as follows:

• Publication of books:

Mondadori Electa recorded a 1.4% market share, **up by 0.2 pps.**

In the Miscellaneous and Illustrated Books segment, the top titles were *Me contro Te*, Iris Ferrari and Favi J, as well as Benedetta Rossi in the kitchen segment.

• Art, exhibitions and museums:

The segment closed the year with positive results in the exhibitions and publishing areas:

- in the organization of exhibitions, development across the country brought a growth in terms of number of visitors;
- *Bookshops* fell as forecast, due to the business volume in 2018 from the Venice Architecture Biennial that was lower than last year's Art Biennial.

Rizzoli International Publications

The US publishing house publishes high-end illustrated books for the US, UK and French markets in the retail segment.

¹¹ Source: ESAIE, 2018 (adopted sections)

¹² Source: ESAIE, 2018 (adopted sections)

Rizzoli USA's segment of operation in the US (adult non fiction) grew by 5% in terms of volume at end 2018 versus the same period of the prior year¹³.

The company recorded revenue of € 34.7 million (€ 35.0 million in 2017), including the effects of the USD/Euro exchange rate; on a like-for-like basis, revenue grew by 3.6%.

Revenue from distribution activities and other services

Revenue from distribution activities and other services on behalf of third-party publishers amounted to € 10.2 million in 2018, down by 17.7% versus the prior year, due mainly to the reduction in current contracts.

E-book

Revenue from e-book sales in 2018 amounted to € 12.1 million, down slightly (-4%) versus the prior year and accounting for approximately 6% of total revenue from Trade Books.

Downloads in the year totaled 2.4 million (versus 2.5 million in 2017), with a daily average of 6,500 (6,800 in 2017) and with an average price up by 1.4% versus the prior year.

EBITDA

Adjusted EBITDA of the Books Area amounted to **€ 84.7 million, up by 11%** versus 2017.

2018 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 across all segments, which allowed the Group to increase **profitability** to over **19%**.

The Area's **reported EBITDA** amounted to **€ 82.9 million, up by approximately 9%** versus € 76.2 million in 2017.

¹³ Source: Nielsen Bookscan US

RETAIL



The Mondadori Group operates in Italy with a network of approximately 600 stores composed of 31 directly-managed stores (24 bookstores and 7 megastores), and other franchised stores, including bookstores (352), Mondadori Points (212), in addition to shop-in-shops (49), and web channels (www.mondadoristore.it) and book clubs.

Relevant market performance

Books

The relevant market for the Retail Area is books (**80% of revenue¹⁴**), which fell in 2018 versus the prior year (-1.1%).

In this segment, Mondadori Retail's **market share** stood at **14.4%** (14.7% at 31 December 2017).

Mondadori Retail network trend

Stores	Dec. 2018	Dec. 2017	Var.
Megastores	7	8	(1)
Directly-managed bookstores	24	23	1
Franchised bookstores	564	565	(1)
Total	595	596	(1)

Performance of the Retail Area

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Retail (Euro/millions)	2018	2017	Var.	Var. %
Revenue	191.8	198.5	(6.8)	(3.4%)
Adjusted EBITDA	1.4	0.7	0.6	87.7%
EBITDA	(0.0)	0.6	(0.6)	n.s.
EBIT	(3.4)	(3.7)	0.3	(8.8%)

Revenue

In 2018, revenue from the Retail Area dropped versus the prior year (-3.4%), due to the following factors:

- the decline of the relevant market for books;
- a targeted reduction in revenue from consumer electronics;
- the streamlining of the direct sales network launched in second half 2017.

¹⁴ Store revenue

¹⁵ Source: GFK, December 2018 (in terms of value)

Revenue - Retail (Euro/millions)	2018	2017	Var. %
Megastores	40.4	45.3	(10.9%)
Directly-managed bookstores	36.3	36.0	0.9%
Franchised bookstores	85.6	84.8	0.9%
Online	14.1	15.5	(9.3%)
Stores	176.4	181.6	(2.9%)
Book clubs and other	15.4	16.9	(9.0%)
Total revenue	191.8	198.5	(3.4%)

Store revenue fell by approximately 3% versus 2017.

By type of product:

- **Books** were the predominant product category, making for **80%** of the total, dropping by 3.1%;
- **Non Book** revenue showed an upward trend in the Impulse (+18.7% stationery and toys) and Media (+5.7%) categories, and a southward change in Consumer Electronics (due also to the space reduction strategy, -33% versus 2017).

The analysis by channel shows the following:

- **a 0.9% growth of directly-managed bookstores** as a result of two new openings (-2.9% on a like-for-like basis in terms of stores);
- the growth of **franchised bookstores** sales (+0.9%; -0.4% on a like-for-like basis in terms of stores);
- a 10.9% decline in Megastores, as a result of the drop in Consumer Electronics sales and the process of streamlining the sales network (-4.4% on a like-for-like basis in terms of stores);

- a more than 9% decline in the online segment, as a result mainly of the delay, versus 2017, in the implementation of the Culture Bonus decree for 18-year-olds born in 2000 ("18app")¹⁶;
- a 9% drop by the Bookclub, in line with the decline seen in prior years.

EBITDA

In 2018, Mondadori Retail recorded **adjusted EBITDA** of € 1.4 million, up versus € 0.7 million in 2017, thanks to the cost-cutting measures through the sale of non-profitable shops.

EBITDA, which includes non-recurring expense of approximately € 1.4 million, amounted to **€ 0.0 million** versus € 0.6 million in the prior year, which had benefited from a number of non-ordinary positive items.

¹⁶ The online platform for youngsters born in 2000 to apply for the Bonus has been running since 7 January 2019 following publication in the State Gazette of Decree no. 138 of the Presidency of the Council of Ministers of 7 December 2018, containing the 18app implementing regulation

MAGAZINES ITALY



Relevant market performance

2018 witnessed a continued drop in the relevant markets:

- **advertising revenue** was in line overall with the prior year (-0.2%), reporting a growth of the television channel (+0.6%), a decline of print media (newspapers -6.2%, magazines -8.2%), while the Internet channel further strengthened **(+4.5%)**,¹⁷ benefiting also from the sales during the FIFA World Cup (net of which growth is estimated at approximately +3%)¹⁸.

- the magazines **circulation** market lost **8.6%** (in terms of value), with a downturn of both newsstands and subscriptions channels.

In this context, Mondadori retained its leadership with a **30.7%** market share (31.8% at December 2017)¹⁹;

- the **add-ons** market deteriorated versus 2017 (-8.3%), due especially to the performance of magazines (-18.2%).

Mondadori's share was **28.2%** (**34.4%** in December 2017).

Performance of Magazines Italy

Magazines Italy (Euro/millions)	2018	2017	Var.	Var. %
Revenue	287.0	326.1	(39.1)	(12.0%)
Adjusted EBITDA	11.9	14.8	(2.9)	(19.7%)
EBITDA	(0.2)	12.1	(12.3)	n.s.
EBIT	(7.3)	6.4	(13.7)	n.s.

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Revenue

The Magazines Italy Area generated **total revenue of € 287.0 million** in 2018, down by 12.0% versus 2017.

On a like-for-like basis (disposal of Inthera in May and Panorama in November), the reduction would have been -9.1%.

Magazines Italy (Euro/millions)	2018	2017	Var. %
Circulation	120.4	135.4	(11.1%)
Advertising	84.1	88.6	(5.1%)
Add-on sales	42.7	54.4	(21.5%)
Distribution and revenue towards third publishers	32.6	33.6	(3.0%)
Other revenue	7.3	14.1	(48.2%)
Total revenue	287.0	326.1	(12.0%)

¹⁷ Source: Nielsen, December 2018

¹⁸ Internal estimate

¹⁹ Source: Press-di, December 2018 (in terms of value)

- **Circulation revenue** (newsstands + subscriptions) fell by 11.1%.
- Total **advertising** revenue (*print + web*) fell by 5.1%.
Print advertising revenue declined by 11.0%; on a like-for-like basis, the trend was in line with the market (approximately -9%).
Digital revenue **grew by 7.8%**, led by the positive performance of advertising sales in the food and wellness&beauty segments.
Gross digital advertising revenue accounted for approximately **32% of total revenue** (27% in the prior year).
- Revenue from **add-on products**, sold in attachment to Group magazines, fell sharply (-21.5%) versus 2017.
- Regarding **distribution and revenue towards third parties**, in a market that shrank by an average 7%, the Area managed to drop by only 3.0%, reflecting the positive effect of both the increased services provided to third-party publishers in the subscriptions channel, and the development of the business of the newly acquired *Direct Channel* (active in marketing-related database management and information systems).
- Other revenue includes **international operations**, which fell in the period from the decline in licensing activities, and the **Digital Marketing Service** activities, which dropped as a result of the disposal of Inthera (on 2 May 2018).
The Mondadori Group was once again Italy's top digital publisher, with a unique audience rated by Comscore of close to 30 million unique users per month (in December 28.9 million, up by 11% versus December last year), with an annual 2018 average up by 17% versus 2017²⁰.

Mondadori's reach was once again the highest among Italian publishers (74%)²¹, benefiting from a unique portfolio of quality vertical content in the areas of food, beauty, wellness and parenting:

- **Giallozafferano**, the premier source for Italian food lovers, reported a peak audience with almost 16 million unique users per month²²;
- **Donna Moderna**, with over 14 million unique users per month,²³ retained its position as women's chief editorial network in Italy;
- **Starbene**, together with **Mypersonaltrainer**, is the guide in the world of health and wellness, reaching over 11 million unique users per month²⁴.

Mondadori is a leading publisher on social networks with a fan base of over 100 social accounts of the Group²⁵, which count a total of 26 million fans on Facebook, Instagram and Youtube²⁶.

EBITDA

Adjusted EBITDA of the Magazines Italy Area amounted to € 11.9 million (€ 14.8 million in 2017, due to the fall in print revenue, partly offset by the positive performance of digital operations of € 5.7 million versus € 2.2 million in the prior year).

The Area's **reported EBITDA** amounted to € -0.2 million versus € +12.1 million in 2017, as a result mainly of higher restructuring costs recorded in the period from the necessary accelerated structural reorganization and cost reduction process, and of the loss generated by disposals.

²⁰ Source: Comscore, December 2018

²¹ Source: Comscore, December 2018

²² Source: Comscore, December 2018

²³ Source: Comscore, December 2018

²⁴ Source: Comscore, December 2018

²⁵ Internal source

²⁶ Source: Storyclash

MAGAZINES FRANCE (DISCONTINUED OPERATIONS)



Relevant market performance

In 2018, the relevant markets of Mondadori France continued to drop:

- in sales in the newsstands channel **(-7.1%)**²⁷;
- in print advertising sales **(-10.8%)**²⁸, where Mondadori France retained its position as one of the top players in the magazine market, with its share at **11.0%**²⁹;
- indigital advertising sales **(-0.5%)**³⁰.

Performance of Magazines France

Magazines France (Euro/millions)	2018	2017	Var.	Var. %
Revenue	305.6	330.4	(24.7)	(7.5%)
Adjusted EBITDA	26.1	26.0	0.0	0.1%
EBITDA	22.1	18.4	3.7	20.2%
EBIT	11.6	5.0	6.6	n.s.

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Revenue

In a shrinking market, Mondadori France recorded revenue of € 305.6 million, down by 7.5% versus 2017.

Magazines France (Euro/millions)	2018	2017	Var. %
Circulation	236.8	250.9	(5.6%)
Advertising	57.3	61.8	(7.2%)
Other revenue	11.5	17.6	(34.7%)
Total revenue	305.6	330.4	(7.5%)

²⁷ Source: Mondadori France + Presstalis, December 2018 (in terms of value)

²⁸ Source: Net Index, December 2018 (in terms of value)

²⁹ Source: Kantar Media, December 2018 (in terms of volume)

³⁰ Source: SRI, December 2018 (in terms of value)

Circulation revenue (newsstands and subscriptions), accounting for 77% of the total, posted a 5.6% downturn versus 2017.

Specifically:

- the newsstands channel, down by 7.6% on the prior year and in line with the relevant market (-7.1%);
- the subscriptions channel, down by 3.4% versus the prior year.

Advertising revenue dropped by approximately 7% versus 2017:

- print advertising revenue declined by 6.7% versus 2017, making for approximately 88% of total advertising revenue.
In 2018, 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 fell by 11.2%, more than the market (-0.5%).

Other revenue decreased by approximately 35% versus 2017, specifically:

- other print revenue, which includes mail order and add-on sales, fell by approximately 41%;
- other digital revenue (mainly revenue from digital copies and apps) fell by 18%.

EBITDA

Adjusted EBITDA in 2018 amounted to **€ 26.1 million** versus € 26.0 million in the prior year.

Reported EBITDA amounted to **€ 22.1 million**, up versus € 18.4 million in 2017 (which included significant restructuring costs).

CORPORATE & SHARED SERVICES

The **Corporate & Shared Services** segment includes - besides the Group's top management organizations - the Shared Services 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, Purchasing, IT, Human Resources, Logistics, Legal and Corporate Affairs, and External and Institutional Relations. Revenue consists mainly of services provided to subsidiaries and associates.

Adjusted EBITDA of the **Corporate & Shared Services** Area came to a negative € 7.8 million, down versus € -7.3 million in 2017.

Including non-ordinary items, EBITDA amounted to € -5.1 million versus € -2.3 million in 2017, due to higher restructuring costs and non-recurring expense.

The Area also includes the results of the minority interests in Monradio S.r.l. and Società Europea di Edizioni S.p.A., publisher of the daily *Il Giornale*.

Monradio: the result of R101 for the share attributable to Mondadori Group (20%) in 2018 came to € -1.6 million (€ -0.8 million in 2017).

Società Europea di Edizioni: in 2018 it recorded a pro-rata (37%) loss of € 3.3 million versus € -2.1 million in 2017, due to the faster downturn of the relevant markets for newspapers in terms of both circulation and advertising.

FINANCIAL POSITION

The average cost of the Mondadori Group debt, with regard to the interest rate component, at 31 December 2018 was **0.93% versus 2.72% in 2017**, as a result of the improvement financial covenants (NFP/EBITDA) in 2017, which allowed a reduction in reference rates.

The average 3-month Euribor at 31 December 2018 was -0.322%.

The Mondadori Group's net financial position at 31 December 2018 stood at € -147.2 million versus € -189.2 million at December 2017.

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Net financial position (Euro/millions)	31/12/2018	31/12/2017
Cash and cash equivalents	82.4	66.6
Assets (liabilities) from derivative instruments	(0.8)	(0.3)
Other financial assets (liabilities)	(1.0)	(10.0)
Loans (short and medium/long term)	(231.8)	(245.4)
Financial Assets (liabilities) from discontinued operations	3.9	-
Net financial position	(147.2)	(189.2)

The overall credit lines available to the Group at 31 December 2018 amounted to € 644.2 million, of which € 435.0 million committed, the latter following repayment of the instalment in 2018 of € 15.0 million versus 31 December 2017.

The Group's short-term loans, amounting to € 209.2 million, unutilized at 31 December 2018, include overdraft credit lines on current accounts, advances subject to collection and "hot money" flows.

At 31 December, the **€ 435.0 million pool** consisted of:

(Euro/millions)	Bank pool	Of which: unutilized	Of which: with interest rate hedge
Term Loan A	135.0 (1)	-	90.0
Term Loan B	100.0 (2)	-	75.0
RCF	100.0 (3)	100.0	-
Acquisition Line C	100.0 (4)	100.0	-
Total loans	435.0	200.0	165.0

(1) Maturity dates: € 17.5 million December 2019, € 22.5 million December 2020, € 27.5 million December 2021, € 67.5 million December 2022

(2) Bullet loan, coming to maturity in June 2019

(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)	31/12/18	31/12/17
NFP beginning of period	(189.2)	(263.6)
Adjusted EBITDA	90.1	84.5
Change in NWC + provisions	(3.8)	13.6
CAPEX	(20.0)	(18.7)
Cash flow from operations	66.3	79.4
Financial expense	(2.9)	(7.0)
Management of investments in associates	(3.5)	(1.8)
Tax	(7.9)	(3.2)
Cash flow from ordinary operations assets held for sale	15.3	1.4
Cash flow from ordinary operations	67.4	68.7
Restructuring costs	(11.3)	(8.8)
Extraordinary tax amounts / prior years	(1.2)	6.8
Acquisition/disposal of assets	(9.5)	3.8
Cash flow from extraordinary operations assets held for sale	(3.4)	3.8
Cash flow from non-ordinary operations	(25.4)	5.6
Total Cash Flow	42.0	74.3
NFP end of period	(147.2)	(189.2)

The net financial position improved by over € 42 million, with net debt decreasing to reach **€ -147.2 million** versus € -189.2 million at 31 December 2017.

Cash generation in the year is structured as follows:

- **cash flow from ordinary operations** stood at **€ 67.4 million**, € 66.3 million of which from operations minus tax and financial expense of € 10.8 million, and the management of investments in associates.

Discontinued operations generated cash flow from ordinary operations in the year of approximately € 15 million.

- Cash flow from operations benefited from the performance of operations net of non-ordinary items and discontinued operations, coming to a positive € 90.1 million, mitigated by the combined effect of Net Working Capital and capex of approximately € 25 million (including provisions).
- **Cash flow from extraordinary operations came to a negative € 25.4 million** and included:
 - the net impact of **disposals and acquisitions**, amounting to € -9.5 million, relating mainly to the disposal of Inthera and *Panorama* and to the liquidation of the investee Mach 2 Libri, partly offset by the sale of a non-strategic property;
 - outlays for **restructuring costs** of € 11.3 million;
 - the negative cash flow from discontinued operations of € 3.4 million.

Net Working Capital was basically steady versus the prior year; trade receivables and payables decreased in line with the decrease in revenue, while inventory increased slightly, due mainly to the Books and Retail areas.

Fixed assets were down by approximately € 7 million versus the prior year, despite capital expenditure of approximately € 20 million, as a result of:

- the disposal of the non-strategic property (approximately € 3.4 million);
- impairment of the investments booked at (Società Europea Edizioni S.p.A. and Attica Publications SA) for a total of € 5.0 million;
- normal amortization and depreciation in the year (€ 21.2 million).

Provisions and post-employment benefits increased by a total of approximately € 2 million.

Trend of key balance sheet figures:

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(Euro/millions)	31/12/18	31/12/17
Trade receivables	219.0	254.1
Inventory	122.3	120.8
Trade payables	(333.4)	(368.0)
Other assets (liabilities)	46.1	46.4
NWC	54.1	53.3
Intangible assets	226.7	224.5
Property, plant and equipment	19.1	23.1
Investments	32.3	37.6
Net fixed assets	278.2	285.2
Provisions and post-employment benefits	(103.3)	(101.7)
Discontinued operations	89.1	297.7
Net invested capital	317.9	534.6
Share capital	68.0	68.0
Reserves	251.1	217.4
Profit (loss) for the year	(177.1)	30.4
Share capital and reserves attributable to non-controlling interests	28.7	29.5
Equity	170.7	345.3
Net financial position (debt)	147.2	189.2
Total equity	317.9	534.6

PERSONNEL

HUMAN RESOURCES

Group employees with a fixed-term or permanent labour contract, with regard to Group continuing operations, amounted to 2,132 units, down by approximately 6% versus 2,275 in December 2017, as a result of the sale of Inthera S.p.A. in May, of *Panorama* in November, and of the efficiency improvement measures involving each of the business areas, and excluding the 743 employees of Mondadori France (751 employees at 31 December 2017).

Group employees at 31 December 2018:

Headcount	31/12/2018	31/12/2017
Arnoldo Mondadori Editore S.p.A.	926	930
Italian subsidiaries	1,157	1,298
Foreign subsidiaries	792	798
Total	2,875	3,026

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Headcount by Business Area	31/12/2018	31/12/2017	Var. %
Books	634	641	(1.1%)
Retail	388	410	(5.4%)
Magazines Italy	673	762	(11.7%)
Corporate & Shared Services	437	462	(5.4%)
Total	2,132	2,275	(6.2%)
Magazines France	743	751	(1.1%)
Total	2,875	3,026	(5.0%)

In the **Books** Area, the number of employees was basically steady versus 31 December of the prior year (-1.1%).

The decrease in the **Retail** Area reflects both structural efficiency and the effects of the closure of a number of stores.

The sharp fall of approximately 12% in the **Magazines Italy** Area reflects:

- the disposal of Inthera in May,
- the disposal of *Panorama* in November,
- the efficiency gains from the rationalization action involving publications and staff functions.

The segment continued implementing the state of crisis through the solidarity contracts until 31 December 2018.

The workforce in the **Corporate & Shared Services** Area decreased by 5.4%.

The cost of personnel for the year amounted to € 159.5 million, down (-6.7%) versus 2017 (€ 171.0 million), as a result of the ongoing reduction in workforce, the full-year effect of the transfer of resources in the outsourcing of logistics activities, and of the disposal of Inthera and Panorama.

On a pro-forma basis, the cost of personnel would have dropped by approximately 3.5%.

(Euro/millions)	2018	2017	Var. %
Cost of enlarged personnel (before restructuring)	159.5	171.0	(6.7%)

PERFORMANCE OF ARNOLDO MONDADORI EDITORE S.P.A.

(Euro/millions)	2018	Percentage on revenue	2017	Percentage on revenue	Var. %
Revenue from sales and services	256.6	100.0%	282.3	100.0%	(9%)
Cost of sold items	51.1	19.9%	61.0	21.6%	(16%)
Variable costs	95.9	37.4%	109.6	38.8%	(13%)
Fixed costs	33.3	13.0%	32.1	11.4%	4%
Cost of personnel	76.7	29.9%	79.3	28.1%	(3%)
Adjusted EBITDA	(0.4)	(0.1%)	0.3	0.1%	n.s.
Restructuring costs	9.8		2.6		n.s.
Non-ordinary negative/(positive) items	(3.2)		(4.2)		n.s.
EBITDA	(7.0)	(2.7%)	1.9	0.7%	n.s.
Amortization, depreciation and impairment	5.1	2.0%	4.9	1.8%	3%
EBIT	(12.1)	(4.7%)	(3.0)	(1.1%)	n.s.
Net financial expense (income)	4.5	1.7%	11.6	4.1%	(61%)
Expense (income) from associates	9.8	3.8%	7.2	2.5%	37%
Expense (income) from other investments	(40.2)	(15.7%)	(44.0)	(15.6%)	(8%)
Result before tax for the year	13.9	5.4%	22.2	7.9%	(37%)
Income tax	(3.3)	(1.3%)	1.9	0.7%	n.s.
Result from continuing operations	17.2	6.7%	20.3	7.2%	(15%)
Loss from discontinued operations	(194.3)	(75.7%)	10.1	3.6%	n.s.
Net result	(177.1)	(69.0%)	30.4	10.8%	n.s.

The Parent Company's income statement at 31 December 2018 shows the same net result as in the consolidated financial statements, with a loss of € 177.1 million, due to the fact that the Company has opted to use the equity method to measure its investments in the separate financial statements.

Revenue amounted to € 256.6 million and was **down** versus € 282.3 million in the prior year, due mainly to the reduction in the Magazines Italy print business, which recorded a 13.5% fall, in line with the performance of the relevant markets, and also to the sale of the weekly *Panorama*. Revenue from the web magazines business, on the other hand, increased slightly thanks to the good results of advertising sales. The Parent Company also comprises revenue from services provided to other Group companies, equal to € 35.3 million.

Adjusted EBITDA fell slightly from € +0.3 million to € -0.4 million, due primarily to the drop in the margins of print magazines, offset by a sharp rise in the margins of the web magazines, achieved through efficiency operations and cost review carried out by Management.

2018 benefited from net positive extraordinary items of € 2.6 million, attributable mainly to the disposal of the Sporting property complex in Verona, but was affected by higher restructuring costs in the print magazines area (€ +7.2 million versus 2017).

2018 included net financial expense totaling € 4.5 million, a significant drop versus € 11.6 million in 2017, due to lower interest rates charged and the reduction in average net debt, and to the benefits from the equity measurement of investments of € 30.4 million (€ 36.8 million in 2017).

The result from continuing operations amounted to € 17.2 million, down versus € 20.3 million in 2017, which included approximately € 3 million from Mondadori France. The sale transaction of the subsidiary Mondadori France and the resulting adjustment of the book value to fair value led to the recognition of **loss from discontinued operations of € 194.3 million**, bringing the net loss of the Company to close with a **loss of € 177.1 million**.

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

RISKS RELATED TO THE ECONOMIC SCENARIO

Global economic slowdown continued in the final part of last year, affecting in particular the industrial sector and international demand. In fourth quarter 2018, Italian GDP reported the second straight contraction, due to a further fall in domestic demand. The labour market gave a basically steady picture of employment figures, in the face of slight improvements in unemployment. Price deceleration continued, affected by falling energy costs. The

inflation differential vis-à-vis the Euro area is widening again (Source: ISTAT – January 2019).

Against this market backdrop – which has a significant and direct impact on the Group's segments of business – 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.

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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
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.

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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. No cases of corruption were reported or found in 2018.

Besides the Risk Management function, the internal control system also comprises:

- Internal Audit, which performs approximately 50 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 2018 included:

- updating and approving the Organization, Management and Control Model of Arnoldo Mondadori S.p.A.

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 and Organization, Legal and Corporate Affairs, Purchasing.

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

CREATION OF A SINGLE BUSINESS AREA COVERING 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 Parent Arnoldo Mondadori Editore S.p.A.

ACQUISITION OF DIRECT CHANNEL

On **1 February 2018**, the Mondadori Group, through Press-di Abbonamenti S.p.A., leader in Italy in subscription selling, expanded its offering and services for third-party publishers by acquiring Direct Channel, specialized in marketing-related database management and information systems through the development of management systems and CRM for magazine subscription selling and the planning of marketing and fundraising activities for important non-profit bodies.

APPOINTMENT OF NEW CORPORATE BODIES

On **24 April 2018**, the Ordinary Shareholders' Meeting appointed the new corporate bodies of the Company:

Appointment of the Board of Directors

The Meeting appointed the new Board of Directors; the 14 members will remain in office for three years until approval of the financial statements for the year ending 31 December 2020.

The Board was elected on the basis of the lists submitted by the shareholder Fininvest S.p.A., holder of 53.299% of the share capital for a total of no. 139,355,950 shares, and by a grouping of shareholders formed by asset management companies and institutional investors holding a total of no. 8,065,686 shares, equal to 3.084% of the share capital.

The members of the new Board of Directors are:

- **Marina Berlusconi** (Chairman), **Ernesto Mauri**, **Pier Silvio Berlusconi**, **Oddone Maria Pozzi**, **Paolo Guglielmo Ainio**, **Elena Biffi**, **Francesco Currò**, **Martina Forneron Mondadori**, **Danilo Pellegrino**, **Roberto Poli**, **Angelo Renoldi**, **Mario Resca**, **Cristina Rossello** (from the majority list submitted by the shareholder Fininvest S.p.A.);
- **Patrizia Michela Giangualano** (from the minority list submitted by a group of shareholders formed by asset management companies and institutional investors).

The majority list received 69.245% of votes.

The Board of Directors of Arnoldo Mondadori Editore S.p.A., convened at the end of the Meeting and chaired by Marina Berlusconi, confirmed **Ernesto Mauri as CEO**, vesting him with the relevant powers of management.

In accordance with the provisions of the Corporate Governance Code, Ernesto Mauri was identified as “Director in charge of the internal control and risk management system”.

Directors Elena Biffi, Angelo Renoldi, Cristina Rossello and Patrizia Michela Giangualano declared that they met the independence requirements set out in art. 148, par. 3, of Legislative Decree No. 58/1998 and in the Corporate Governance Code for Listed Companies.

Director Martina Forneron Mondadori declared that she met the **independence requirements** set out in art. 148, par. 3, of Legislative Decree no. 58/1998.

The composition of the Board of Directors complies with the provisions on gender equality set out in art. 147-ter, par. 1-ter, of Legislative Decree no. 58/1998.

The Board of Directors also appointed the members of the following committees in compliance with the principles established by the Governance Code adopted:

- **Control and Risk Committee:** Cristina Rossello, as Chairman (independent); Angelo Renoldi (independent); Patrizia Michela Giangualano (independent);
- **Remuneration and Appointments Committee:** Angelo Renoldi as Chairman (independent); Cristina Rossello (independent); Elena Biffi (independent);
- **Committee for Related Party Transactions:** Angelo Renoldi, as Chairman (independent); Cristina Rossello (independent); Elena Biffi (independent).

The Board also confirmed, until expiry of its term, therefore, until approval of the financial statements for the year ending 31 December 2020:

- Cristina Rossello as Lead Independent Director;
- Oddone Maria Pozzi as Financial Reporting Manager.

The executive Directors are: Marina Berlusconi, Ernesto Mauri, Oddone Pozzi and Mario Resca.

The CVs of the members of the new Board of Directors and the additional documentation required by current legislation are available in the Governance section of www.mondadori.it.

Appointment of the Board of Statutory Auditors

The Shareholders' Meeting also appointed the Board of Statutory Auditors, composed as follows:

- **Sara Fornasiero** as **Chairman** (elected based on the minority list submitted by a group of shareholders formed by asset management companies and institutional investors);
- **Ezio Simonelli** and **Flavia Daunia Minutillo** as **Standing Auditors** (elected based on the majority list submitted by the shareholder Fininvest S.p.A.);
- **Francesco Vittadini** and **Annalisa Firmani** as **Alternate Auditors** (elected based on the majority list submitted by the shareholder Fininvest S.p.A.);
- **Mario Civetta** as **Alternate Auditor** (elected based on the minority list submitted by a group of shareholders formed by asset management companies and institutional investors).

The majority list received 85.558% of votes.

The Chairman of the Board of Statutory Auditors, Sara Fornasiero, declared that she met the **independence requirements** set out in art. 148, par. 3, of Legislative Decree no. 58/1998 and in the Corporate Governance Code for Listed Companies.

Standing Auditors Flavia Daunia Minutillo and Ezio Simonelli declared that they met the independence requirements set out in art. 148, par. 3, of Legislative Decree no. 58/1998.

The composition of the Board of Statutory Auditors complies with the provisions on gender equality set out in art. 148, par. 1-bis of Legislative Decree no. 58/1998.

The CVs of the members of the Board of Statutory Auditors and the additional documentation required by current legislation are available in the Governance section of www.mondadori.it.

DISPOSAL OF INTHERA

On **2 May 2018**, Arnoldo Mondadori Editore S.p.A. concluded an agreement on the disposal of 100% of the share capital of Inthera S.p.A., specialized in strategy, planning and development of content & data driven marketing solutions, CRM, database analysis and management, for a price of €1.8 million. The disposal resulted in the deconsolidation of the income statement and balance sheet amounts of the investment as from 1 May, and generated a loss and a negative impact of € 2 million on the Group's net financial position.

In the most recently approved financial statements (2017), the company achieved revenue of € 11.1 million and adjusted EBITDA of € 1.8 million.

AGREEMENT WITH JOURNALISTS' TRADE UNIONS

On **15 June**, the Board of Directors of Arnoldo Mondadori Editore S.p.A. resolved not to accept the binding offers received from European Network for the acquisition of the *Tustyle* and *Confidenze* magazines. The Company has identified a new organizational and cost management structure aimed at achieving improvement targets for the two magazines. An agreement has been reached on a reduction of the remuneration package for *Tustyle* and *Confidenze* journalists from 1 July 2018, consistent with the structural decline of the market, and on the application of a solidarity contract for journalists from the other publications in the Magazines Italy Area, in force until 31 December 2018.

The Company and the trade unions have underwritten their commitment to make the cost structure and the organization of the work of Magazines Italy consistent with market trends by the end of the year, in order to safeguard sustainability.

EXCLUSIVE NEGOTIATION FOR THE POSSIBLE DISPOSAL OF MONDADORI FRANCE

On **27 September**, Arnoldo Mondadori Editore S.p.A. announced the opening of exclusive negotiations with Reworld Media S.A. for the possible disposal of its subsidiary Mondadori France S.a.s.. These negotiations led to the signing of the agreements explained in greater detail in the section below "Significant events after year end".

DISPOSAL OF THE BUSINESS UNITS RELATING TO THE PANORAMA NEWSMAGAZINE

On **1 November**, Arnoldo Mondadori Editore S.p.A. sold the Panorama business units to La Verità S.r.l.

PURCHASE OF TREASURY SHARES

On **25 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 1.24 million shares to service the Incentive Plan named "2018-2020 Performance Share Plan" approved by the Shareholders' Meeting on 24 April 2018, and to service the continuation of the "2017-2019 Performance Share Plan".

In 2018, the Group announced the purchase of **426,703 ordinary shares**, equal to **0.163%** of the share capital.

At 31 December 2018, Arnoldo Mondadori Editore S.p.A. directly owned no. **1,346,703 treasury shares**, equal to **0.515%** of the share capital.

SIGNIFICANT EVENTS AFTER YEAR END

APPOINTMENT OF CHIEF INNOVATION OFFICER

On 11 February 2019, the Group appointed Andrea Santagata as *Chief Innovation Officer*. This new position - reporting directly to CEO Ernesto Mauri - was created with the firm will of further investing in the development and formulation of digital and transformation strategies that embrace all of the Group's activities.

SIGNING OF A PUT OPTION FOR THE DISPOSAL OF MONDADORI FRANCE TO REWORLD MEDIA

On 18 February 2019, Arnoldo Mondadori Editore S.p.A. signed a put option that guarantees the right to sell its subsidiary Mondadori France S.a.s. to Reworld Media S.A.

The value attributed to Mondadori France was € 70 million (cash free/debt free), plus an earn-out of € 5 million.

Under the terms for exercising the put option:

- (i) 86% of the value of the investment (€ 60 million) will be paid in cash, € 50 million of which at the closing date, and € 10 million 24 months from the closing date; the deferred payment is not subject to any condition;
- (ii) the remaining 14% of the value of Mondadori France S.a.s., for a nominal value of € 10 million, is paid through issue of new Reworld Media S.A. shares, to be subscribed by Arnoldo Mondadori Editore S.p.A. at a price equal to 112.5% of the average stock exchange price over the 20 days before the signing and, in any case, ranging from a floor of € 2.2 to a cap of € 2.9.

Following the signing, Arnoldo Mondadori Editore S.p.A. would hold from an 8% to 10% interest in the share capital of Reworld Media S.A.

The transaction envisages a price adjustment mechanism linked to the achievement of pre-established targets relating to 2018 adjusted EBITDA and normalized net working capital at the closing date.

The earn-out to Arnoldo Mondadori Editore S.p.A. will be subject to the achievement by Reworld Media S.A., in its new setup, of certain operating results in 2020.

Under the terms for exercising the put option, Arnoldo Mondadori Editore S.p.A. is required to provide the buyer with the customary representations and warranties.

Following completion of the transaction, which is part of a broader strategy to strengthen the Group's leadership in the books segment, the estimated improvement in the Mondadori Group's net financial position at closing date was approximately € 58 million, considering: financial payables to third parties in Mondadori France (approximately € 7 million); fair value adjustment of Reworld Media shares subscribed by Arnoldo Mondadori Editore S.p.A. at closing (approximately € 3 million calculated to date); estimated transaction costs of € 2 million.

If the put option is exercised, the parties will sign a purchase and sale agreement envisaging completion of the transaction if the following conditions precedent are met:

- authorization by the Autorité de la Concurrence;
- approval of the reserved capital increase by the shareholders of Reworld Media;
- provision of a bank loan to Reworld Media.

BUSINESS OUTLOOK³¹

The Group will continue its **strategic repositioning** and **further focus** on its core businesses, in particular by consolidating its leadership in the Books Area, completing the sale of Mondadori France and identifying new areas of development.

In line with the outlined strategy and in light of the current relevant context, the operating targets for **2019**, based on the current scope, allow the Group to estimate, at a consolidated level, **a slight decrease in revenue** and a **single-digit growth** of adjusted EBITDA versus 2018.

The **net result from continuing operations** in 2019 is expected to be significantly higher than last year (in the range of € 30-35 million).

Cash flow from ordinary operations in 2019 is forecast at approximately € 45 million.

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³¹ Before application of IFRS 16 (Leases)

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 regard to the entry into force of art. 115 of Presidential Decree 917/1986 for the 2016-2018 three-year period, the “tax transparency” option was exercised by Direct Channel S.p.A. (formerly Press-di abbonamenti S.p.A.) and Publitalia ‘80 S.p.A., as participating companies, and Mediamond S.p.A., as investee.

After exercising this option, Mediamond S.p.A.’s taxable income and tax losses are included pro-rata, because of the investment held, in the taxable income of Direct Channel S.p.A. (formerly Mondadori Pubblicità S.p.A.) and Publitalia ‘80 S.p.A.

DIRECTION AND COORDINATION ACTIVITIES (ARTICLE 2497 AND ENSUING ARTICLES OF THE ITALIAN CIVIL CODE)

Although Fininvest S.p.A. holds a controlling stake pursuant to art. 2359 of the Italian Civil Code, it does not exert 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 ensuing articles of the Italian Civil

Code in relation to the following subsidiaries, pursuant to art. 2359 of the Italian Civil Code:

- 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. (as from 1 January 2019 Direct Channel S.p.A.)
- Mondadori Scienza S.p.A.
- Press-di Distribuzione Stampa e Multimedia S.r.l.
- AdKaora S.r.l.
- Rizzoli Education 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 art. 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.

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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 24 April 2018 resolved upon the renewal of the authorization to purchase and sell treasury shares, following the expiry of the preceding authorization resolved upon on 27 April 2017, 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 2018, 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 24 April 2018, Arnoldo Mondadori Editore S.p.A. purchased a total of no. 1,346,703 treasury shares on the market (equal to 0.515% 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* 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 Legislative Decree no. 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 AS SUBSEQUENTLY AMENDED

On and with effect from 13 November 2012, the Board of Directors of Arnoldo Mondadori Editore S.p.A., pursuant to Article 3 of Consob Resolution no. 18079 of 20 January 2012 and in relation to the provisions set out in Article. 70, par. 8, and Article 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 expense of a non-ordinary nature such as:

- (i) income and expense from restructuring, reorganization and business combinations;
- (ii) clearly identified income and expense not directly related to the ordinary course of business;
- (iii) as well as any income and expense from non-recurring events and transactions as set out in Consob communication DEM6064293 of 28/07/2006.

(Euro/millions)	2018	2017
Gross Operating Profit - EBITDA (as shown in the financial statements)	77.5	87
Restructuring costs under "Cost of personnel" NOTE 34	11.7	5.1
Expense from acquisition and disposal of companies and business units, other (income) expense, NOTE 33 and NOTE 35	2.8	(3.1)
Loss (profit) from disposal of fixed assets and investments NOTE 35	(1.9)	(4.2)
Adjusted Gross Operating Profit - Adjusted EBITDA (as shown in the Directors' Report on Operations)	90.1	84.5

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

Adjusted result from continuing operations: the net result of the Group, excluding the contribution of Mondadori France and the financial expense charged to the subsidiary.

(Euro/millions)	2018	2017
Result from continuing operations (as shown in the financial statements)	17.2	20.3
Financial expense charged to Mondadori France	3.1	6.9
Adjusted result from continuing operations	20.3	27.2

Adjusted loss from discontinued operations: the net result of Mondadori France in the current year, together with the recognition of the fair value adjustment of assets being sold, previously measured at value in use.

This item also includes the financial expense of the Parent Company, but attributable to Mondadori France and charged to the latter under the intercompany loan agreement.

(Euro/millions)	2018	2017
Loss from discontinued operations (as shown in the financial statements)	(192.4)	12.6
Financial expense charged to Mondadori France	(3.1)	(6.9)
Adjusted loss from discontinued operations	(195.5)	5.8

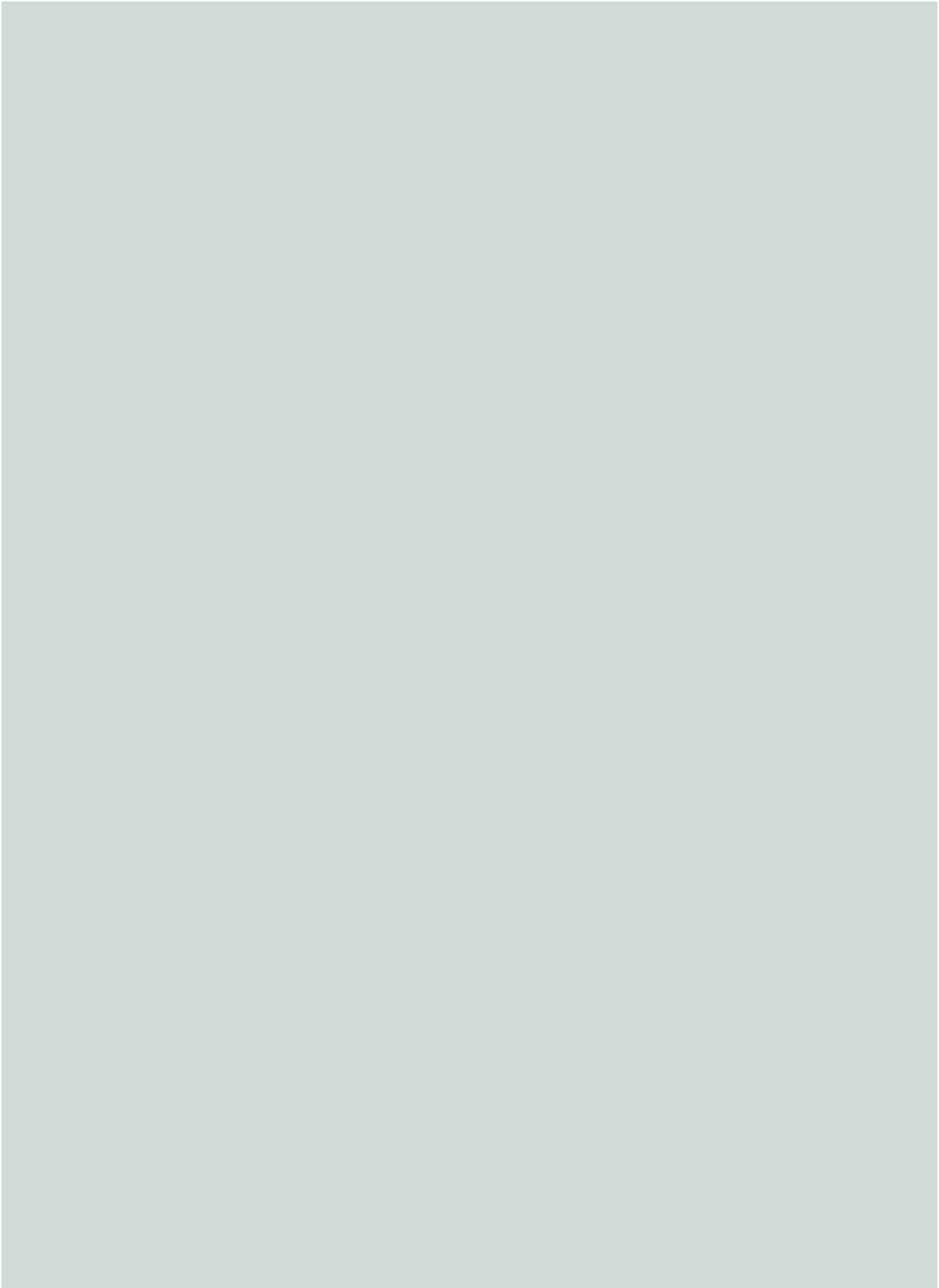
Invested capital is equal to the algebraic sum of Fixed Capital, which includes non-current assets and non-current liabilities (net of non-current financial liabilities included in the Net Financial Position) and Net Working Capital, which includes current assets (net of cash and cash equivalents and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

Cash flow from ordinary operations is cash flow from operations as explained above, net of financial expense 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.





Agorà

Pictures of the inauguration of the new multi-purpose area located in the Palazzo Niemeyer square, with the cast from the musical Mary Poppins. In its first 9 months, Agorà hosted 80 events, with the participation of about 2,000 people. Dedicated to the Mondadori people, the various instances of socialization have helped strengthen their feeling of belonging to the Group: meetings with writers, actors, youtubers and influencers, interviews and short live performances with singers and musicians, presentations of activities and conventions dedicated to employees, live broadcasts on social networks, webinars and the like.

Consolidated Non-Financial Statement

**Pursuant to Italian
Legislative Decree 254/2016**

INTRODUCTION

In accordance with the requirements of Legislative Decree no. 254 of 30 December 2016, this Non-Financial Statement (NFS) includes a qualitative and quantitative description of the non-financial performance of the Mondadori Group (hereinafter also referred to as “the Group”, “Mondadori” or “the Company”) for 2018 (1 January - 31 December) regarding 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 the reasons underlying the **materiality** of the non-financial topics reported, the assessment of which is provided below;
- for each material aspect, a brief description of the **main risks** generated and/or incurred that are linked to the Group’s operations, its products or services and its business relationships, including the supply chain and the relevant management procedures;
- a brief description of the **policies** adopted by the company in relation to the topic of reference;
- a description of the **business model and organizational arrangements** adopted by the Mondadori Group to manage material topics;
- a description of the **key performance indicators** relevant to understanding the results achieved from applying such policies; in line with the presentation of the economic and financial data in the Financial Report 2018, the data related to the subsidiary Mondadori France S.A.S. (classified as an asset held for sale) are presented separately, in accordance with IFRS 5.

Over the next few years, the Group will work towards gradually identifying its sustainability targets.

THE NEW PROCESS FOR IDENTIFYING MATERIAL TOPICS

In order to identify the most relevant non-financial topics, the Mondadori Group has updated its materiality analysis, in accordance with the principles set out by the GRI Sustainability Reporting Standards (GRI Standards), including the “Media Sector Disclosures”, defined in 2016 and 2014 respectively by the Global Reporting Initiative (GRI).

The tables titled “scope of continuing operations” include the data for the Italian consolidated companies and Rizzoli International Publications (USA), unless otherwise specified.

The **new mapping of material topics** has required a process reorganization, which takes the activities carried out in the previous NFS as a starting point, while presenting **meaningful innovations**. Firstly, in order to lay out the context and potential challenges and opportunities of the media and publishing sector from an objective point of view, **independent experts from the sector** (academia, trade associations and content creators and managers) were involved. Thanks to these qualitative interviews and the ensuing **comparison with the main European peers**, a new proposal was developed on materiality topics to include in the analysis.

The results, shown in the table hereafter, were shared with the Mondadori Group’s Sustainability Committee and then validated.

Materiality topics

Media sector	Promotion of culture and reading Education and the school world Freedom of expression and editorial independence Responsibility of content Digital development
Business / Governance	Transformation of business models Business integrity and combating corruption Brand management Market abuse
HR	Enhancement and management of human capital Diversity
Human rights	Product accessibility Privacy and data protection
Environment	Climate change Management of environmental impacts Life cycle of the paper product

Following these first two new phases of the process, **two engagement initiatives** were launched to identify the material topics ranked as priority for the Company and its stakeholders. The **stakeholders** involved were:

Mondadori Group	External stakeholders
CEO Top management members Members of the Sustainability Committee	Suppliers Franchisees

The Chief Executive Officer, top management and the Sustainability Committee were brought in for the assessment by the Mondadori Group.

For the first year, engagement was also extended externally by interviewing two categories of stakeholders identified as valid spokespeople of external opinion: the suppliers of the main utilities and the franchisees of the Mondadori bookstore

chain. Specifically, franchisees act as a bridge connecting the Group, the product and customers.

The assessment of the topics from the Group's perspective included an interview where, in the first phase, the material topics were addressed from a qualitative and contextual point of view; a questionnaire was then submitted for the prioritization of material topics for the Mondadori Group.

External stakeholders were involved in telephone interviews, answering the same questionnaire submitted to the Chief Executive Officer, the Sustainability Committee members and top management, in order to come to an overall result that was comparable and easily translated into a materiality matrix.

The set of results has led to the identification of the non-financial aspects that are material and necessary to ensure an understanding of the Company's activities, its performance, results and impact and, therefore, subject to reporting in the Mondadori Group's NFS.

The material aspects, as identified through the analysis, were brought to the attention of the Control and Risk Committee and the Board of Statutory Auditors, and are shown in the materiality matrix on page 85.

Materiality matrix

The result of this new materiality analysis highlights two main points.

The first, considered mainly from the point of view of the Mondadori Group, refers to the period of

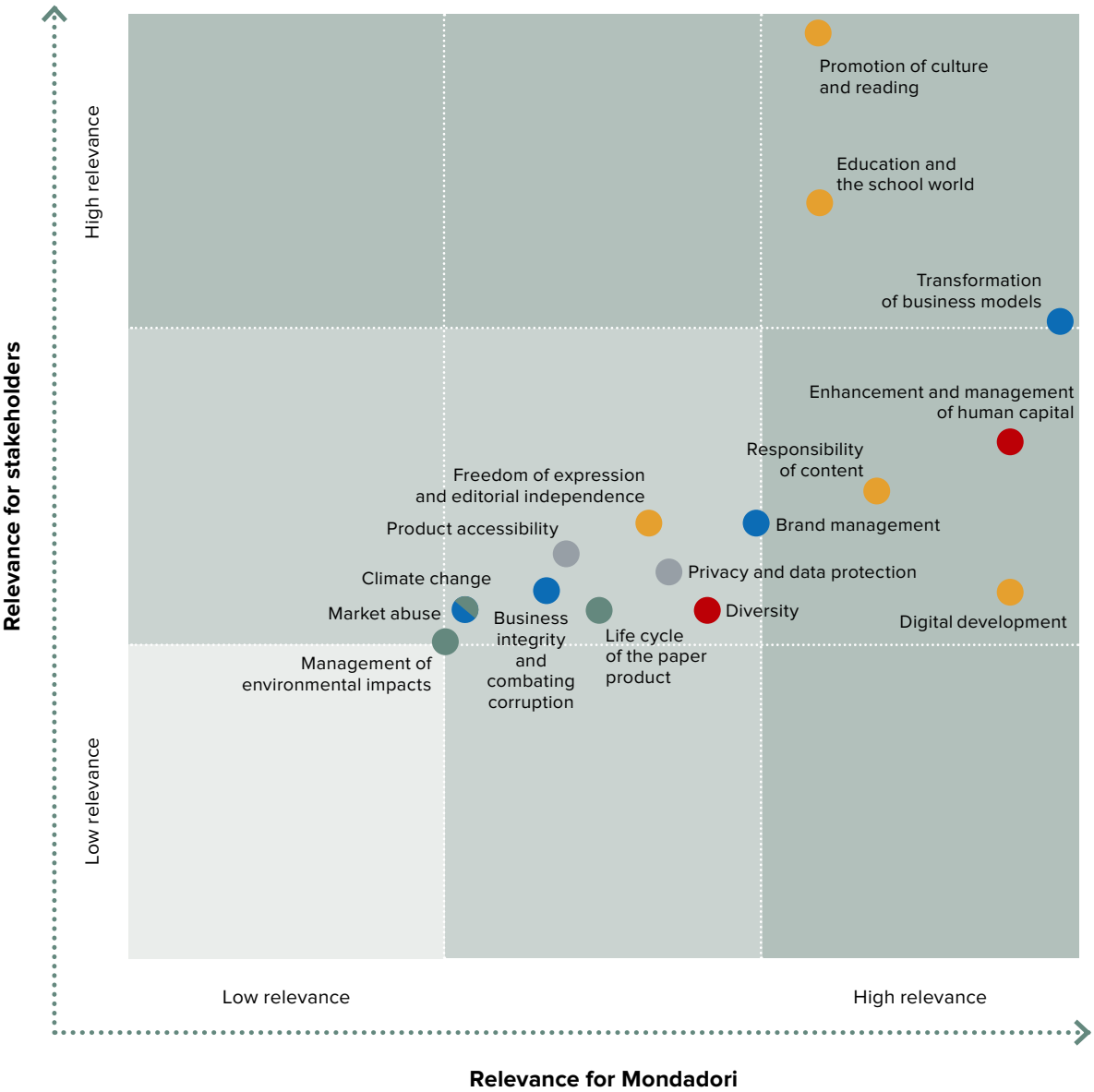
deep changes affecting the publishing industry, and Mondadori's proactive ability to seize every opportunity to grow. The first two priority topics from the Company's own perspective are, in fact, **Transformation of business models** and **Digital development**. These topics are only partially related to the areas referred to in Decree 254; on the other hand, they relate to the concept of sustainability as they identify the processes considered key to creating value over time by the Company.

The second, emphasized by both stakeholder dimensions, is grounded upon the pivotal relevance of culture, the importance of education and the role played by the Group in this context.

The results also stress the importance of individuals for the sustainability of the Company, shared by both the Group and its stakeholders, with regards to the development of new skills, professionalism and the willingness to adapt to changes in the market and the Group.

The remaining topics are ranked as lower priority but still relevant (and, for this reason, included within the materiality scope) for the Group, which will continue to cover these topics from an operational and transparency point of view.

Materiality matrix



OUR BUSINESS MODEL

The operational and organizational framework adopted by the Mondadori Group has been extensively transformed in recent years to help ensure the economic sustainability of the Company 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 the Corporate Governance Code for Listed Companies.

In preparing an Organization, Management and Control Model (for the parent company and with appropriate versions for each of its Italian subsidiaries), the Mondadori Group set itself the objective of adopting a set of protocols which, together with the system for assigning powers and responsibilities, together with the other organizational 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 Model and its Guidelines are constantly updated and appropriate to the different needs of the companies that are part of 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. Organized by stakeholder category, the Mondadori Code of Ethics sets out general ethical principles (respect for human rights and law, transparency, protection of intellectual 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 Code of Ethics and its provisions are incorporated into the contractual obligations undertaken by the counterparties. Any infringement of the Code of Ethics therefore constitutes breach of contract, entailing 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 supplier agreements, together with the obligation to comply with European legislation and minimum working age laws.

As a sign of its growing commitment to sustainability, the Group has officially endorsed 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*, defined by Italian Legislative Decree 196/2003 and incorporated into the *Charter of Duties of Journalists*.

As concerns 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 cuts 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 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. These guidelines, together with the training provided to journalists on copyright on the Web and on privacy in journalism, organized 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. For further details on the Group's privacy and personal data protection policies, see pp. 96-97.

The 2018-2019 programme to adapt the Organizational, Management and Control Model also includes the introduction of a whistleblowing procedure (to be completed in first half 2019, see p. 90) and an anti-corruption procedure (to be developed in 2019).

Lastly, in 2018 the Group drew up its Sustainability Policy: it reflects Mondadori's values and mission and indicates six key commitments that are consistent with the Company's activities and its role in society:

- Providing our clients with the possibility of benefiting from innovative and quality products.
- Actively promoting a culture that is accessible to everyone, knowing that the right to quality information and education is a crucial element in the development and growth of a Country.
- Giving voice to different points of view, rewarding originality and the diversity of thought, and ensuring respect for freedom of expression in the process of developing publishing products.
- Investing in the professional development of our people, enhancing their talent and encouraging them to be creative and enterprising.
- Creating a safe workplace for our employees and associates that provides equal opportunities for personal and professional achievement and expression.
- Respecting and protecting the surrounding environment through responsible use of natural resources and main energy carriers, reduction of polluting and climate-changing emissions, careful waste management and customer and supplier awareness on environmental sustainability issues.

MAIN NON-FINANCIAL RISKS

As required by Italian Legislative Decree 254/2016, and as part of our commitment to continuously improving 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 Group'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. 61-65).

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 for 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.

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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 reforms to privacy laws (GDPR, e-privacy, etc.).	Constant monitoring of sensitive data management practices and continuous improvement through the development of specific initiatives across the various company functions and the various Group companies. Details of the initiatives carried out in 2018 are found at pp. 96-97.
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 mouthpiece (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 as concerns 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 analyze 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 organizations 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 conduct infringing laws in force by people who act in the name or on account of the Group.	Constant oversight of the issue through organizational measures and controls to help ensure and spread proper conduct (training for personnel, selection of non-publishing products bundled with the publications, monitoring of the legal framework, networking with other companies in the sector). Drafting of the whistleblowing procedure (approval in 2019); implementation of the relating IT system managed externally (to guarantee violator and whistleblower privacy) as a communications channel to handle reportings; amendment of model 231 of the parent company and its subsidiaries; employee training plan.

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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 furnish the skills needed to develop innovative solutions able to correctly interpret changes in the market and in society. See details on pp. 112-117.
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.

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 an increasing 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 revolutionized 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 listed on the Milan Stock Exchange. The share capital at 31 December 2018, fully paid up and subscribed, amounted to € 67,979,168.40, divided into 261,458,340 ordinary shares with a par value of € 0.26 each.

The majority shareholder is the holding company Fininvest S.p.A., owned by the Berlusconi family.

Shareholder base

Shareholder	% Interest of share capital
Fininvest S.p.A.	53.3%
Silchester international investors LLP	12.4%

In 2018, the Group received approximately € 706,000 from the Italian government, Italian and foreign organizations and private individuals, split up as follows: € 309,783 from the ownership of the Segrate offices (Generali Immobiliare Italia Sgr S.p.A. and Generali Real Estate Sgr S.p.A.) in building renovation; € 14,619 in training grants and € 381,678 in grants for publishing projects.

The Group did not receive any other subsidies from entities or organizations connected with governments, or from other entities, associations, NGOs, non-profit organizations or private individuals. The US subsidiary did not receive any contributions or subsidies from the government or private individuals in the 2016-2018 three-year period; the 2018 data for the French subsidiary Mondadori France is not available.

Grants received
(€)

	2018	2017	2016
Scope of continuing operations	706,080	1,233,892	496,400

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 every person in the organization, 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.

Looking at the production of new titles in 2018 (2,930 total new titles, 2,288 titles by all the trade publishing brands, 238 titles by Mondadori Electa, 245 titles by Mondadori Education, and 159 titles by Rizzoli Education), a number of recurring topics are treated in depth as fiction and non-fiction, despite the prevalence of pure entertainment works.

The first topic standing out is migration and its impacts: from Stephen Smith's essay, *Fuga in Europa* (Einaudi), which digs deep into the dynamics and reasons for the mass migration from

Africa to Europe, to *Negro* (published by Piemme), by Francesco Ohazuruike, born Italian of Nigerian origin, who refutes the most obstinate clichés about the presence of non-EU citizens in Italy by crunching the numbers. Without disregarding the tragedy of the phenomenon and its great many implications: the Syria war (with *Dawla*, by Gabriele Del Grande, Mondadori, *A Hope More Powerful than the Sea*, by Melissa Fleming, for Piemme and *Gli impuniti*, by Carla Del Ponte, Sperling & Kupfer), the many forgotten conflicts (*We Are Not Refugees*, by Agus Morales, Einaudi), the dire consequences for children (*Le stelle di Lampedusa*, by Pietro Bartolo, Mondadori), and an analysis of the ideological drifts sparked by the conclusion that no government has a solution to the problems raised by globalization (*Populismo sovrano*, by Stefano Feltri, Einaudi).

A further topic is work-related: starting with Domenico De Masi's look at the past and glimpse into the future (*Il lavoro nel XXI secolo*, Einaudi), to the analysis of the current situation in Italy of the new forms of employment (*Lavoretti* by Riccardo Staglianò, Einaudi and *Italian Job* by Maurizio De Fazio, Sperling & Kupfer), and the neo-Luddite perspective of Francesco Borgonovo in *Fermate le macchine!* (Sperling & Kupfer).

Lastly, much attention is grabbed by the many titles dedicated to extraordinary tales, often little known or completely unknown, that tell of integration, inclusiveness, and the hunger for redemption. A few examples: *Abbiamo toccato le stelle. Storie di campioni che hanno cambiato il*

mondo, by Riccardo Gazzaniga (Rizzoli) and *Non sai quanto sei forte* (Mondadori), autobiography by Corporal Monica Contrafatto, who suffered an attack in Afghanistan in 2012, bronze medal at the Paralympics in 2016; *Guerrieri di sogni* (Mondadori), by Viviana Mazza, which gathers 13 true stories of children and teenagers from across the world, who have strongly believed and made their dreams come true, and *Meno male. Storie di piccoli eroi che trasformano il mondo* (Sperling & Kupfer), by Giangiacomo Schiavi; *Manuale per ragazze rivoluzionarie* (Rizzoli) by Giulia Blasi, which recalls and reconsiders the achievements by the feminist movement, and *The Breadwinner* (Rizzoli) by Deborah Ellis and Nora Twomey, a graphic novel inspired by the novel on Parvana and her story of redemption from the Taliban regime in Afghanistan.

Lastly, mention must be made of two titles tied to solidarity and community support initiatives: *Il bicchiere mezzo pieno* (Piemme), a collection of 24 stories of women on the small acts that can change the course of a life. The copyrights of the stories were all donated to the women from Mozambique through Italian cooperation; *Un Capitano* (Rizzoli), autobiography by Francesco Totti with Paolo Condò: on publishing the book (one of the bestsellers in 2018), the Publisher undertook to sponsor the restoration of the 12 statues of the Orti Farnesiani in the Colosseum Park, demonstrating that even popular and entertainment publishing can play a crucial role in society.

The responsibility of the editorial product

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, as regards tools and languages, is of crucial importance in the development of the Company’s publishing activities.

Mondadori is well aware of the great responsibility it has also towards its readers and users. 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.

In this respect, the initiatives of the monthly magazine for children and teenagers *Focus Junior* continued with the conclusion of the third edition of the *Diventa giornalista* competition, designed to introduce children and teenagers to the world of journalism in a fun and innovative yet accurate and exhaustive way. In May, the magazine took part in *Tecnovita: la tecnologia che nutre il talento*, a special event with free admission organized in Rome in association with *Technotown*, a technological-scientific rec centre under the Person, School and Solidarity Community Department managed by Zètema Progetto Cultura. The initiative encouraged children and teenagers (and their parents) to learn new programming languages, build robots or create digital animations. The activities included a workshop on digital journalism arranged by *Focus Junior*, to experience journalism as a profession in the digital age, from structuring articles to choosing photos, from search engines to the importance of teamwork, and feel impassioned by writing and digital communication. A total of 933 youngsters took part in the 44 different workshops.

Promotion of culture and reading

Among the initiatives launched to encourage reading, mention should be made of the institutional campaign championed by Mondadori Store, the Mondadori Group’s network of bookstores, instigated by Mr. SaveTheWall with the creative by Action & Branding.

With the claim “There’s life in a book. Yours”, the initiative’s purpose was to enhance the reading experience through the voice and faces of readers. Genuine people are in fact the stars of the campaign, who open up to reveal their feelings, unfiltered, breathing life into their books through their words. During two special shooting sessions at the Mondadori Megastore in via Marghera in Milan, Pierpaolo Perretta, alias Mr. SaveTheWall, an

artist known for his situationist works that reflect issues and customs of today's world, met one hundred people. Each person was asked to bring their favourite book along, revealing deep stories and feelings triggered by reading. Each of them was collected on a video and captured in a portrait photo.

Readers were thus the extraordinary protagonists of an initiative that also has its digital rendition, with the website dedicated to the project www.condividiunlibro.it, which hosts the videos and photos taken by the artist.

Users were invited to take part through posts on Facebook and Instagram with their favorite book and a small catch phrase explaining the reason, using the *#condividiunlibro* hashtag. All the content populated the platform, propagating the sharing of experiences.

In 2018, the Group renewed its presence in the initiative fostered by AIE (Italian Publishers' Association) *#loleggoperché*, the most important national event encouraging reading, now in its fourth edition. The generosity shown by the Italian people, who donated, through the participating bookstores, approximately 200,000 volumes to the libraries of the schools twinned with the bookstores, goes hand in hand with the donations made by the publishers, who contributed another approximately 100,000 books to infancy, primary, first- and second-level secondary schools.

Brand management

Brand management is a multifaceted issue, representing, on the one hand, a development dimension of the Company's activities and, on the other, an opportunity to tie a property to broader projects, with even greater external impacts. The following are two cases, one for each type: the first saw the Group's most popular women's magazine, *Donna Moderna*, act as mouthpiece of a far-reaching initiative on diversity; the second, which involved *Giallo Zafferano*, is the most striking example of how multimedia expression can be achieved.

In 2018, to celebrate its 30th anniversary, the weekly *Donna Moderna* launched with L'Oréal Paris a female empowerment project: "*Donne come noi*"

(*#donnecomeno*). The project was divided into three main steps: the publication of the book *Donne come noi*, written by the editors of the magazine for Sperling & Kupfer; a theatrical piece, bearing the same title, produced by *Donna Moderna* in association with Teatro Franco Parenti; and a free training course created by the weekly and held in many Italian cities.

The book holds 100 stories told by 34 journalists on contemporary Italian women achievers and the strength of their determination, skills and courage. From boxer Irma Testa to physicist Fabiola Gianotti, from the *Last Supper* restorer Pinin Brambilla Barcilon to rapper manager Paola Zukar. Compelling stories that encourage women, through achievements and successes, to continue their revolution at home, at work, and in society.

The performance takes up some of the stories told in the book: five female artists on stage sink into the role of the main characters of the book, as well as the journalists who met them, their sisters, friends and teachers. A piano, a cello and an accordion intertwine with the stories.

Lastly, the itinerant training program, with one stage held at the Mondadori Group: the aim is to contribute to women's empowerment by providing participants with so-called soft skills, which are becoming increasingly relevant in candidate selection. The team of trainers was complemented by a number of professionals coming from the business world, who contributed their own stories. After the creation in 2017 of the print version of *Giallo Zafferano* (the leading Italian food website), in 2018 the brand launched its television rendition with *I menu di Giallo Zafferano*, broadcast on Sunday morning on Canale 5 in two seasons (March and September), and expanded the website's features with apps for Google Home, Amazon Alexa and, in 2019, for Bixby, Samsung's voice assistant. All this has made *Giallo Zafferano* the brand in the Food Lifestyle category with the highest reach in Europe in 2018 according to Comscore.

Education and the school world

Mondadori Education and Rizzoli Education, the Group's school textbooks producers, encourage facilitated, inclusive and collaborative learning in

all the titles in their catalogue through the select use of graphic layouts and specific methods to help students develop effective study methods and build their skills.

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. Simple, free, innovative: 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.

In 2018 the platform was enhanced by two new solutions: HUB test, designed for teachers to prepare tests and for students to practice, and HUB Smart, the app to use digital content directly on mobile devices.

Most of the books in the Mondadori Education catalogue are available for reproduction for blind or visually impaired students or those with particular learning disabilities.

Thanks to the agreements signed by Mondadori Education with the relevant associations ("Regina Margherita" Non-Profit Italian Library for the Blind and the Digital Library of the Italian Dyslexia Association), Braille or "talking" versions (digital or on CDROM) of the books can be requested.

Relations with users

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

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 nature.

In 2018, the Mondadori Group reshaped its digital communication strategy, enhancing the identity of each channel to build an integrated and coherent corporate communication environment. To this end, the Group drew up a specific editorial plan for each social network, addressing ad-hoc communication goals:

- on LinkedIn, corporate news takes centre stage, sharing content regarding our business areas (books, news, events) related to the work, communication and professional training worlds;
- on Facebook, the Mondadori Group offers a full picture of itself, with a multimedia approach (videos, photos) that gives the audience an inside, "behind the scenes" look at our activities;
- on Twitter, space is afforded to our brands (as well as to corporate content), sharing their content and publishing news from each business area, giving stakeholders an idea of the heterogeneous and multiple activities taking place inside the Group;
- Instagram, instead, shows how life goes on inside the Company through the faces (and stories) of its people (employees, associates, writers, partners), also using Stories to give a more immediate and natural picture;
- on YouTube, a video library is currently in the making for those who seek content on the Mondadori universe, from onset up to the present day, offering a look at the special projects regarding the Group and its brands.

The Mondadori Group has a total of 130 social profiles (most of them linked to individual product brands), for a total of 26.3 million fans: every second, 300 new users visit a Mondadori Group site and 14 people engage on the social pages of the brands.

Einaudi's case is an outstanding example. In 2018, in addition to its Twitter account, online since 2009, the Publisher created an Instagram account and a Facebook page. While maintaining the strategic unity of the core targets, such as selecting titles and important topics and maintaining the Publisher's image, it works in different ways on the three channels: on Twitter, it values the sharing of views, the witty references and, at times, the playful aspect; on the Instagram feed, the focus is on creating a distinctive style of the account, while in the Stories, the attention is turned more to the sharing of press clippings and presentations, together with the special launch of some titles; on Facebook, the page maintains a more institutional profile.

Additionally, the Publisher's website was fully revamped in 2018, focusing on the mobile version and the internal search engine.

Success continues for *Biancamano2*, the blog dedicated to foreign fiction and Frontiere Einaudi titles, and for *Lo Struzzo a scuola*, created to engage students and teachers, offering them pointers and suggestions on reading and reflecting.

In 2018, Einaudi's social accounts, in particular Twitter, and Facebook and Instagram from October, often embraced issues related to social and environmental sustainability, tying them to books released in the year by the Publisher. Specifically, the release of *We Are Not Refugees* by Agus Morales, a report on migration flows, gave the Twitter account the opportunity to voice its say with quotations from the book on the many times the topic was discussed on social media. Another much quoted and exploited title to push through the issues of climate change on social media was *Non c'è più tempo* by the popular weatherman Luca Mercalli.

This year's most impactful tweet, echoed on our Facebook account, was when the Publisher sided with author Michela Murgia, smeared and intimidated on social media for *Fascistometro*, published online on the Einaudi and *Espresso* websites, an ironic test to measure the level of fascism in us, drawn from her book published by Einaudi *Istruzioni per diventare fascisti*. The tweet, read by 180,000 users with 7,000 interactions, went like this: "The Publisher stands by @kelleddamurgia: the smears and intimidations on our author for her book speak for themselves. Violence for the sake

of being violent is something you should never get used to, thought should always be free and complex. #IstruzioniPerDiventareFascisti".

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 Regulation (EU) 2016/679 ("GDPR"), with Legislative Decree 196/03 ("Data Protection Code") as recently amended by Legislative Decree 101/2018, as well as with the indications and provisions issued by the Data Protection Authority.

Mondadori publishes, and constantly updates, its privacy, personal data processing, and cookies policies on all Group websites.

Following the important process of alignment with the GDPR launched in 2017, the Group has developed a series of procedures to govern the management and processing of personal data and, in particular, of data retention, privacy by design or by default, data protection impact assessment, data breach, feedback to data subjects and the appointment of external data processors. These procedures were developed in parallel with a complete overhaul of the information provided to data subjects and of the contract templates, with the indication of the new specific regulations and details of the new corporate figure of Data Protection Officer, as identified and formalized on 14 March 2018 by the Board of Directors of the Parent Company.

Noteworthy points in the process of aligning with the GDPR also included:

- the formalization of two important co-ownership agreements, the first involving all Group companies in the management of HR, CRM, marketing and profiling activities; the second involving Mondadori Education and Rizzoli Education in the joint management of certain business activities and web platforms;
- the adoption of a computerized data processing register for each company, to enable data

controllers and the DPO unit to constantly watch over all processing activities carried out by the Group;

- the performance of accurate DPIAs, personal data impact assessments on specific processing activities where risks may arise;
- the adoption of new security measures aimed at preventing the loss of personal data and any data breaches and data incidents.

In 2018, 4 complaints were filed with the Data Protection Authority by external parties (customers) against a number of Group companies; the brief cross-examination that followed by the Authority led to a decision not to proceed. No instances of data loss occurred over the three years.

Scope of continuing operations

Source of complaints (no.)	2018	2017	2016
Control bodies	-	-	-
External persons	4	-	-
Total	4	-	-

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Specifically, no complaints were reported in the three-year period regarding privacy or data loss for Rizzoli International Publications. 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 hereafter shows the number of complaints filed in the period 2016-2018.

Mondadori France

Source of complaints	2018	2017	2016
Control bodies	-	-	-
External persons	74	81	92
Total	74	81	92

Specifically, in 2018 three cases involved the magazine *TéléStar*, one *Nous Deux* and *70 Closer*. No instances of data loss occurred over the three years.

Penalties

The amount of penalties paid in 2018, down over the three-year period, include € 32 thousand in tax penalties (IRAP assessments for Einaudi for 2012-2015) and approximately € 234 thousand in economic penalties following sentences.

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Scope of continuing operations

Monetary penalties - Type (Euro/millions)	2018	2017	2016
Tax penalties	0.03	0.03	0.08
Economic penalties	0.23	0.73	0.97
Total	0.26	0.76	1.05

As for Rizzoli International Publications, the company did not incur any economic or non-monetary penalties during the three-year period.

In order to provide greater transparency to

stakeholders, the Group developed an archive relating to non-monetary penalties at the beginning of 2012. Examples of non-monetary penalties include the publication of rulings. In 2018 only one case was reported.

Scope of continuing operations

Non-monetary penalties	2018	2017	2016
Number of cases	1	2	3

In France too, both monetary and non-monetary penalties are decreasing.

Mondadori France

Monetary penalties - Type (Euro/millions)	2018	2017	2016
Tax penalties	-	-	-
Economic penalties	0.37	0.63	0.91
Total	0.37	0.63	0.91

Mondadori France

Non-monetary penalties	2018	2017	2016
Number of cases	1	4	12

Combating corruption and bribery

As stated on pp. 86–87, the Organization, Management and Control Model and the rules of conduct of the Model – 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.

As concerns 2018, and generally over the period 2016–2018, 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, 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 2016–2018 against the Mondadori Group for alleged collusive practices or infringements of antitrust and anti-monopoly law.

Alongside the constant updating of the Organization, Management and Control Model to include new offences of relevance for the Company's business model and work to adapt the Model 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 2019, the Group has planned updates for its staff on the whistleblowing policy (in accordance 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), developed in 2018 and approved in first half 2019, and to the new anti-corruption policy (currently being drafted).

HUMAN RESOURCES

Transformations in the sectors in which the Mondadori Group operates, together with changes within the Company, in both organizational 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.

Employees

Group employees at 31 December were split up as follows by geographical area:

Employees (no.)	2018	2017	2016
Italy	2,083	2,228	2,411
USA	49	47	48
Scope of continuing operations	2,132	2,275	2,459
France	743	751	802
Total	2,875	3,026	3,261

In addition to the employee headcount, figures are also provided, for Italy, of the average number of temporary workers for the year, divided by business area (temporary worker numbers show seasonal trends, in particular as concerns retail and the Christmas season); and for Mondadori France,

of the average number of freelance workers (or *pigistes*, the majority of whom journalists). Data on freelancers and temps for Rizzoli International Publications are not available for the three-year period under review, but will be from 2019.

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Italy	2018	2017	2016
Temps (no.)			
Headquarters	14	18	15
Books	33	38	47
Magazines	29	39	46
Retail	84	82	84
Total	160	177	192

Mondadori France	2018	2017	2016
Pigistes (no.)			
Total	371	386	378

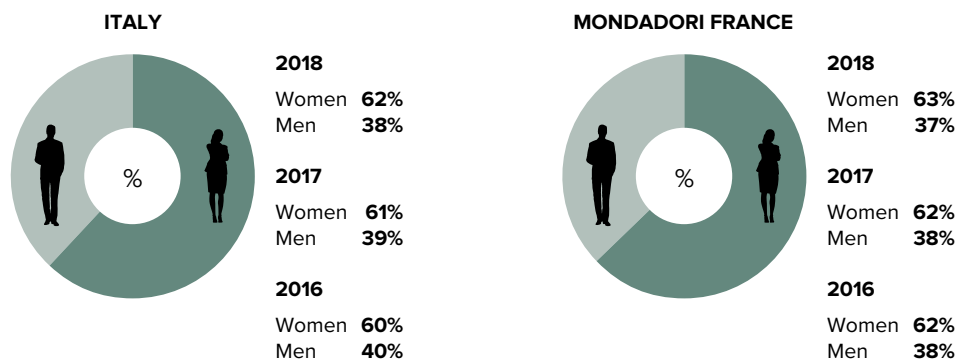
Hirings and terminations Italy		2018		2017		2016	
Gender	Age	Number	%	Number	%	Number	%
		HIRINGS					
Women	< 30 years	23	20%	19	17%	14	18%
	30–50 years	39	35%	50	46%	37	49%
	> 50 years	2	2%	2	2%	1	1%
Total women		64	57%	71	65%	52	68%
Men	< 30 years	12	11%	9	8%	8	11%
	30–50 years	31	28%	26	24%	15	20%
	> 50 years	5	4%	3	3%	1	1%
Total men		48	43%	38	35%	24	32%
Total hirings		112	100%	109	100%	76	100%
Turnover rate (new employees)		5.38%		4.89%		3.15%	
		TERMINATIONS					
Women	< 30 years	9	3%	15	5%	14	5%
	30–50 years	84	33%	87	30%	117	45%
	> 50 years	52	20%	48	16%	44	17%
Total women		145	56%	150	51%	175	67%
Men	< 30 years	1	1%	2	1%	3	1%
	30–50 years	60	23%	76	26%	64	25%
	> 50 years	51	20%	64	22%	19	7%
Total men		112	44%	142	49%	86	33%
Total terminations		257	100%	292	100%	261	100%
Turnover rate (leaving employees)		12.34%		13.11%		10.83%	

Hirings and terminations USA			2018	
Gender	Age		Number	%
HIRINGS				
Women	< 30 years		4	50%
	30–50 years		2	25%
	> 50 years		-	-
Total women			6	75%
Men	< 30 years		-	-
	30–50 years		2	25%
	> 50 years		-	-
Total men			2	25%
Total hirings			8	100%
Turnover rate (new employees)				16.33%
TERMINATIONS				
Women	< 30 years		2	33%
	30–50 years		4	67%
	> 50 years		-	-
Total women			6	100%
Men	< 30 years		-	-
	30–50 years		-	-
	> 50 years		-	-
Total men			-	-
Total terminations			6	100%
Turnover rate (leaving employees)				12.24%

Hirings and terminations Mondadori France*		2018		2017		2016	
Gender	Age	Number	%	Number	%	Number	%
		HIRINGS					
Women	< 30 years	6	25%	5	16%	6	22%
	30–50 years	7	29%	7	23%	13	48%
	> 50 years	-	-	5	16%	1	4%
Total women		13	54%	17	55%	20	74%
Men	< 30 years	4	17%	4	13%	4	15%
	30–50 years	6	25%	8	26%	3	11%
	> 50 years	1	4%	2	6%	-	-
Total men		11	46%	14	45%	27	6%
Total hirings		24	100%	31	100%	27	100%
Turnover rate (new employees)		3.23%		4.13%		3.37%	
		TERMINATIONS					
Women	< 30 years	2	4%	3	5%	1	1%
	30–50 years	14	29%	21	32%	30	45%
	> 50 years	10	21%	18	28%	18	27%
Total women		26	54%	42	65%	49	73%
Men	< 30 years	1	2%	1	2%	3	4%
	30–50 years	14	29%	16	25%	8	12%
	> 50 years	7	15%	6	9%	7	10%
Total men		22	46%	23	35%	18	27%
Total terminations		48	100%	65	100%	67	100%
Turnover rate (leaving employees)		6.46%		8.66%		8.35%	

* Hirings and terminations by Mondadori France do not include fixed-term employment contracts (Contract à Durée Déterminée - 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, qualification and type of contract over the three-year period.



Workforce by gender

Scope of continuing operations

2018		2017		2016	
Women	Men	Women	Men	Women	Men
62%	38%	61%	39%	60%	40%

Mondadori France

2018		2017		2016	
Women	Men	Women	Men	Women	Men
63%	37%	62%	38%	62%	38%

Workforce by age

Scope of continuing operations

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
< 30	2%	56%	44%	2%	70%	30%	2%	67%	33%
30-50	62%	63%	37%	65%	62%	38%	68%	61%	39%
> 50	36%	60%	40%	33%	59%	41%	30%	58%	42%

Mondadori France

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
< 30	4%	65%	35%	3%	72%	28%	7%	66%	34%
30-50	53%	65%	35%	56%	63%	37%	65%	62%	38%
> 50	43%	60%	40%	40%	61%	39%	28%	63%	37%

Workforce by business area

Scope of continuing operations

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Corporate	19%	51%	49%	20%	52%	48%	15%	51%	49%
Books	31%	69%	31%	28%	69%	31%	33%	64%	36%
Retail	18%	59%	41%	18%	59%	41%	19%	58%	42%
Magazines	32%	63%	37%	33%	62%	38%	24%	67%	33%
Digital	-	-	-	-	-	-	9%	48%	52%

As of 2017, Digital Italy personnel have been redistributed to Magazines, for the most part, and to Corporate (shared services). The 2017 and 2016 data have been restated versus those published in the previous NFS for their inclusion in the scope of employees of Rizzoli International Publications (in the Books business). For previously published data, please refer to the 2017 NFS published on <http://www.mondadori.it/>

Mondadori France

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Corporate	25%	59%	41%	25%	58%	42%	25%	59%	41%
Magazines	58%	61%	39%	57%	61%	39%	57%	62%	38%
Digital	4%	62%	38%	4%	60%	40%	5%	50%	50%
Advertising	13%	77%	23%	14%	76%	24%	13%	75%	25%

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Workforce by employment level, gender and age

Italy

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Executives	4%	22%	78%	5%	23%	77%	4%	25%	75%
Middle managers	13%	53%	47%	13%	53%	47%	13%	53%	47%
Office workers	71%	65%	35%	69%	64%	36%	66%	64%	36%
Journalists	11%	74%	26%	13%	71%	29%	13%	70%	30%
Workers	1%	15%	85%	0.01%	21%	79%	4%	28%	72%

Italy

	2018				2017			
	Total	<30 years	30-50 years	>50 years	Total	<30 years	30-50 years	>50 years
Executives	4%	0%	47%	53%	5%	0%	50%	50%
Middle managers	13%	0%	55%	45%	13%	0%	60%	39%
Office workers	71%	3%	68%	29%	69%	3%	72%	26%
Journalists	11%	0%	39%	61%	13%	0%	44%	56%
Workers	1%	0%	54%	46%	0.01%	0%	64%	36%

USA

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Executives	6%	33%	67%	28%	31%	69%	27%	31%	69%
Office workers	94%	52%	48%	72%	62%	38%	73%	66%	34%

USA

	2018			
	Total	<30 years	30-50 years	>50 years
Executives	6%	0%	0%	100%
Office workers	94%	17%	48%	35%

Mondadori France

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Cadres	38%	67%	33%	39%	66%	34%	38%	64%	36%
Employés	11%	76%	24%	11%	77%	23%	12%	76%	24%
Journalistes	51%	57%	43%	50%	57%	43%	50%	58%	42%

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Mondadori France

	2018				2017			
	Total	<30 years	30-50 years	>50 years	Total	<30 years	30-50 years	>50 years
Cadres	38%	5%	56%	39%	39%	3%	59%	37%
Employés	11%	6%	43%	51%	11%	6%	54%	40%
Journalistes	51%	2%	54%	45%	50%	3%	54%	43%

Personnel by type of contract and geographical area

Italy

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Permanent ¹	99%	62%	38%	99%	61%	39%	99%	60%	40%
Fixed-term	1%	67%	33%	1%	76%	24%	1%	75%	25%

¹ including apprenticeship contracts (in Italy)

USA

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Permanent	100%	51%	49%	100%	53%	47%	100%	56%	44%
Fixed-term	0%	0%	0%	0%	0%	0%	0%	0%	0%

France

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Permanent	95%	62%	38%	97.1%	62%	38%	95.9%	62%	38%
Fixed-term	5%	79%	21%	2.9%	86%	14%	4.1%	79%	21%

Personnel by type of professional (full time / part time)

Scope of continuing operations

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Full time	88%	58%	42%	88%	58%	42%	88%	57%	43%
Part time	12%	85%	15%	12%	85%	15%	12%	84%	16%

Mondadori France

	2018			2017			2016		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Full time	94%	62%	38%	95%	61%	39%	94%	61%	39%
Part time	6%	79%	21%	5%	82%	18%	6%	83%	17%

All Group employees are entitled to take parental leave, irrespective of type of contract.

Almost 5% of employees in the scope of continuing operations took **parental leave** (mostly women, at 96%), while in France almost 3% took parental leave (mostly women, 55%).

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Scope of continuing operations

	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Employees entitled to parental leave ¹ (no.)	1,315	817	2,132	1,394	881	2,275	1,476	983	2,459
Employees who took parental leave (no.)	98	4	102	93	4	97	106	4	110
Employees returning to work after parental leave (no.)	86	4	90	93	4	97	99	3	102
% returning after parental leave	88%	100%	88%	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, as regards the employees that took parental leave, the total number includes those not covered by the end-of-year headcounts because of terminations/resignations

Mondadori France

	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Employees entitled to parental leave ¹ (no.)	467	276	743	469	282	751	500	302	802
Employees who took parental leave (no.)	11	9	20	7	11	18	25	4	29
Employees returning to work after parental leave (no.)	10	9	19	7	9	16	24	4	28
% returning after parental leave	91%	100%	95%	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, as regards the employees that took parental leave, the total number includes those not covered by the end-of-year headcounts because of terminations/resignations

An inclusive company

Publishing has traditionally been an industry in Italy with a heavy presence of women in the general workforce. This presence is not always accompanied by true gender equality in top positions and remuneration. There is growing attention in the Mondadori Group to the different issues tied to the notion of diversity, as demonstrated for instance by the increased presence of women in governance bodies. This translates into careful monitoring of any occurrence of discrimination, in efforts to increase gender equality, and the enhancement of diversity - of any diversity - as a potential enrichment and renewal of the Company.

Aside of the details on the percentages of women and men appearing in the above tables and in the section on training, the following are data on diversity in the Board of Directors, the ratio expressed in percentage of women's remuneration to men's remuneration by position in Italy and France (data on Rizzoli International Publications are unavailable), the percentages of staff with disabilities in Italy (there are no employees with disabilities in the United States) and France, and the gender distribution of top positions in magazines in Italy.

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Board of Directors

	2018			2017			2016		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
< 30 years	-	-	-	-	-	-	-	-	-
30-50 years	1	1	2	1	1	2	1	1	2
> 50 years	4	8	12	2	10	12	2	10	12
Total	36%	64%	14	21%	79%	14	21%	79%	14

Remuneration

Italy	2018	2017	2016
Executives	73%	73%	68%
Middle managers	91%	90%	89%
Office workers	92%	92%	92%
Journalists	80%	75%	76%
Workers	48%	61%	90%

Remuneration considers the theoretical annual salary gross of any bonuses or benefits associated with the specific classification of employees at 31 December. Additionally, female employees in the "blue-collars" category are all "part-time"

Mondadori France	2018	2017	2016
Cadres	82%	84%	84%
Employés	100%	101%	99%
Journalistes	91%	92%	90%

Employees with disabilities

Italy	2018			2017			2016		
	% of total employees with disabilities	% women	% men	% of total employees with disabilities	% women	% men	% of total employees with disabilities	% women	% men
Middle managers	6%	60%	40%	5%	40%	60%	4%	40%	60%
Office workers	85%	47%	53%	86%	50%	50%	79%	47%	53%
Journalists	2%	100%	-	2%	100%	-	2%	100%	-
Workers	7%	33%	67%	7%	43%	57%	15%	33%	67%
	% of total employees	% women	% men	% of total employees	% women	% men	% of total employees	% women	% men
	4%	48%	52%	4%	50%	50%	5%	46%	54%

Mondadori France	2018			2017			2016		
	% of total employees with disabilities	% women	% men	% of total employees with disabilities	% women	% men	% of total employees with disabilities	% women	% men
Cadres	25%	-	100%	10%	-	100%	9%	-	100%
Employés	13%	-	100%	30%	-	100%	27%	-	10%
Journalistes	62%	40%	60%	60%	50%	50%	64%	57%	43%
	% of total employees	% women	% men	% of total employees	% women	% men	% of total employees	% women	% men
	1%	25%	75%	1%	30%	70%	1%	36%	64%

Italian magazines

Top positions

	2018	
	Women	Men
Directors	57%	43%
Deputy directors	60%	40%

Organizational development

In line with the plan to focus on the core businesses launched in prior years and in light of the continuing downturn of the magazines market in Italy, in 2018 the Group sold the subsidiary Inthera (active in content data marketing) and the weekly *Panorama*. Regarding operations in the French magazines business, talks are currently underway for the disposal of Mondadori France to Reworld Media, a company listed on the Paris Stock Exchange, digital leader with an international bent (on completing this document, a put option was signed with a view to the disposal plan, and the company is currently in talks with the trade-union representatives).

A new Group-wide integrated business process management system was adopted (in full swing from January 2019): the new S/4 Hana, world leading system in the field. A decision to adapt and standardize, on the basis of best practices, business processes that embrace administration, finance and control, and to upgrade the software and management applications used.

On the HR front, the Department has adopted a new information system - the HR Portal - where each employee can independently manage their relationship with HR administration, from planning and requesting holiday time to updating their information; in 2019, new features will be added for staff training and development.

Industrial relations

All of the Group's companies and employees are covered by union representatives: their relations with the company are characterized by constant and open dialogue that takes place through frequent meetings on specific issues and annual institutional events.

An agreement was reached in 2018 by the Company and union representatives on a reduction of the remuneration package for *Tustyle* and *Confidenze* journalists from 1 July 2018, consistent with the structural decline of the market, and on the application of a solidarity contract for journalists from the other publications in the Magazines Italy Area, in force until 31 December 2018.

In line with the outlined strategies and business goals set - focus on brands with multi-channel development potential - the Company and the trade unions have underwritten their commitment to make the cost structure and the organization of the work of Magazines Italy consistent with market trends by the end of the year, in order to safeguard sustainability.

The new supplementary agreement involving staff under the graphics publishing collective labour contract, in force since 1 January 2019, was then signed. The agreement represents a groundbreaking model in the publishing industry, one that puts people at centre stage, recognizing the strong value of human resources, the most important capital for a company, in a cultural approach that moves away from the traditional schemes to embrace models based on worker performance and responsibility.

The trade unions and the Company have shared the need to draw up a single contract covering all the staff under the graphics publishing collective labour contract of the various Mondadori Group companies, streamlining and harmonizing the former treatments.

The agreement also aims to modernize and test a different work approach, starting with a model of industrial relations that promotes bilateral discussions on pivotal issues related to company-worker relations.

In the overall framework of the attention to the needs of human resources, the parties have shared the view that greater staff empowerment, including through self-management of working hours and a fair balance between work and individual needs, leads to greater satisfaction and increased work quality.

Additionally, the agreement introduces the testing of effective tools to help work-life balance, such as smart working and family support measures, with the aim of providing better conditions to combine work and family needs.

A few location changes were made in 2018 involving Milan and Segrate: Mondadori Education, Rizzoli Education, Mondadori Electa and Mondadori Scienza relocated from their offices in via Battistotti Sassi to Milan, the first two on via Rivoltana - Segrate Hub 3, the last two to Palazzo Niemeyer - Segrate Hub 1, while the Digital Magazines Area moved from

via San Marco to Cascina Tregarezzo (Segrate Hub 2), Milan.

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 organizational change, with negotiations launched several months in advance.

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.

All employees in Italy and in France are covered by **collective bargaining agreements**. In the United States, sectoral trade union agreements are not as common as in Europe; the general protection provided by federal laws obviously applies to all workers.

Training and development

The table shows the number of training hours delivered and the number of participants over the three years in the scope of continuing operations and in Mondadori France (no training was organized for the employees of Rizzoli International Publications).

Hours delivered (no.)	2018	2017	2016	Participants (no.)	2018	2017	2016
Total	21,397	14,550	20,160	Total	1,511	1,026	1,570

The training programs in Italy adopt an innovative, distinctive and business-oriented approach to provide the necessary skills and tools to effectively cope with internal and external challenges. The common thread that binds the courses delivered to the Mondadori Group employees in Italy is to encourage integration between the different areas of the Company, to engender greater efficiency

and synergies and develop skills and attitudes that are consistent with the Company's goals and strategies, through ongoing comparison between skills acquired and skills required in the Company's evolutionary needs.

In 2018, in addition to the existing training programs that were re-run and updated for instance with

Academy giornalisti (23 courses, 13 of which new proposals in the year, organized in 5 theme areas for the retraining of journalists: Digital Editing & Writing, Multimedia publishing & data visualization, Social media communication & Community Management, Magazine Management, foreign languages) and with **Academy Retail** (a course tailored to 40 franchisees to support the development of direct and indirect sales networks and of multi-channels, in addition to supporting the onboarding process of new franchisees), a further 8 new training programs were introduced for a total of over 10,000 hours of specialist-managerial training:

- **Digital academy:** a training course for 48 marketing specialists, which addressed the main levers of digital marketing through face-to-face lectures and operational sessions where theory and practice intertwine, implementing tools and techniques on projects/activities of each area involved.
- **HR academy:** a 5-day training course for 21 resources from the Group's HR and Organization Department, to encourage a rethinking of the HR role at Mondadori, enabling the function to become a strategic player for the Company and a driver of change. The issues addressed include the key technical-professional skills to reshape Group HR processes and practices, and behavioural and methodological skills that enable management to lead change and innovation projects.
- **Academy Editor:** a modular course that uses both external and in-house trainers to develop soft skills such as communication skills, distinctive professional skills, and technical skills relating to the book production chain and its tools: from acquisition to creative publishing, and from economics to sales management. The first two days of the course were delivered, and another 7 modules will be added next year.
- **Academy Retail:** aside of the franchisees course, a 2-day course for 28 middle managers from Retail was created in 2018 to encourage the development of soft skills that are crucial in managing change, and an empathetic approach to inter-personal relations in order to improve the satisfaction of customer needs (both internal and external).
- **Change Agent path:** training to support the empowerment and impact of the 56 Change Agents in the change process brought about

by the adoption of the SAP/4 Hana integrated business process management system.

- **Google Analytics course for Marketing Specialists (basic and advanced):** two-day course (both basic and advanced) for 64 marketing specialists from the different business units, to provide knowledge, tools and practices to understand how Google Analytics works and to use it for their own work needs.
- **Lean Six Sigma path (Green and Black Belt certification):** the program was intended to spread across the Group the culture and aptitude for continuous improvement in the management of business processes to motivate, promote and facilitate development and innovation, maximizing the effectiveness and efficiency of recurring tasks. The course, addressed to 12 resources from the different business units, embraced both Lean Management (an approach for creating an efficient process by eliminating activities that add no value for the customer, both internal and external) and Six Sigma (approach aimed at improving business processes) issues.
- **LeaderMe path:** management training program addressed to 45 managers to develop personal effectiveness through the empowerment of each individual on their own growth path. The program is split up into 3 training modules that provide tools and techniques to play a management role effectively: being a manager, with particular focus on defining roles and goals and on the delegation process; people management, dedicated to the relations between motivation, skills and performance, with particular focus on knowing how to give feedback and being a manager coach; team management: related to the 3 areas of the leadership model addressed in the previous modules, is dedicated to informed reading of conflict/cooperation dynamics within the company, in inter-functional/process relations, in work teams.

Alongside the Academy training plan, other courses focused on language training (over 1,000 hours delivered) and workplace safety, delivered both in classroom and e-learning format. During the year, the updates to the specific training received in the classroom (more than 1,000 hours delivered) involved emergency management personnel (fire-fighting and first aid), supervisors, workers' safety

representatives and the heads of the prevention and protection service, while safety training (general and specific) provided in e-learning mode involved

a hundred people including employees, temps and interns.

Training Italy

Hours delivered (no.)	2018	2017	2016	Participants (no.)	2018	2017	2016
Ad hoc training	11,786	5,057	7,858	Ad hoc training	866	226	409
Executives	2,017	4	271	Executives	42	1	63
Middle managers	2,838	-	495	Middle managers	132	-	90
Office workers	5,373	160	732	Office workers	566	40	80
Journalists	1,558	4,893	6,360	Journalists	126	185	176
% women	56%	76%	72%	% women	67%	78%	73%
% men	44%	24%	28%	% men	33%	22%	27%
Language courses	1,042	600	2,380	Language courses	40	20	62
Executives	354	450	930	Executives	13	15	31
Middle managers	66	120	90	Middle managers	4	4	3
Office workers	20	30	60	Office workers	1	1	2
Journalists	602	-	1,300	Journalists	22	-	26
% women	65%	35%	60%	% women	68%	35%	56%
% men	35%	65%	40%	% men	32%	65%	44%
Safety training	1,495	2,361	2,118	Safety training	224	375	379
Executives	-	72	20	Executives	-	7	n.d.
Middle managers	84	148	98	Middle managers	14	19	n.d.
Office workers	1,351	2,141	1,484	Office workers	202	349	n.d.
Journalists	40	-	4	Journalists	5	-	n.d.
Workers	20	-	512	Workers	3	-	n.d.
% women	51%	59%	47%	% women	53%	58%	50%
% men	49%	41%	53%	% men	47%	42%	50%
Total hours of training delivered	14,323	8,018	12,356	Total participants	1,130	621	850
Executives	2,371	526	1,221	Executives	55	23	n.d.
Middle managers	2,988	268	683	Middle managers	150	23	n.d.
Office workers	6,744	2,331	2,276	Office workers	769	390	n.d.
Journalists	2,200	4,893	7,664	Journalists	153	185	n.d.
Workers	20	-	512	Workers	3	-	n.d.
% women	56%	68%	n.d.	% women	65%	65%	n.d.
% men	44%	32%	n.d.	% men	35%	35%	n.d.

Average training hours per capita (no.)	2018	2017	2016
Total	6.88	3.60	5.12
Women	6.23	3.99	n.d.
Men	7.92	2.98	n.d.
Executives	24.44	5.21	n.d.
Middle managers	11.03	0.90	n.d.
Office workers	4.58	1.52	n.d.
Journalists	9.61	17.48	n.d.
Workers	1.54	-	n.d.

Among the programs covering development, skill improvement and assistance in the transition in changing business characteristics, following the mapping of HR Business Partners skills launched in 2017 with the identification of key corporate positions, in 2018, 22 professional families and a job description model were defined (role mission, typical activities, technical and distinctive role skills). The project resulted in the mapping of 67 key positions in the different Business Units. Two additional assessment processes were also carried out in 2018.

Skill/potential assessment of 41 managers (N-2): interviews and simulations conducted by specialists identified a pool of key people; an analysis was additionally carried out on succession gaps, defining the relating action plans. The skills measured are those of the Mondadori skills model established, taking account of the Group's new and necessary challenges to enable the transformation and innovation process required. The Assessment Manager process will continue at level N-3 in 2019.

Group and online assessments of administrative and accounting offices: 33 administrative staff were involved in activities partly individual and partly

group, with the aim of performing an assessment of role skills and individual characteristics, in order to map the level of potential vis-à-vis the more complex roles. Each person was given indications regarding strengths, areas of improvement and development.

Regarding the formal assessment of employees, the Performance Management tool used in the past was considered no longer suitable (as early as in 2017). 2018 marked the start of the creation of a Job System to define professional families and the related roles and skills on which to build a performance management process, starting in 2019.

Training programmes at Mondadori France are organized into three groups (ad hoc professional, language, and workplace safety), with plans lasting two or three years. In 2018, training courses were launched for the 2018-2019 two-year period in digital marketing, management (for those who take on new management roles in the period), advertising storytelling, use of Photoshop and compliance with GDPR. Additionally, the English-Italian language skills development plan continued.

Training Mondadori France

Hours delivered (no.)	2018	2017	2016	Participants (no.)	2018	2017	2016
Ad hoc training	5,868	4,934	6,644	Ad hoc training	302	328	568
Cadres	3,467	2,691	4,572	Cadres	210	146	257
Employés	562	204	605	Employés	29	14	62
Journalistes	1,839	2,039	1,467	Journalistes	63	168	249
% hours delivered to women	74%	67%	71%	% women	67%	66%	69%
% hours delivered to men	26%	33%	29%	% men	33%	31%	34%
Language courses	1,034	1,283	246	Language courses	54	47	17
Cadres	871	865	165	Cadres	41	34	12
Employés	54	205	65	Employés	5	4	2
Journalistes	109	214	16	Journalistes	8	9	3
% hours delivered to women	75%	79%	59%	% women	78%	74%	71%
% hours delivered to men	25%	21%	41%	% men	22%	26%	29%
Safety training	172	315	914	Safety training	25	30	135
Cadres	77	124	319	Cadres	11	14	56
Employés	21	55	222	Employés	3	4	33
Journalistes	74	136	373	Journalistes	11	12	46
% hours delivered to women	63%	54%	64%	% women	64%	60%	62%
% hours delivered to men	37%	46%	36%	% men	36%	40%	38%
Total hours of training delivered	7,074	6,532	7,804	Total participants	381	405	720
Cadres	4,415	3,679	5,056	Cadres	262	194	325
Employés	637	464	892	Employés	37	22	97
Journalistes	2,022	2,389	1,856	Journalistes	82	189	298
% hours delivered to women	74%	69%	69%	% women	69%	66%	68%
% hours delivered to men	26%	31%	31%	% men	31%	34%	33%

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Average training hours per capita (no.)	2018	2017	2016
Total	9.52	8.70	9.73
Women	11.23	9.56	10.83
Men	6.63	7.27	7.91
Cadres	15.60	12.69	16.63
Employés	8.06	5.59	9.20
Journalistes	5.31	6.32	4.63

Faced with a general contraction in the Magazines market (in terms of both readership and advertising revenue), in 2014 Mondadori France implemented 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.

As regards 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 personalized 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 2016–2018 in relation to the Annual Appraisal Assessment (AAA) which involves the participation of both the employee and the relevant manager.

Annual Appraisal Assessment (AAA)	2018		2017		2016	
	Number	%	Number	%	Number	%
Cadres	161	57%	157	54%	175	58%
Employés	21	27%	35	42%	40	41%
Journalistes	133	35%	33	9%	95	24%
Total	315	42%	225	30%	310	39%

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Workplace safety and prevention

Ensuring safety in the workplace and safeguarding the health of Mondadori Group employees is one of the core purposes of the prevention and protection service.

In implementing the range of activities planned, special attention was paid in 2018 to changes in the setup of the legal entities and locations used by staff: in all workplaces, the legally-required activities were completed, the risk assessment documents of the locations were updated, and the list of the corresponding figures, either designated or elected, involved in the management of the system for the protection of workers' health and safety, accessible at all times in the "Prevention and safety" area of the corporate intranet Network, was updated.

A Group safety coordination unit, although not required by law, was established by the parent company to oversee and coordinate activities aimed at implementing the legal requirements, providing guidelines, and monitoring the planning and execution of annual obligations:

Regular meetings: 8 safety meetings were held concerning 22 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 2018 inspections were conducted of the workplaces of 22 Group sites.

Evacuation drills: in addition to the testing of emergency plans in 31 Retail Area 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 formalize the actions needed to improve emergency procedures.

The occupational health service was guaranteed by the San Raffaele Resnati Hospital: the 7 appointed practitioners visited 616 workers subject to health surveillance for the risks from the use of VDT exceeding 20 hours per week; the activities of the service are planned 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 computerized 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 the regulations in force.

In order to increase the number of staff able to use the AED (automatic external defibrillator) installed at the parent company's headquarters, 14 first-aiders from Segrate took part (on a voluntary basis) in the BLSD (Basic Life Support and Defibrillation) training course in March to gain knowledge of basic cardiopulmonary resuscitation and early defibrillation.

Welfare and benefits

The new company agreement introduces the testing of effective tools to help juggle work and life, such as smart working and family support measures, with the aim of providing better conditions to combine work and family needs. Special attention has been paid in this sense to maternity protection, with the reduction of working hours in the six months following return and the anticipation of full pay for periods with reduced remuneration, while new fathers are granted 10 days of paid leave. In cases of serious illness, the period of respite has also been suspended with a view to job retention.

Despite the persisting criticalities affecting the publishing sector, from an economic point of view, the agreement also provides for the establishment, for the 2019-2021 three-year period, of an annual variable performance bonus common to all Group companies, part of it made available through a corporate welfare system that provides employees with a series of services and initiatives to facilitate the well-being of workers and their family.

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, a newsletter is sent to all staff, containing links to new items posted on the Intranet or on relating product websites.

As part of the corporate communications strategy (see p. 95) and from a multi-channel environment perspective, a number of new features have also been introduced for internal communications.

March 2018 saw the inauguration of Agorà, the new multi-purpose area in the square of the Segrate headquarters, a versatile area fit for a great many activities: meetings with writers, actors, youtubers and influencers, interviews and short live performances with singers and musicians, presentations of initiatives and conventions dedicated to employees, live broadcasts on social networks, webinars and so forth. In the first 9 months, Agorà hosted 80 events involving approximately 2,000 people, helping to strengthen staff and associates' feeling of belonging to the Group.

Plans also include a greater deployment of monitors currently located at the entrances to Segrate Hub 1 and used to provide information on events planned in the Agorà and other initiatives: in 2019, all floors of the three Segrate hubs will be equipped with monitors, with centrally-managed and more nuanced information.

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 attaches great importance to environmental issues, especially as regards the life cycle of paper products, energy efficiency, and the reduction of climate-changing emissions (see *The new process for identifying material topics*, pp. 82-84).

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 Group's 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 of the Company.

In general, sustainability matters, and hence issues connected with environmental impacts, are referred to the Sustainability Committee (see *Governance system*, pp. 136-137), which as early as 2012 prepared a Company environmental policy, published on the Mondadori Group corporate website (mondadori.it/sostenibilita/la-tutela-dellambiente). 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.

As in the rest of the NFS, the figures of the scope of continuing operations are shown (Italian consolidated companies and Rizzoli International Publications); Mondadori France figures are shown separately, in this specific case all together at the end of the chapter.

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 2018, the total consumption of paper used for the printing of editorial products in the scope of continuing operations (Italy and the USA) amounted to 70,616 tonnes (-9.5% versus 2017). Leveraging on the strategy of purchasing goods and services that started in 2014, Mondadori has strengthened its commitment to rationalizing the use of paper in the printing of its products, and to have greater control over the supplier selection process, to ensure that their work is consistent with the sustainability principles of the Group. 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.

The table shows paper consumption by type of paper (certified, traditional and recycled) for the 2016–2018 period.

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In the three-year period, the breakdown by type of paper shows a clear change in figures, with a strong decrease in the use of traditional paper (0.02% of the total versus 2.1% last year) in favour of certified paper (99.94% of the total versus 97.9% last year).

Total printing paper – Italy

Type of paper ¹	2018		2017		2016	
	Tonnes	%	Tonnes	%	Tonnes	%
Certified	67,325	99.94%	73,573	97.9%	76,485	96.8%
Recycled	32	0.05%	37	0.0%	46	0.1%
Traditional	11	0.02%	1,578	2.1%	2,516	3.2%
Total	67,367		75,188		79,047	

¹ The table is net of the data from Inthera, sold in 2018

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. However, greater attention has been placed as early as 2018 to the use of certified paper, to align the company's standards with those of the Group. According to estimates, approximately 30% of paper used in 2018 is PEFC certified and 15% FSC certified.

Accordingly, paper consumption estimates for 2016–2018 are reported below; the increase in consumption shown was due to the higher number of copies printed.

Total printing paper – USA¹

	2018	2017	2016
Tonnes	3,249	2,849	2,777

¹ Rizzoli International Publications' 2016, 2017 and 2018 paper consumption has been estimated on the basis of the copies produced and the average weight per copy, as detailed figures on actual consumption of paper for printing are not available in the documents received from suppliers, nor was it possible to trace the cost of paper alone in the data appearing in the 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 the entire country 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 2018, regarding the Italian scope, a total of 4,942 tonnes of renewable packaging materials (wood and cardboard) was consumed (+17% versus 2017), while non-renewable packaging materials (polyethylene, polypropylene and expanded polystyrene foam) amounted to 390 tonnes (-6% versus 2017).

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 the Mondadori Group, 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 2018, over 61,000 tonnes 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 2018 this process was applied to approximately 56 million copies, for which approx. 226 tonnes of cellophane wrapping, approx. 110,000 pallets (equivalent to 2,103 tonnes of wood), and 42 tonnes of film was used;
- primary transport: from distribution logistics centres (Melzo and Verona) to local distributors (approximately 62 private businesses in 2018);
- 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 (tonnes)	Detail	Press-di		
		2018	2017	2016
Wood	Pallets ¹	2,103	2,168	2,352
Cardboard	Cardboard boxes and packaging materials	-	-	-
Polyethylene	Film	268 ²	295	332
	Package filling	-	-	-
	Pallet covers	n.d.	n.d.	n.d.
Polypropylene	Tape	n.d.	n.d.	n.d.
	Strapping	n.d.	n.d.	n.d.
Expanded polystyrene foam	Filling of packages with polystyrene	-	-	-

¹ Following the improved estimate of the pallet used for the distribution of magazines, the 2017 and 2016 data have been restated versus those published in the previous NFS. For previously published data, please refer to the 2017 NFS published on www.mondadori.it

² The figure on film in 2018 was estimated on the basis of consumption in 2017

The daily newspapers produced by third-party publishers (including *il Giornale*, *Liberio*, 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 CO₂eq emissions deriving from the transport of magazines from the distribution logistics centres of Verona and Melzo to local distributors in the three-year period 2016–2018. In 2018 these emissions fell by 13.7% versus 2016, from 6,235 tonnes to 5,378 tonnes of CO₂eq.

CO₂eq emissions from primary transport

	2018	2017	2016
t CO ₂ eq	5,378	5,806	6,235

Primary transport emissions have been calculated taking into consideration the greenhouse gases CO₂, CH₄ and N₂O

Emission factors used

Transport of magazines	Source 2018: DEFRA: 2018 UK Government GHG Conversion Factors for Company Reporting	0.81 kgCO ₂ eq/km
	Source 2017: DEFRA: 2017 UK Government GHG Conversion Factors for Company Reporting	0.81 kgCO ₂ eq/km
	Source 2016: DEFRA: 2016 UK Government GHG Conversion Factors for Company Reporting	0.83 kgCO ₂ eq/km

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 2018, a total of 21,478 tonnes of magazines (+2% versus 2017) and 9,017 tonnes of newspapers (-7% versus 2017) were recycled through local pulping. Currently, out of the 62 local distributors used by Press-di, 59 guarantee certified returns (versus 62 out of 69 last year).

Trade books

Logistics operations for Trade Books (for the Mondadori, Einaudi, Electa, Frassinelli, Piemme, and Sperling & Kupfer 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.

Returns Trade books (no.) ¹	2018	2017	2016
Copies	9,925,000	10,391,000	10,163,000
Packages	325,000	332,000	325,000
Shipments	35,200	35,700	35,000

¹ Data on pallets and shipments are based on estimates of the number of copies

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.

School book publishing

In 2018, Mondadori Education distributed approximately 6.5 million textbooks and teachers' guidebooks. In 2018, distribution operations for all Mondadori Education publications were performed at the Verona logistics hub, managed by Ceva Logistics.

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 decentralized 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 603,000 copies in 2018.

Distribution processes for Rizzoli Education are similar, but run through different logistics hubs, involving a central warehouse (City of Books hub in Stradella) and a regional distributor (Bologna).

As for the number of copies transported, approximately 7,800,000 copies were distributed in 2018, while returns amounted to 1,600,000 (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

As regards 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 shows consumption figures for materials used for the transportation of trade books and school books.

Materials consumption for trade books and school books¹

		Verona and Stradella logistics hubs		
Raw material (tonnes)	Detail	2018	2017	2016
Wood	Pallets	1,523	921	776
Cardboard	Cardboard boxes and packaging materials	1,316	1,121	1,136
Polyethylene	Film	39	73	75
	Package filling	8	13	13
	Pallet covers	4	3	3
Polypropylene	Tape	22	6	5
	Strapping	11	9	10
Expanded polystyrene foam	Filling of packages with polystyrene	38	15	16

¹ The figures for 2017 and 2016 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 reporting 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 cut its emissions, both in 2018 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. 129-131, 135).

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 (scope of continuing operations - Italy and USA) in 2018 amounted to approximately 35,591 tonnes of CO₂eq (-15% versus 2017). Total electricity consumption in 2018 amounted to 13,722 MWh (49,397 GJ, -15% versus 2017), while natural gas consumption amounted to 402,420 m³ (14,139 GJ, -22% versus 2017). 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.

GHG emissions (tonnes)	2018	2017	2016
Direct (Scope 1) - CO ₂ eq	801	1,013	1,064
Energy indirect (Scope 2) emissions			
location-based - CO ₂	4,840	5,870	6,527
market-based - CO ₂ eq	6,453	7,374	8,198
Other indirect (Scope 3) emissions	28,534	33,691	35,392
Emissions related to paper production - CO ₂	26,947	32,331	33,990
Emissions from business travel - CO ₂ eq	1,587	1,360	1,402
Total emissions	34,175	40,574	42,983

Location-based Scope 2 emissions are shown in tonnes of CO₂; however the percentage of methane and nitrous oxide has a negligible effect on the total greenhouse gas emissions (CO₂eq), as inferred from the technical reference literature

Scope 3 emissions linked to paper production are shown in tonnes of CO₂, as the source used does not report the emission factors of other gases than CO₂. Total emissions are shown in CO₂ as the share attributable to other gases (CH₄ and N₂O) is immaterial

Emission factors used¹

Electricity (location-based)	Source 2018: Terna international comparisons on Enerdata data (2016 data)	360 gCO ₂ /kWh
	Source 2016 and 2017: Terna international comparisons on Enerdata data (2015 data)	359 gCO ₂ /kWh
Electricity (market-based)	Source 2018: AIB, (2018). European Residual Mixes 2017	480 gCO ₂ eq/kWh
	Source 2017 and 2016: AIB, (2017). European Residual Mixes 2016	471 gCO ₂ eq/kWh
Natural gas	Source 2018: NIR ISPRA	1.978 kg di CO ₂ /m ³ 0.00008571 kgCH ₄ /m ³ 0.00003428 kgN ₂ O/m ³
	Source 2017: National standard parameters published by the Ministry for the Environment and Land and Sea Protection (2017)	1.964 tCO ₂ /1,000 stdm ³ and 55,897 tCO ₂ /TJ
	Source 2016: National standard parameters published by the Ministry for the Environment and Land and Sea Protection (2016)	1.955 tCO ₂ /1,000 stdm ³ and 55.841 tCO ₂ /TJ t CO ₂ /TJ
Paper production	Source: Key Statistics 2017 of the Confederation of European Paper Industries (CEPI)	0.4 tonnes CO ₂ /tonne paper

¹ Data relating to business travel are disclosed through specific reports by the various travel agencies used by the Group

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Direct (Scope 1) GHG emissions are connected with the consumption of natural gas for the heating of offices, stores, and warehouses and fugitive emissions from air conditioning units. Natural gas consumption figures were accurately measured.

Natural gas - Italy ¹	Unit	2018	2017	2016
Natural gas consumption	m ³	402,420	515,584	544,121
	GJ	14,139	18,115	19,151

¹ Natural gas consumption is converted into GJ using the conversion factors sourced from "National standard parameters published by the Ministry for the Environment and Land and Sea Protection" published for the respective years (2018, 2017, 2016). 2016-2017 data contain estimates as the final consumption figures are not available

In Italy, Group gas consumption fell by 22% versus 2017, from 515,584 m³ to 402,420 m³ in 2018, due mainly to the closure of some sites and energy efficiency measures introduced during the year (see *Initiatives to reduce environmental impact*, pp. 129-130).

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	Unit	2018	2017	2016
Total electricity purchased from national grid	MWh	13,445	15,655	17,405
	GJ	48,401	56,358	62,658

¹ 2016 and 2017 data contain estimates as the final consumption figures are not available

The approximately 23% drop in consumption between 2016 and 2018 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. 129-130).

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. 120-121) and business travel by employees. Emissions connected with the paper production cycle totaled approximately 26,950 tonnes of CO₂ in 2018, down versus the prior year as a result of the declining consumption of paper (-17%).

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 (%)	2018
Train	9.5%
Company car	24.9%
Car rental	3.0%
Plane	62.6%

As in prior years, company cars and air travel, being powered by fossil fuels, accounted for the biggest share of CO₂ emissions connected with business travel.

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. 122) and may be explored more thoroughly in upcoming years.

USA

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

GHG emissions (tonnes)	2018	2017	2016
Energy indirect (Scope 2) emissions			
location-based - CO ₂	117	231	244
market-based - CO ₂	117	231	244
Other indirect (Scope 3) emissions - CO ₂			
Emissions related to paper production	1,300	1,225	1,194
Total emissions	1,416	1,456	1,438

Scope 2 emissions are shown in tonnes of CO₂; however the percentage of methane and nitrous oxide has a negligible effect on the total greenhouse gas emissions (CO₂eq), as inferred from the technical reference literature.

Scope 3 emissions linked to paper production are shown in tonnes of CO₂, as the source used does not report the emission factors of other gases than CO₂.

Updated figures are currently not available on fugitive emissions from air conditioning equipment to be able to measure direct (Scope 1) GHG emissions, nor for emissions connected with business travel.

Emission factors used

Electricity (location-based and market-based)	Source 2018: Terna international comparisons on Enerdata data (2016 data)	421 gCO ₂ /KWh
	Source 2016 and 2017: Terna international comparisons on Enerdata data (2015 data)	455 gCO ₂ /KWh
Paper production	Source: Key Statistics 2017 of the Confederation of European Paper Industries (CEPI)	0.4 tonCO ₂ / tonne paper

In 2018, total emissions for Rizzoli International Publication fell by 2,7% versus 2017, thanks to lower energy indirect (Scope 2) GHG emissions connected with electricity consumption for lighting

and air conditioning. The drop in electricity consumption over the three-year period came to approximately 48%.

	Unit	2018	2017	2016
Total electricity purchased from national grid	MWh	277	508	536
	GJ	997	1,830	1,929

¹ Electricity consumption for Rizzoli International Publications has been estimated on the basis of the spend on electricity, as more detailed consumption data are not available

The other indirect (Scope 3) emissions reported in the table refer exclusively to tonnes of CO₂ emitted by paper production processes, which rose slightly

in 2018 as a result of the higher number of copies printed.

INITIATIVES TO REDUCE ENVIRONMENTAL IMPACT

Waste

The commitment to reducing environment impact also applies to waste produced. Given the Mondadori Group's typical business, only a minor part of waste produced by special products falls in the "hazardous" class. This in no way lessens our commitment to constantly improve in Italy; from 2017 to 2018, we cut the production of special waste by 5% (the data shown in the table refer only to the Segrate headquarters).

Waste	2018		2017		2016	
	Tonne	%	Tonne	%	Tonne	%
Hazardous	0.771	0.4%	0.793	0.4%	2.341	0.6%
Non-hazardous	199.73	99.6%	211.135	99.6%	360.962	99.4%
Total	200.5		211.9		363.3	

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Energy saving initiatives in 2018

2018 was a year of renewed focus on energy saving, especially regarding the Segrate head office. The initiatives reported below are those planned in 2017 and partly implemented in 2018, the benefits of which will be delivered in full in 2019. Other initiatives are currently in the pipeline or being assessed and planned.

All sites (Italy)

Among the measures taken 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 approximately 24%. In 2018, all printers in Italian offices and directly managed stores were replaced by new, high performance all-in-one devices for printing, scanning and photocopying. The new devices 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 (tonnes)

	2018	2017	2016
Paper for printouts	72	90	95
Toner for printouts	2	3	3

Segrate head office

- Nearing completion, the splitting of the induction system on the main building, south side, through sectioning of hydraulic distribution into two macro-areas per half floor, managed by temperature sets and the installation of inverters on the hot and cold inductor pumps. Goal: energy saving, increased comfort and ultimate flexibility of the system, allowing a different use on each floor. Annual savings are estimated at approximately 7,000 m³ of gas and 40,000 kW of electricity.
- Project laid out and request for quotations stage underway for the splitting of the induction system on the main building, north side, through sectioning of hydraulic distribution into two macro-areas per half floor, managed by temperature sets and the installation of inverters on the hot and cold inductor pumps. Goal: energy saving, increased comfort and ultimate flexibility of the system, allowing a different use on each floor.
- For both Palazzo Niemeyer and Cascina Tregarezzo, the electrical energy monitoring system was further improved in accordance with Legislative Decree 102/2014. The system allows splitting of energy consumption based on use (conditioning, motive power, lighting, auxiliary devices), crucial for implementing new energy saving measures.

Measures planned or in the pipeline for 2019

Segrate head office

- Project phase completed to move on to the request for quotations stage of the automated hot/cold CAV box management system on the “Foglia” floor. The project completes the work carried out a few years ago on the “Sottofoglia”. Goal: energy saving, greater system flexibility, improved well-being and drastic cut in control operations (no longer manual and on site via operator).

- Request for quotations stage for the replacement of the well pumps with new inverter pumps to reduce water and electricity consumption at night and in winter based on actual needs while still ensuring a minimum constant flow to the lake.
- In the planning and assessment stage, installation of compensating hoods to remove cooking fumes from the canteen. The significant reduction in the need for external air supply ensures direct saving of thermal energy and its cooling, as well as bringing the current hoods up to standard.
- Gradual replacement of external lamps (in the car park and along walkways) with new LED technology.

Reducing the impact of business travel

The Mondadori Group has been committed for several years now to reducing emissions from business travel related to its activities in Italy.

Along with the number of cars, the quality of the Group’s fleet in Italy also improved in 2018, 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 specialized in the identification and spread of energy, environmental protection, and sustainable development information); in 2018, 52% of the car fleet consisted of class A and B vehicles (48% in 2017), with a reduction in lower-emission vehicles (D, E, F).

Car fleet (Italy)			
Type (no.)	2018	2017	2016
Owned vehicles	-	-	8
Leased vehicles	112	130	142
Total	112	130	150

In 2018 too, no class E and F cars were held.

Type (no.)	2018	2017	2016
Class A - less than or equal to 100 gCO ₂ /km	16	19	16
Class B - from 101 to 120 gCO ₂ /km	42	44	44
Class C - from 121 to 140 gCO ₂ /km	31	37	40
Class D - from 141 to 160 gCO ₂ /km	8	12	19
Class E - from 161 to 200 gCO ₂ /km	15	18	29
Class F - from 201 to 250 gCO ₂ /km	-	-	2
Class G - more than 250 gCO ₂ /km	-	-	-
Total	112	130	150

The average amount of emissions per km has improved slightly from 126 gCO₂/km in 2017 to 127 gCO₂/km in 2018.

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Average CO₂ emissions per km (in grams of CO₂eq)

2018	127	C
2017	126	C
2016	132	C

Mondadori France

Responsible management of paper products

In France, the *Eco-contribution* tax on entities that release at least 5 tonnes 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

Type of paper	2018		2017		2016	
	Tonnes	%	Tonnes	%	Tonnes	%
Recycled ¹	7,349	20%	6,532	16%	14,158	31%
Traditional	29,665	80%	35,444	84%	31,681	69%
Total	37,014		41,976		45,839	

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

Mondadori France paper consumption, down already in recent years, dropped sharply in 2018 (-11.8% versus 2017) to around 37,000 tonnes. This is the result of the measures taken in the three-year period to reduce paper consumption for printing purposes.

Magazine logistics

Printing, binding and distribution operations connected with the magazines published by Mondadori France (approximately 171 million copies in 2018) are outsourced to external suppliers located in Europe. Unlike in Italy, the sale of magazines via subscriptions represents a significant share of the business. Magazines are distributed by post or to newsstands. Specifically, the distribution to newsstands is outsourced to two companies and is mainly carried out by road transport.

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 couriers.

The table below 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 (tonnes)	Detail	Mondadori France		
			2017	2016
Wood	Pallets	983	1,058	1,159
Cardboard	Cardboard boxes and packaging materials¹	20	20	20
Polyethylene	Film	183	201	207
	Package filling	-	-	-
	Pallet covers	-	-	-
Polypropylene	Tape	-	-	-
	Strapping	36	42	40
Expanded polystyrene foam	Filling of packages with polystyrene	-	-	-

¹ The consumption figure for cardboard boxes for the three-year period is an estimate

Emissions

As regards Mondadori Group operations in France, the greenhouse gas emissions considered within the reporting scope of the GHG survey are shown in the table below. The 2018 data on emissions from business travel by Mondadori France are unavailable

GHG emissions (tonnes)	2018	2017	2016
Direct (Scope 1) – CO ₂ eq	105	112	246
Energy indirect (Scope 2) emissions			
location-based – CO ₂	139	120	125
market-based – CO ₂ eq	152	137	143
Other indirect (Scope 3) emissions – CO ₂			
Emissions related to paper production	14,806	18,050	19,711
Total emissions	15,050	18,282	20,082

Location-based Scope 2 emissions are shown in tonnes of CO₂; however the percentage of methane and nitrous oxide has a negligible effect on the total greenhouse gas emissions (CO₂eq), as inferred from the technical reference literature.

Scope 3 emissions linked to paper production are shown in tonnes of CO₂, as the source used does not report the emission factors of other gases than CO₂

Total emissions are shown in CO₂ as the share attributable to other gases (CH₄ and N₂O) is immaterial

The direct (Scope 1) GHG emissions reported in the table consist exclusively of fugitive emissions from air conditioning units, which in 2018 amounted to approximately 75 kg, equivalent to 105 tonnes of CO₂eq.

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Emission factors:

Electricity (location-based)	Source 2018: Terna international comparisons on Enerdata data (2016 data)	53 gCO ₂ /kWh
	Source 2016 and 2017: Terna international comparisons on Enerdata data (2015 data)	40 gCO ₂ /kWh
Electricity (market-based)	Source 2018: AIB, (2018). European Residual Mixes 2017	58 gCO ₂ eq/kWh
	Source 2017 and 2016: AIB, (2017). European Residual Mixes 2016	49 gCO ₂ eq/kWh
Refrigerants (HFCs)	Source: GHG Protocol 2016	CO ₂ eq/kg
Paper production	Source: Key Statistics 2017 of the Confederation of European Paper Industries (CEPI)	0.4 tonnes CO ₂ / tonne paper

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

While less than in Italy, Mondadori France also saw its electricity consumption fall in 2018: from 2,794 MWh in the prior year to 2,619 MWh (-6%). The drop in consumption was largely driven by measures introduced as of 2015 to reduce electricity consumption.

Lastly, with regards to other indirect (Scope 3) GHG emissions, the downward trend registered in recent years was due mainly to the lower consumption of printing paper, which fell from approximately 45,839 tonnes in 2016 to approximately 37,000 tonnes in 2018, corresponding to a 25% reduction in CO₂ emissions (from 19,711 in 2016 to 14,806 tonnes of CO₂ in 2018). The reduction in CO₂ emissions over the three years for Mondadori France was 25%.

Electricity	Unit	2018	2017	2016
Total electricity purchased from national grid	MWh	2,619	2,794	2,917
	GJ	9,428	10,058	10,500

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

Waste

France shows even brighter results: in the 2016-2018 three-year period, total waste dropped by 17% from approximately 229 tonnes to 189. The

breakdown between hazardous and non-hazardous waste remained virtually unchanged in the reporting period.

Waste	2018		2017		2016	
	Tonnes	%	Tonnes	%	Tonnes	%
Hazardous	0.113	0.06%	0.128	0.06%	0.097	0.04%
Non-hazardous	189.199	99.94%	218.594	99.94%	228.735	99.96%
Total	189.312		218.722		228.832	

Measures to reduce environmental impact

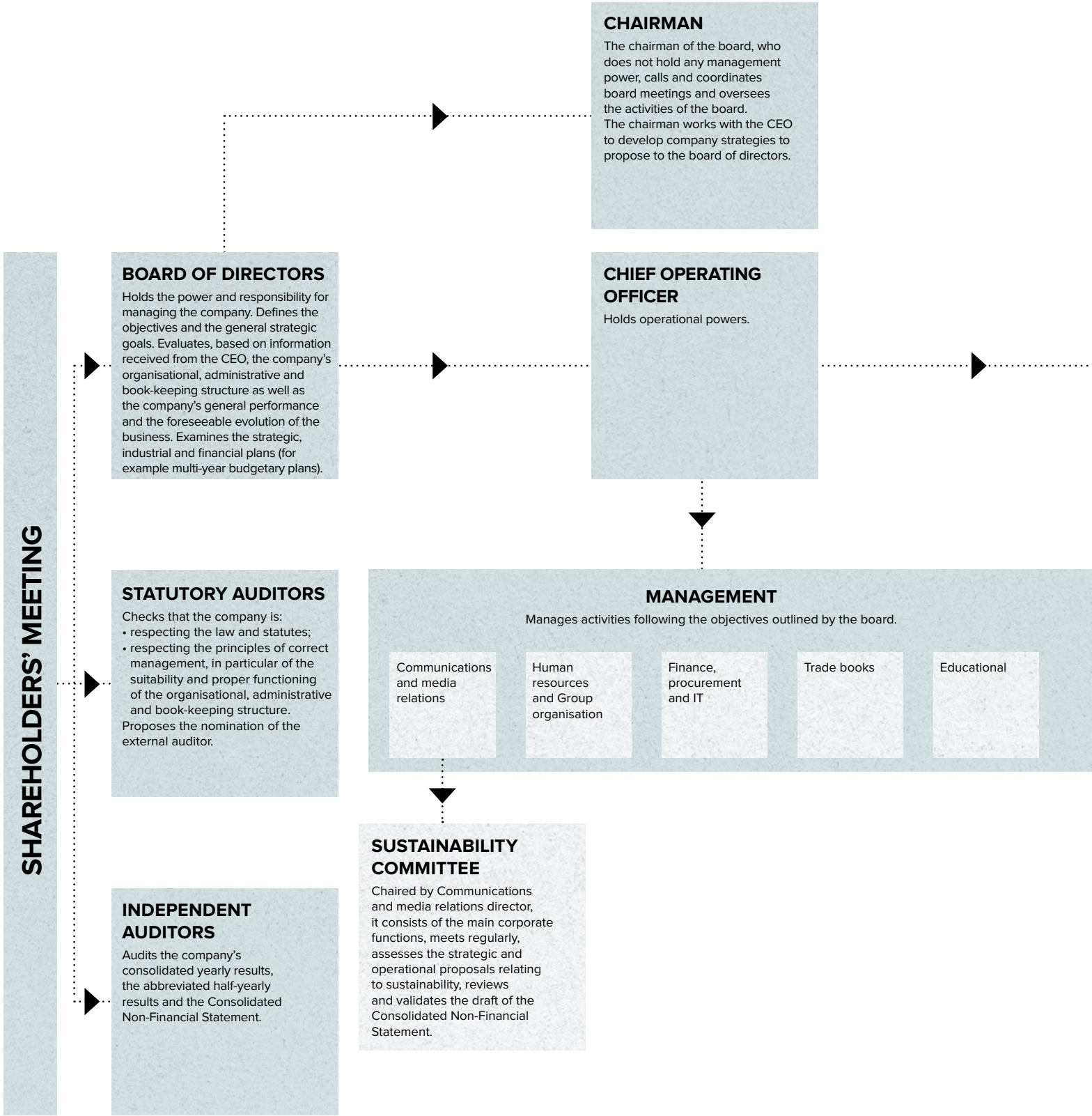
Paper and sustainability

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 2%, from 221 grams in 2017 to 216 grams in 2018.

	Unit	2018	2017	2016
Total circulation	Copies	171,462,700	190,000,000	200,000,000
Paper consumed	Tonne	37,014	41,977	45,839
Average paper consumption per copy produced	g	216	221	229

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.



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;
- assists the BoD in the assessments and decisions regarding sustainability topics, with specific regard to the approval of the NFS.

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 in 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 committee 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.

Magazines
Italy

Mondadori
France

Mondadori
Retail

NOTE ON METHODOLOGY

This Consolidated Non-Financial Statement (hereinafter also “Statement” or “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 organizational model, 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).

Mention should be made that the issues relating to water consumption and health and safety were not found to be material by the materiality analysis described in the section *Materiality matrix*, pp. 84-85.

Material topic	Law 254 areas	GRI topic
Promotion of culture and reading	Social impacts	Interaction with the public (M) Media Literacy (M)
Education and the school world	Social impacts	Training and education
Transformation of business models	Social impacts	Economic performance
Digital development	Social impacts	Disclosure of content (M) Interaction with the public (M) Employment
Enhancement and management of human capital	Personnel management	Training and education Industrial relations
Responsibility of content	Social impacts	
Brand management	Social impacts	
Diversity	Personnel management	Employment Diversity and equal opportunities
Freedom of expression and editorial independence	Social impacts Human rights	Freedom of expression (M) Public policies Cultural Rights (M)
Privacy and personal data protection	Social impacts Human rights	Customer privacy Protection of privacy (M)
Life cycle of the paper product	Environment	Materials
Product accessibility	Social impacts Human rights	Disclosure of content (M) Portrayal of Human Rights (M)
Business integrity and combating corruption	Social impacts Combating corruption	Socio-economic compliance Anti-corruption
Market abuse	Social impacts	Anti-competitive behaviour
Climate change	Environment	Emissions
Management of environmental impacts	Environment	Energy consumption Materials

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

In accordance with the two options provided by Article 5 of Italian Legislative Decree 254/16, this NFS has been incorporated into the Directors' Report on Operations of the Mondadori Group for 2018. This Non-Financial Statement, prepared on an annual basis, is also published on the Group website, *www.mondadori.it*, as part of the 2018 Annual Report.

In accordance with the GRI Standards, when prioritizing the sustainability issues, due

consideration was given to the relevance of the impact of each one both within and outside the reporting scope, i.e. along the Mondadori value creation chain.

For greater clarity of presentation 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, stated.

Scope of material topics		Scope limitations	
Where the impact occurs	Type of impact	Internal	External
Group	Generated by the Group	-	-
Group	Generated by the Group	-	-
Group	Generated by the Group	-	-
Group	Generated by the Group	-	-
Group	Generated by the Group	-	Reporting scope partially extended to franchisees
Group	Generated by the Group	-	-
Group	Generated by the Group	-	Reporting scope not extended to franchisees
Group	Generated by the Group	-	-
Group	Generated by the Group	-	-
Group	Generated by the Group	-	-
Group, Distributors	Generated by the Group and related to Group activities	Reporting scope partially extended to RIP*	Reporting scope partially extended to distributors and not extended to paper suppliers and printers
Group	Generated by the Group	-	-
Group	Generated by the Group	-	-
Group	Generated by the Group	-	-
Group, Distributors	Generated by the Group and related to Group activities	Reporting scope partially extended to RIP*	Reporting scope partly extended to distributors and not extended to paper suppliers, printers and franchisees
Group, paper suppliers, distributors, printers and franchisees	Generated by the Group and related to Group activities	Reporting scope partially extended to RIP*	Reporting scope partly extended to distributors and not extended to paper suppliers, printers and franchisees

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: in line with the presentation of the economic and financial data in the Financial Report 2018, the data related to the subsidiary Mondadori France S.A.S. (classified under “Result from discontinued operations”) are presented in accordance with IFRS 5.

Mention should also be made that Inthera was sold in May 2018; its data and information are included in the Group's environmental and social data up to the disposal date. Any exceptions are duly indicated in the text.

Any exceptions to the reporting scope shown above are duly highlighted in the document; however, these limitations are not considered relevant for the comprehension of the company's business, performance, its results and the impacts it generates.

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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
	102-40	List of stakeholder groups
	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
	305-7	Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions
GRI 401 - Employment	401-1	New employee hires and employee turnover
GRI 402 - Labor/Management	402-1	Minimum notice periods regarding operational changes
	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

The **reporting year** to which information and data included in this NFS refer is 2018 (1 January - 31 December).

to the document, the GRI Content Index shows GRI indicators associated with each material topic (pp. 144-148).

The **reporting standard** adopted by the Group for the preparation of the NFS 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. Additionally, as an appendix

GRI Standards	GRI Disclosure	Description
GRI 405 - Diversity and equal opportunity	405-1	Diversity of governance bodies and employees
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	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	Freedom of Expression
	103-1 103-2	
	GRI 103 - Management Approach	Cultural Rights
	103-1 103-2	
	GRI 103 - Management Approach	Portrayal of Human Rights
	103-1 103-2	
	GRI 103 - Management Approach	Protection of Privacy
	103-1 103-2	

Reporting process and calculation criteria

The identification of the qualitative information and quantitative data contained in this 2018 NFS involved all relevant company functions, in concert with and coordinated by CSR officers.

Specifically, the data reported was selected on the basis of the materiality analysis (see *The new process of identifying material topics*, pp. 82-84), and, where appropriate, also on the basis of the European Commission's "Guidelines on Non-Financial Reporting". The data were collected through a collection, aggregation, and transmission process applied to data and information at Group level.

For the preparation of the Consolidated NFS for 2018, Mondadori was assisted by Lundquist S.r.l.

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.

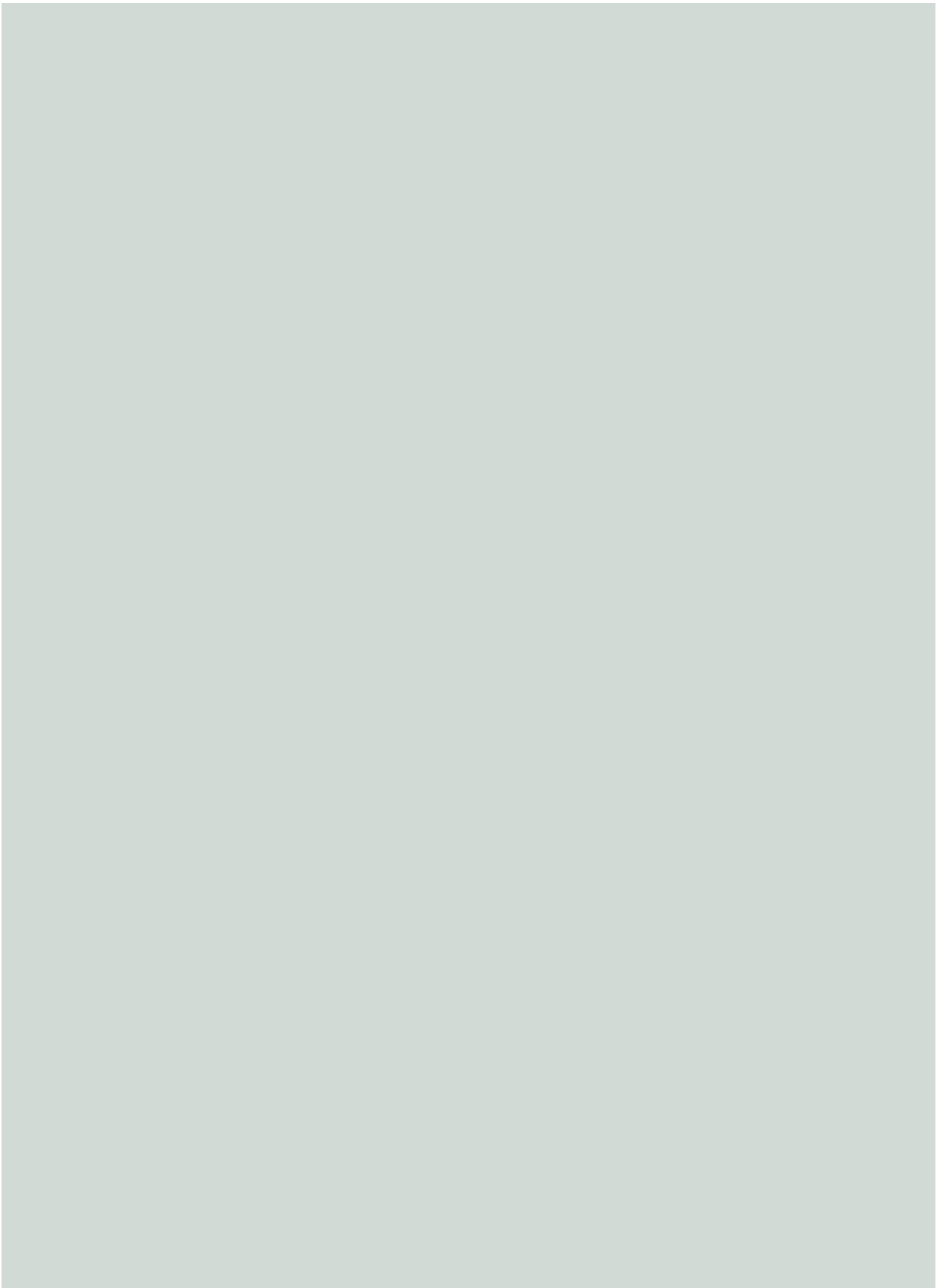
In order to compare data over time, where possible, data for the previous two years were included. Restatements of comparative data published in the previous NFS are clearly specified as such.

Additionally, as part of the steady, on-going development process of non-financial reporting, mention should be made that this NFS has been supplemented with new indicators relating to: diversity of governing bodies and employees, women's/men's salary ratio, and waste. With regard to these areas, it should be noted that the data for the comparative years have not been subject to a limited audit.

To ensure data reliability, the use of estimates has been restricted as much as possible, and, where used, are based on the best available and appropriately reported methods.

This NFS was approved by the Board of Directors of Arnoldo Mondadori Editore S.p.A. on 14 March 2019.

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. 150-153).



GRI CONTENT INDEX

GRI Standard	Disclosure	Page reference	Omission
GRI 102: General Disclosures			
Organizational Profile			
	102-8 Information on employees and other workers	pp. 100; 107-108	
Strategy			
	102-15 Key impacts, risks, and opportunities	pp. 88-90	
Governance			
	102-18 Governance structure	pp. 136-137	
Stakeholder engagement			
	102-40 List of stakeholder groups	p. 83	
	102-41 Collective bargaining agreements	p. 112	
Reporting practice			
	102-46 Defining report content and topic Boundaries	pp. 82-85; 138-139	
	102-47 List of material topics	pp. 82-85	
	102-55 GRI content index	pp. 144-148	
Material Topics			
GRI 200 Economic Standard Series			
Economic performance			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 91-92	
GRI 201: Economic Performance	201-4 Financial assistance received from government	pp. 91-92	
Anti-corruption			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 90; 99	

GRI Standard	Disclosure	Page reference	Omission
GRI 205: Anti-corruption	205-3 Confirmed incidents of corruption and actions taken	p. 99	
Anti-competitive Behavior			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	p. 99	
GRI 206: Anti-competitive Behavior	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	p. 99	
GRI 300 Environmental Standards Series			
Materials			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 88; 119-122; 124; 130; 131-132	
GRI 301: Materials 2016	301-1 Materials used by weight or volume	pp. 119-122; 124; 130; 131-132	
	301-2 Recycled input materials used	pp. 120; 132	
Energy			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 88; 119; 125; 129-130	
GRI 302: Energy	302-1 Energy consumption within the organization	pp. 125-128; 129; 134	
Emissions			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 88; 119; 122; 125-128; 130-133	

GRI Standard	Disclosure	Page reference	Omission
GRI 305: Emissions	305-1 Direct (Scope 1) GHG emissions	pp. 125-126; 128; 133	
	305-2 Energy indirect (Scope 2) GHG emissions	pp. 125-127; 128; 133	
	305-3 Other indirect (Scope 3) GHG emissions	pp. 125-127; 128; 133 Scope 3 emissions include, for Italy, emissions linked to paper consumption and business travel; for the United States and Mondadori France, they include emissions linked to paper consumption.	
	305-7 Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions	In 2108, the Mondadori Group reported no significant emissions of nitrogen oxides (NO _x), sulfur oxides (SO _x) or other emissions.	

GRI 400 Social Standards Series

Employment

GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139
	103-2 The management approach and its components	pp. 90; 99; 118
GRI 401: Employment	401-1 New employee hires and employee turnover	pp. 101-103

Labor/Management Relations

GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139
	103-2 The management approach and its components	pp. 111-112
GRI 402: Labor/Management Relations 2016	402-1 Minimum notice periods regarding operational changes	p. 112

Training and Education

GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139
	103-2 The management approach and its components	pp. 90; 112-117
GRI 404: Training and Education	404-1 Average hours of training per year per employee	pp. 115-116
	404-2 Programs for upgrading employee skills and transition assistance programs	pp. 115-117
	404-3 Percentage of employees receiving regular performance and career development reviews	pp. 115-117

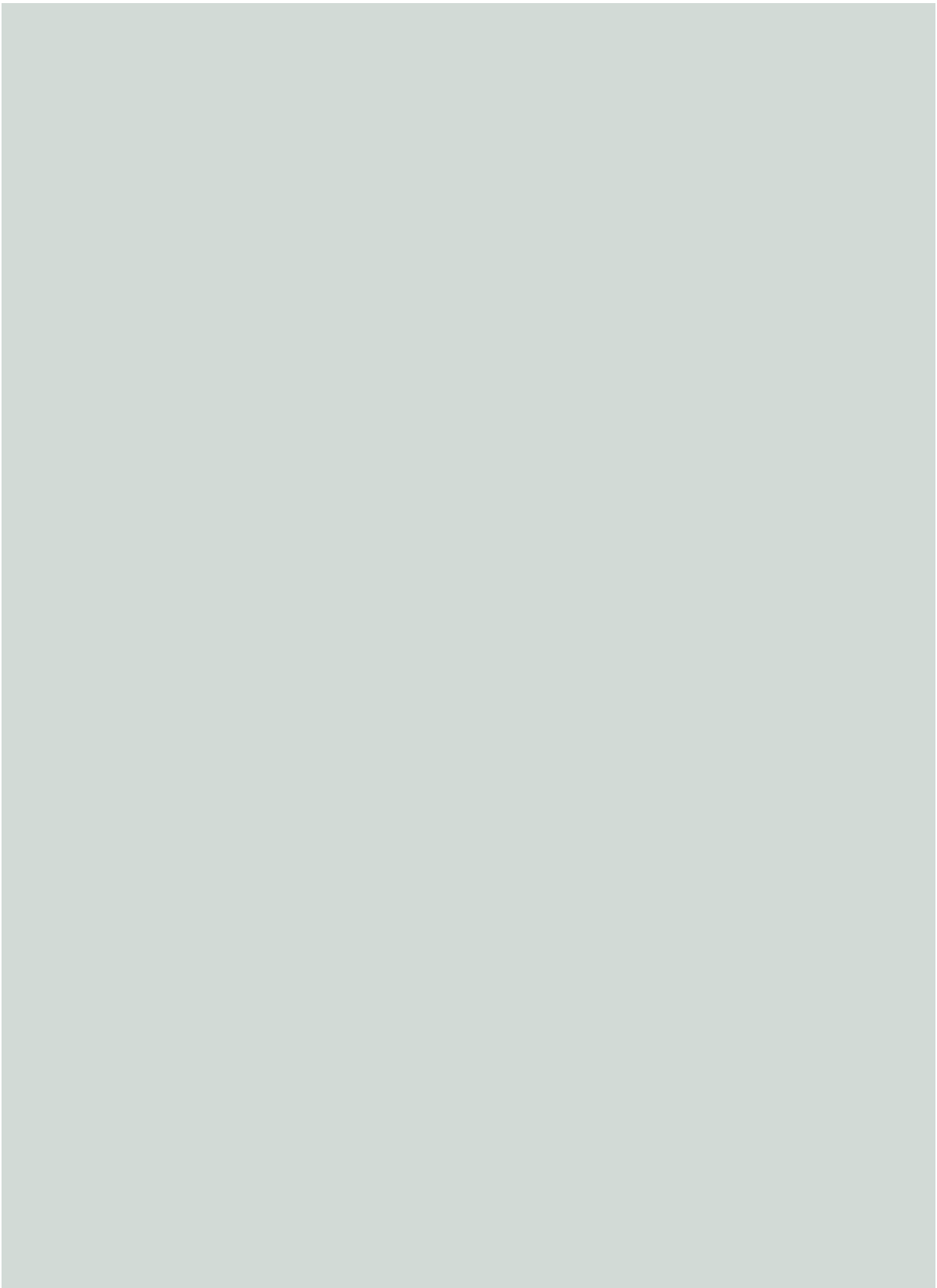
GRI Standard	Disclosure	Page reference	Omission
Diversity and Equal Opportunity			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 104-106; 109-111	
GRI 405: Diversity and Equal Opportunity	405-1: Diversity of governance bodies and employees	pp. 104-106; 109-111	
Public Policy			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	p. 92	
GRI 415: Public Policy	415-1 Political contributions	p. 92	
Customer Privacy			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 89; 96-98	
GRI 418: Customer Privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	pp. 97-98	
Socioeconomic Compliance			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 98-99	
GRI 419: Socioeconomic Compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	pp. 98-99	
Content Dissemination*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 89; 95	
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	p. 95	

GRI Standard	Disclosure	Page reference	Omission
Audience Interaction*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 89; 95-96	
M6	Methods to interact with audiences and results	pp. 95-96	
Media Literacy*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 93-95	
M7	Actions taken to empower audiences through media literacy skills development and results obtained	pp. 93-95	
Freedom of expression*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 92-93	
Portrayal of Human Rights*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 89; 95-96	
Cultural rights*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 89; 93-94	
Protection of privacy*			
GRI 103: Management Approach	103-1 Explanation of the material topic and its Boundary	pp. 82-85; 138-139	
	103-2 The management approach and its components	pp. 89; 96-98	

* GRI G4 Media Sector Disclosure

For the Board of Directors
The Chairman
Marina Berlusconi





INDEPENDENT AUDITORS' REPORT

**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. 20267/2018**

**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 "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, 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 "Mondadori Group" or "Group") as of December 31, 2018 prepared on the basis of art. 4 of the Decree, presented in the specific section of the report on operations, and approved by the Board of Directors on March 14, 2019 (hereinafter "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 art. 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) of this report;

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 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.

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 company, Arnoldo Mondadori Editore S.p.A., which we selected based on its activities, its contribution to the performance indicators at the consolidated level and its location, we carried out site visits, during which we have met the 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, 2018 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 matters

With reference to the year ended December 31, 2016, the Group prepared a Sustainability Report, 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.

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DELOITTE & TOUCHE S.p.A.

Signed by
Vittorio Camosci
Partner

Milan, Italy
March 27, 2019



Palazzo Niemeyer plays host to fashion

For the first time ever, on 15 June 2018, the Mondadori Group opened its headquarters to a fashion show: the catwalk crossing the expanse of water in front of Palazzo Niemeyer, covered for the occasion with a mirror surface, hosted the men's 2019 spring-summer collection by Ermenegildo Zegna. An unprecedented show that glorifies the magnificence of Oscar Niemeyer's outstanding design, an extraordinary event whose images were relayed across the world.

**Consolidated
Financial Statements
at 31 December 2018**

CONSOLIDATED BALANCE SHEET

Assets (Euro/thousands)	Notes	31/12/2018	31/12/2017
Intangible assets	12	226,672	593,004
Investment property	13	-	2,831
Land and buildings		2,593	3,389
Plant and equipment		3,082	5,828
Other tangible assets		13,460	14,837
Property, plant and equipment	14	19,135	24,054
Equity-accounted investees		31,820	37,139
Other investments		439	902
Total investments	15	32,259	38,041
Non-current financial assets	22	500	1,772
Pre-paid tax assets	16	61,408	64,933
Other non-current assets	17	566	2,102
Total non-current assets		340,540	726,737
Tax receivables	18	24,630	29,373
Other current assets	19	83,878	86,945
Inventory	20	122,336	127,607
Trade receivables	21	219,031	298,012
Other current financial assets	22	7,861	1,683
Cash and cash equivalents	23	82,358	66,585
Total current assets		540,094	610,205
Assets of discontinued operations		229,743	-
Total assets		1,110,377	1,336,942

Liabilities (Euro/thousands)	Notes	31/12/2018	31/12/2017
Share capital		67,979	67,979
Share premium reserve		-	-
Treasury shares		(2,282)	(1,654)
Other reserves and profit/(loss) carried forward		253,411	219,072
Profit (loss) for the year		(177,133)	30,417
Group equity	24	141,975	315,814
Share capital and reserves attributable to non-controlling interests	25	28,724	29,500
Total equity		170,699	345,314
Provisions	26	69,826	73,110
Post-employment benefits	27	33,458	47,505
Non-current financial liabilities	28	115,055	232,736
Deferred tax liabilities	16	38,113	60,597
Other non-current liabilities		-	-
Total non-current liabilities		256,452	413,948
Income tax payables	18	15,292	5,750
Other current liabilities	29	146,258	221,844
Trade payables	30	258,104	323,538
Payables to banks and other financial liabilities	28	126,809	26,548
Total current liabilities		546,463	577,680
Liabilities of discontinued operations		136,763	-
Total liabilities		1,110,377	1,336,942

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CONSOLIDATED INCOME STATEMENT

(Euro/thousands)	Notes	2018	2017*
Revenue from sales and services	32	891,077	970,134
Decrease (increase) in inventory	20	(325)	16,034
Cost of raw and ancillary materials, consumables and goods	33	162,929	172,453
Cost of services	34	496,446	538,285
Cost of personnel	35	157,627	160,784
Other (income) expense	36	(3,095)	(4,132)
EBITDA		77,495	86,710
Depreciation and impairment loss on property, plant and equipment	13-14	5,089	5,655
Amortization and impairment loss on intangible assets	12	16,160	16,044
Impairment loss on equity-accounted investees and other companies	15	5,000	4,600
EBIT		51,246	60,411
Financial income (expense)	38	(6,020)	(13,783)
Income (expense) from investments	37	(13,162)	(3,955)
Result before tax		32,064	42,673
Income tax	39	14,885	22,334
Result from continuing operations		17,179	20,339
Income/ (loss) from discontinued operations	11	(192,351)	12,601
Net Income/ (loss)		(175,172)	32,940
Attributable to:			
- Non-controlling interests	25	1,961	2,523
- Parent Company shareholders		(177,133)	30,417
Earnings per share of continuing operations (in Euro units)	40	0.066	0.078
Diluted earnings per share of continuing operations (in Euro units)	40	0.066	0.078
Net earnings per share (in Euro units)	40	(0.680)	0.116
Diluted net earnings per share (in Euro units)	40	(0.678)	0.116

* Comparative information has been restated following initial application of IFRS 15 and reclassifications made under IFRS 5

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

(Euro/thousands)	Notes	2018	2017
Net result		(175,172)	32,940
<i>Items reclassifiable to income statement</i>			
Profit (loss) from the conversion of currency denominated financial statements of foreign companies	24	977	(2,792)
Other profit (loss) from companies measured at equity	24	(116)	(248)
Effective part of profit (loss) on cash flow hedge instruments (cash flow hedge)	22-28	(437)	(341)
Profit (loss) from assets of discontinued operation (fair value)	22-28	-	-
Tax effect on other profit (loss) reclassifiable to income statement		105	82
<i>Items reclassified to income statement</i>			
Profit (loss) on cash flow hedge instruments		302	2,051
Profit (loss) from assets of discontinued operation (fair value)		-	-
Tax effect on other profit (loss) reclassified to income statement		(72)	(492)
<i>Items not reclassifiable to income statement</i>			
Actuarial profit (loss)	27	2,924	625
Tax effect on other profit (loss) not reclassifiable to income statement		(979)	(246)
Total other profit (loss) net of tax effect		2,704	(1,361)
Comprehensive result for the year		(172,468)	31,579
Attributable to:			
- Non-controlling interests		2,061	2,536
- Parent Company shareholders		(174,529)	29,043

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For the Board of Directors
The Chairman
Marina Berlusconi



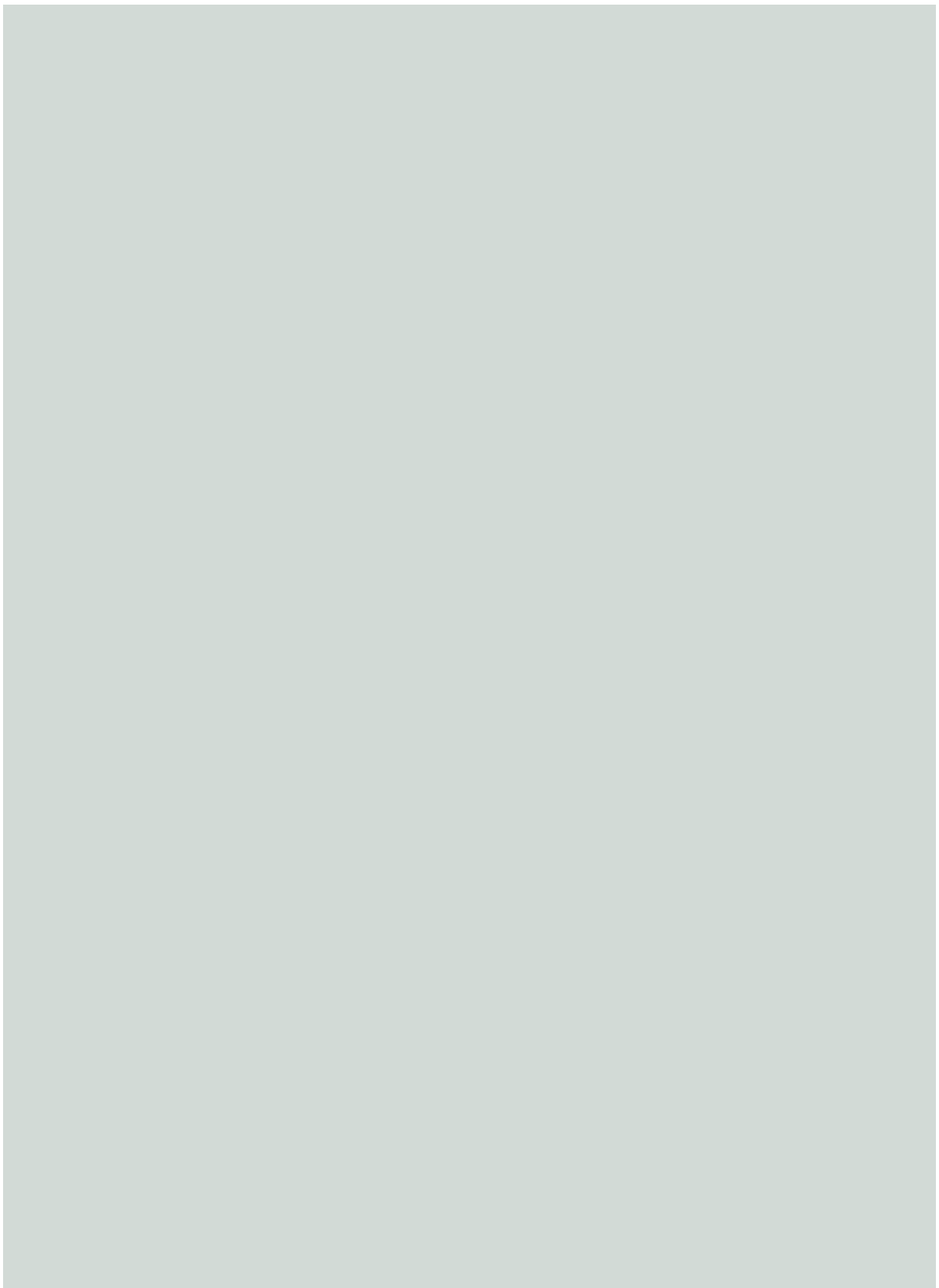
CONSOLIDATED INCOME STATEMENT - FOURTH QUARTER

(Euro/thousands)	4Q 2018	4Q 2017*
Revenue from sales and services	232,959	263,060
Decrease (increase) in inventory	10,842	18,559
Cost of raw and ancillary materials, consumables and goods	39,456	47,416
Cost of services	123,476	133,899
Cost of personnel	41,482	42,534
Other (income) expense	(6,793)	(2,878)
EBITDA	24,496	23,530
Depreciation and impairment loss on property, plant and equipment	1,417	1,866
Amortization and impairment loss on intangible assets	4,332	4,473
Impairment loss on equity-accounted investees and other companies	5,000	4,600
EBIT	13,747	12,591
Financial income (expense)	(1,552)	(3,759)
Income (expense) from investments	(3,296)	(1,794)
Result before tax	8,899	7,037
Income tax	5,128	7,013
Result from continuing operations	3,771	24
Income/ (loss) from discontinued operations	934	(199)
Net result	4,705	(175)
Attributable to:		
- Non-controlling interests	377	639
- Parent Company shareholders	4,328	(814)

* Comparative information has been restated following initial application of IFRS 15 and reclassifications made under IFRS 5

For the Board of Directors
The Chairman
Marina Berlusconi





STATEMENT OF CHANGES IN CONSOLIDATED EQUITY AT 31 DECEMBER 2017 AND 2018

(Euro/thousands)	Notes	Share capital	Treasury shares	Performance share reserve	Cash flow hedge reserve	Fair value reserve
Balance at 1 January 2017		67,979	(73)	0	(2,240)	0
- Allocation of result						
- Dividends paid						
- Change in consolidation scope						
- Capital increase						
- Transactions on treasury shares			(1,581)			
- Performance share	35			850		
- Other changes						
- Comprehensive profit (loss)					1,300	
Balance at 31 December 2017	24	67,979	(1,654)	850	(940)	0

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(Euro/thousands)	Notes	Share capital	Treasury shares	Performance share reserve	Cash flow hedge reserve	Fair value reserve
Balance at 31 December 2017		67,979	(1,654)	850	(940)	0
Effects of the change in accounting standards						
Balance at 1 January 2018		67,979	(1,654)	850	(940)	0
- Allocation of result						
- Dividends paid						
- Change in consolidation scope						
- Transactions on treasury shares			(628)			
- Performance share	35			1,563		
- Other changes						
- Comprehensive profit (loss)					(102)	
Balance at 31 December 2018	24	67,979	(2,282)	2,413	(1,042)	0

Currency reserve	Post-employment discounting reserve	Other reserves	Profit (loss) for the year	Total Group equity	Equity attributable to non-controlling interests	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
(1,230)	(533)	220,925	30,417	315,814	29,500	345,314

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Currency reserve	Post-employment discounting reserve	Other reserves	Profit (loss) for the year	Total Group equity	Equity attributable to non-controlling interests	Total
(1,230)	(533)	220,925	30,417	315,814	29,500	345,314
		(267)		(267)		(267)
(1,230)	(533)	220,658	30,417	315,547	29,500	345,047
		30,417	(30,417)	-		-
				-	(2,836)	(2,836)
				-		-
				(628)		(628)
				1,563		1,563
55		(34)		22		22
881	1,845	(20)	(177,133)	(174,529)	2,060	(172,469)
(294)	1,312	251,021	(177,133)	141,975	28,724	170,699

For the Board of Directors
The Chairman
Marina Berlusconi



CONSOLIDATED CASH FLOW STATEMENT

(Euro/thousands)	Notes	31/12/2018	31/12/2017*
Net result		(177,133)	30,417
Adjustments			
Amortization, depreciation and impairment	12-13-14	21,249	21,699
Income tax for the year	39	14,885	19,551
Performance share		1,396	749
Provisions (utilization) and post-employment benefits		(11,152)	8,718
Capital loss (gain) from the disposal of intangible assets, property, plant and equipment, investments		(1,843)	(14,152)
Capital loss (gain) from the measurement of financial assets		-	-
(Income) expense of equity-accounted investees	37	17,713	8,811
Net financial expense on loans and transactions with derivatives	38	4,844	11,834
Other non-monetary adjustments to from discontinued operations		194,312	(10,078)
Cash flow generation from operations		64,271	77,549
(Increase) decrease in trade receivables		37,860	(667)
(Increase) decrease in inventory		829	11,467
Increase (decrease) in trade payables		(20,198)	(16,154)
Income tax payments		(7,874)	(3,201)
Advances and post-employment benefits		(3,755)	(4,124)
Net difference for other assets/liabilities		(21,982)	(24,910)
Cash flow generated from (absorbed by) the discontinued operations		4,487	48,192
Cash flow generated from (absorbed by) operations		53,638	88,152
Price collected (paid) net of cash transferred/acquired		(2,532)	13,787
(Purchase) disposal of intangible assets		(12,857)	(13,930)
(Purchase) disposal of property, plant and equipment		2,976	1,259
(Purchase) disposal of investments		(3,408)	(1,175)
(Purchase) disposal of financial assets		(6,470)	465
Cash flow generated from (absorbed by) discontinued operations		5,473	(2,188)
Cash flow generated from (absorbed by) investment activities		(16,818)	(1,782)
Net difference in financial liabilities		(16,926)	(85,712)
Payment of net financial expense on loans and transactions with derivatives		(3,544)	(11,081)
Capital increase		-	-
(Purchase) disposal of treasury shares		(628)	(1,581)
Dividends paid		-	-
Cash flow generated from (absorbed by) discontinued operations		51	999
Cash flow generated from (absorbed by) financing activities		(21,047)	(97,375)
Increase (decrease) in cash and cash equivalents		15,773	(11,005)
Cash and cash equivalents at the beginning of the period	23	66,585	77,590
Cash and cash equivalents at the end of the period	23	82,358	66,585

* Comparative information has been restated following application of IFRS 5

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	31/12/2018	Of which related parties (Note 42)	31/12/2017	Of which related parties (Note 42)
Intangible assets	12	226,672	-	593,004	-
Investment property	13	-	-	2,831	-
Land and buildings		2,593	-	3,389	-
Plant and equipment		3,082	-	5,828	-
Other tangible assets		13,460	-	14,837	-
Property, plant and equipment	14	19,135	0	24,054	0
Equity-accounted investees		31,820	-	37,139	-
Other investments		439	-	902	-
Total investments	15	32,259	0	38,041	0
Non-current financial assets	22	500	500	1,772	500
Pre-paid tax assets	16	61,408	-	64,933	-
Other non-current assets	17	566	-	2,102	-
Total non-current assets		340,540	500	726,737	500
Tax receivables	18	24,630	143	29,373	199
Other current assets	19	83,878	296	86,945	56
Inventory	20	122,336	-	127,607	-
Trade receivables	21	219,031	43,288	298,012	50,413
Other current financial assets	22	7,861	25	1,683	25
Cash and cash equivalents	23	82,358	-	66,585	-
Total current assets		540,094	43,752	610,205	50,693
Assets of discontinued operations		229,743	-	-	-
Total assets		1,110,377	44,252	1,336,942	51,193

Liabilities (Euro/thousands)	Notes	31/12/2018	Of which related parties (Note 42)	31/12/2017	Of which related parties (Note 42)
Share capital		67,979	-	67,979	-
Share premium reserve		-	-	-	-
Treasury shares		(2,282)	-	(1,654)	-
Other reserves and profit/(loss) carried forward		253,411	-	219,072	-
Profit (loss) for the year		(177,133)	-	30,417	-
Group equity	24	141,975	0	315,814	0
Share capital and reserves attributable to non-controlling interests	25	28,724	-	29,500	-
Total equity		170,699	0	345,314	0
Provisions	26	69,826	-	73,110	-
Post-employment benefits	27	33,458	-	47,505	-
Non-current financial liabilities	28	115,055	-	232,736	-
Deferred tax liabilities	16	38,113	-	60,597	-
Other non-current liabilities		-	-	-	-
Total non-current liabilities		256,452	0	413,948	0
Income tax payables	18	15,292	13,217	5,750	4,075
Other current liabilities	29	146,258	610	221,844	131
Trade payables	30	258,104	14,193	323,538	15,025
Payables to banks and other financial liabilities	28	126,809	738	26,548	-
Total current liabilities		546,463	28,758	577,680	19,231
Liabilities of discontinued operations		136,763	-	-	-
Total liabilities		1,110,377	28,758	1,336,942	19,231

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

(Euro/thousands)	Notes	2018	Of which related parties (Note 43)	Of which non-recurring (income) expense (Note 42)	2017*	Of which related parties (Note 43)	Of which non-recurring (income) expense (Note 42)
Revenue from sales and services	32	891,077	65,073	-	970,134	84,580	-
Decrease (increase) in inventory	20	(325)	-	-	16,034	-	-
Cost of raw and ancillary materials, consumables and goods	33	162,929	3,623	-	172,453	4,373	-
Cost of services	34	496,446	6,168	-	538,285	8,703	-
Cost of personnel	35	157,627	(69)	-	160,784	(225)	-
Other (income) expense	36	(3,095)	552	-	(4,132)	(27)	-
EBITDA		77,495	54,799	0	86,710	71,756	0
Depreciation and impairment loss on property, plant and equipment	13-14	5,089	-	-	5,655	-	-
Amortization and impairment loss on intangible assets	12	16,160	-	-	16,044	-	-
Impairment loss on equity-accounted investees and other companies	15	5,000	-	-	4,600	-	-
EBIT		51,246	54,799	0	60,411	71,756	0
Financial income (expense)	38	(6,020)	(24)	-	(13,783)	71	-
Income (expense) from other investments	37	(13,162)	-	-	(3,955)	-	-
Result before tax		32,064	54,775	0	42,673	71,827	0
Income tax	39	14,885	-	-	22,334	-	-
Result from continuing operations		17,179	54,775	0	20,339	71,827	0
Income / (loss) from discontinued operations.	11	(192,351)	-	-	12,601	-	-
Net Income/(Loss)		(175,172)	54,775	0	32,940	71,827	0
Attributable to:							
- Non-controlling interests	25	1,961	-	-	2,523	-	-
- Parent Company shareholders		(177,133)	54,775	-	30,417	71,827	-

* Comparative information has been restated following initial application of IFRS 15 and reclassifications made under IFRS 5

EXPLANATORY NOTES

1. GENERAL INFORMATION

The core business of Arnoldo Mondadori Editore S.p.A. and of its directly 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 digital 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..

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The publication of the consolidated financial statements of the Mondadori Group for the year ended 31 December 2018 was authorized by the Board of Directors’ resolution of 14 March 2019.

2. FORM AND CONTENT

The Group’s consolidated financial statements at 31 December 2018 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 2017, considering the amendments and the new standards effective as of 1 January 2018, as per Note 6.25.

The following criteria were adopted in the preparation of these financial statements:

- in the consolidated balance sheet, current and non-current assets and current and non-current liabilities are presented separately;
- in the 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 2018, the acquisition of the Direct Channel business unit by Arnoldo Mondadori Editore S.p.A., the disposal of Inthera S.p.A. and the completion of the liquidation of Mondadori UK led to changes in the consolidation scope.

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 % 31/12/2018	Group interest held % 31/12/2017
Companies consolidated on a line-by-line basis						
Arnoldo Mondadori Editore S.p.A.	Milan	Publishing	Euro	67,979,168,40		
<i>Italian subsidiaries</i>						
Inthera 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.	Turin	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	200,000.00	100.00	100.00
Mondadori Libri S.p.A.	Milan	Publishing	Euro	30,050,000.00	100.00	100.00
Press-di Abbonamenti S.p.A.	Milan	Services	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
Rizzoli Education S.p.A.	Milan	Publishing	Euro	42,405,000.00	99.99	99.99
AdKaora S.r.l.	Milan	Trade	Euro	15,000.00	100.00	100.00
<i>Foreign subsidiaries</i>						
Mondadori France S.a.s.	Paris	Publishing	Euro	50,000,000.00	100.00	100.00
Mondadori UK Ltd in liquidation						100.00
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
Edizioni EL S.r.l.	Trieste	Publishing	Euro	620,000.00	50.00	50.00
Mach 2 Libri S.p.A. in liquidation	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	29.00	30.29
Mediamond S.p.A.	Milan	Advert. agency	Euro	2,400,000.00	50.00	50.00
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 liquidation	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

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Company name	Location	Business	Currency	Share capital expressed in local currency	Group interest held % 31/12/2018	Group interest held % 31/12/2017
Companies measured at fair value						
Consuledit S.c.ar.l. in liquidation	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. Editoriali Distributivi e Informativi	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, 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 ancillary expense, 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 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	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

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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 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 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.

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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 ancillary expense 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 depreciated over the useful life of the asset. Depreciation 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	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 depreciation 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 ancillary expense, 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 expense

The financial expense resulting from asset purchase, development or production are capitalized. In case of failed identification of assets justifying capitalization, the expense is recognized under the income statement in the year in which they it is incurred.

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.

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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 expense 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 initially recognized at cost, increased by ancillary purchase expense, 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 classified as “held to collect” and measured at fair value through P&L

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.

In an active market, the fair value of financial 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

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, under IFRS 9, 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 twelve months and are therefore recorded at their estimated realizable value.

This class also includes “Cash and cash equivalents”.

6.10 Trade and other receivables

Trade and other receivables are recorded at the fair value of the price collected during the 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.

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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 recorded at fair 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, under IFRS 9, are measured 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*, as an exception to the provisions of IFRS 9: 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.

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 recognised in a special reserve under shareholders' 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.

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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 (expense)".

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 expense (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 a binomial 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.

6.19 Recognition of revenue and costs

Revenue from the sale of goods is recorded net of trade discounts, allowances and returns, when the right to payment and the operating benefits resulting from the sale become unconditional and the obligation is met.

As principal, the Group recognizes revenue from the sale of its own books and magazines, as well as revenue from related advertising space, on the basis of the retail price; as agent, it recognizes revenue from the sale of books and magazines owned by distributed third publishers, as well as revenue from related advertising space, on the basis of the retail price net of related costs, showing the intermediation margin only.

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.

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. With regard to any State aid and/or “*de minimis*” aid received, reference is made to the content contained and published in the National State Aid Register.

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 assets (liabilities) of discontinued operations 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 and interpretations adopted by the European Union with effect from 1 January 2018 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 2018:

- On 28 May 2014, IASB published *IFRS 15 – Revenue from Contracts with Customers* which, along with additional clarifications published on 12 April 2016, replaced 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 applies 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 contained in the contract;
 - pricing;
 - price allocation based on the performance obligations contained in the contract;
 - the criteria for the recognition of revenue when the entity meets each performance obligation.

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The full retrospective approach was adopted for the application of IFRS 15, which involved restating the amounts of the prior year's financial statements presented for comparative purposes. The restatement had no effect on the amounts of the balance sheet at 31 December 2017, but only affected the income statement; further comments on the nature of the effects of the adoption of IFRS 15 are found in Note 31 - *Reconciliation of the income statement of 2017* and Note 32 - *Revenue from sales and services*.

- On 24 July 2014, IASB published the final version of IFRS 9 – *Financial Instruments: recognition and measurement*. The document includes the findings of the IASB project to replace IAS 39. This new standard must be applied in the financial statements starting from 1 January 2018 or later.

It introduces new criteria for the classification and measurement of financial assets and liabilities. More specifically, for financial assets, the new standard adopts a single approach based on the financial instrument management methods and on the characteristics of contractual cash flow of the financial assets in order to determine the measurement criteria, replacing the alternative rules established by IAS 39. For financial liabilities, the main change introduced regards the recognition of variations in the fair value of financial liabilities designated as a financial liability measured at fair value in the income statement, whenever these changes are due to a change in the credit rating of the issuer of the liability. According to the new standard, these amendments must be recognized in the statement of "Other comprehensive income", and no longer in the income statement. Additionally, changes to non-substantial liabilities are no longer allowed to spread the income statement effects of the renegotiation on the residual duration of the debt, by changing the effective interest rate at that date, but the related effect will need to be recorded in the income statement.

With regard to impairment, 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. The standard requires that the impairment model apply to all financial instruments, i.e. financial assets measured at amortized cost, those measured at fair value through other comprehensive income, receivables arising from lease agreements and trade receivables. Lastly, the standard introduces a new hedge accounting model in order to adapt the requirements of IAS 39, which were considered at times too stringent and unsuitable to reflect company risk management policies. The main amendments of the document regard:

- increase in the types of transactions eligible for hedge accounting, also including the risks of non-financial assets/liabilities eligible to be managed in hedge accounting, under IAS 39;
- change in the accounting method for forward contracts and options when included in a hedge accounting relation in order to reduce volatility of the income statement;
- changes to the effectiveness test through the replacement of the current methods based on the parameter of 80-125% with the standard of “economic relation” between the hedged item and the hedging instrument; in addition, an evaluation of the retrospective effectiveness of the hedging relation shall no longer be required. The greater flexibility of the new accounting rules is balanced by additional requests for disclosure on the company’s risk management activities.

The standard was applied as of 1 January 2018, adopting the modified retrospective approach. As a result, no changes were made to the comparative statements, and the relating impacts were recorded in initial equity. With regard to the main changes introduced by IFRS 9, mention should be made of the following impacts:

Classification and measurement of financial assets and liabilities

The only impact brought by IFRS 9 is the recognition of the fair value difference of € 267 thousand in equity reserves generated by the renegotiation of the loan payable made in December 2017.

The renegotiation produced a non-material change to the loan, resulting in a variation in the current amount of the residual cash flows of the loan below 10% and equal to € 267 thousand. Under IAS 39 in force at the renegotiation date, the transaction did not involve the recognition of income in the income statement for the period. IFRS 9, on the other hand, would have involved the recognition of the above amount in the income statement at the renegotiation date. On the first-time application of IFRS 9 at 1 January 2018, therefore, the amount was recognized in initial equity.

Provision for bad debt

Under IFRS 9, the Expected Credit Loss model was adopted for the impairment of outstanding receivables. With regard to trade receivables, in particular, the application of this method involved a specific write-down of receivables that are difficult to collect, and a general write-down for all other receivables, including those that have not fallen due. This approach basically reflects the approach adopted in prior years and, therefore, did not result in the recognition of significant additional write-downs.

Hedge accounting

The company has chosen, as allowed by IFRS 9, to continue applying the hedge accounting rules under IAS 39 to the existing hedge derivative, concluded before entry into force of IFRS 9.

- On 20 June 2016, the IASB published the 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 were applied as of 1 January 2018. The adoption of this amendment had no impact on the Group’s consolidation financial statements.

- On 8 December 2016, IASB published *Annual Improvements to IFRSs: 2014-2016 Cycle*, which partly supplements the pre-existing principles as part of their annual improvements. The main amendments regard:
 - IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*. The amendment was applied as of 1 January 2018 and regards the deletion of certain short-term exemptions under sections E3-E7 of Appendix E of IFRS 1, as the benefit of such exemptions is considered outdated.
 - 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*. The amendment clarifies that the option for a venture capital organization or other entity classified as such (such as a mutual fund or similar entity) to measure investments in associates and joint ventures measured at fair value through profit or loss (rather than the equity method) is exercised for each single investment on initial recognition. The amendment was applied as of 1 January 2018.
 - IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*. The amendment clarifies the scope of IFRS 12, specifying that the disclosures required by the standard, with the exception of the disclosures under sections B10-B16, apply to all interests that are classified as held for sale, held for distribution to owners, or as discontinued operations in accordance with IFRS 5. The amendment was applied as of 1 January 2018.

The adoption of these amendments had no impact on the 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 2018

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- On 13 January 2016, IASB published IFRS 16 – *Leases*, 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. Conversely, the standard introduces no material changes for the lessor. The standard is applicable as of 1 January 2019, but early adoption is allowed. The Group has completed a preliminary assessment of the potential impacts from applying the new standard at the transition date (1 January 2019).

The process involved several steps, including the complete mapping and review of contracts potentially suitable for containing a lease, in order to understand the main clauses relevant for the purposes of IFRS 16. The application of the new standard to the identified contracts will determine the initial recognition in the balance sheet of (i) an asset representing the right of use under IFRS 16 (equal to the present value of the mandatory minimum future lease payments to be made by the lessee as of 1 January 2019 including prepaid expenses), which will be depreciated over the shorter of the technical-economic life and the residual duration of the contract, and (ii) a financial payable equal to the present value of the mandatory minimum future lease payments to be paid by the lessee as of 1 January 2019, including accrued expenses unpaid at the transition date. The payable will then be reduced as lease payments are made. In the 2019 income statement, the lease payment will no longer be recorded in EBITDA, recording instead (i) the depreciation of the right of use and (ii) the financial expense on the payable entered. In the adoption

of IFRS 16, the Group intends to make use of the exemptions granted by section IFRS 16.5 (a) relating to short-term leases, and by IFRS 16.5 (b) relating to lease contracts whose underlying asset is a low-value asset. For such contracts, the introduction of IFRS 16 will not imply the recognition of the financial liability of the lease and the relating right of use, but lease payments will be recognized in the income statement on a straight-line basis for the duration of the respective contracts. The table below shows the estimated impacts from the adoption of IFRS 16 at 1 January 2019:

IFRS 16 (Euro/thousands)	Impacts at transition date 1 January 2019
Buildings usage rights	110,846
Motor vehicle usage rights	1,112
Hardware usage rights	530
Property, plant and machinery usage rights	112,488
Short-term financial payables	13,864
Medium-long term financial payables	98,624
Financial payables	112,488

As a result of the agreements in place at 1 January 2019, the consolidated income statement for 2019 is forecast to see an improvement in EBITDA of approximately € 16.4 million, an increase in amortization and depreciation of approximately € 15.1 million and an increase in financial expense of approximately € 2.5 million.

The combination of the straight-line depreciation of “user rights on the asset” and the actual interest rate method applied to financial payables under IFRS 16 results in higher expense charged to the income statement in the opening years of the lease contract and lower expense in the final years.

- On 7 June 2017, the IASB published the interpretation “Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)” (published on 7 June 2017). The interpretation deals with the uncertainties over income tax treatments. Specifically, the Interpretation requires an entity to analyze uncertain tax treatments (separately or as a whole, depending on their characteristics), on the assumption that the taxation authorities will examine the amounts in question, with full knowledge of all relating information. If an entity concludes it is not probable that the taxation authority will accept the tax treatment followed, the entity shall reflect the effect of uncertainty in measuring its current and deferred income tax. Additionally, the document does not contain any new disclosure requirements, but emphasizes that an 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 applicable as of 1 January 2019, but early adoption is allowed.

The Directors do not expect any significant impact on the consolidated financial statements of the Group from the adoption of this interpretation.

6.27 Accounting standards, amendments and IFRS interpretations not yet endorsed by the European Union

As at the date of these consolidated Financial Statements, the competent bodies of the European Union had not yet completed the validation process necessary for the adoption of the amendments and standards detailed here below.

- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).*
- *Annual Improvements to IFRSs 2015-2017 Cycle.*
- *Plant Amendment, Curtailment or Settlement (Amendments to IAS 19).*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture.*

The directors do not expect any significant impact in the Group's consolidated financial statements resulting from the adoption of this interpretation.

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 and are examined periodically; 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 not be fully or partly recovered through 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 recoverability of receivables is measured by taking into account the risk of non-payment, ageing and losses on receivables expected to arise on the receivables, based on the Expected Credit Loss model.

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.

Ancillary expense relating to the transaction is recognized under income statement in the financial year in which it is 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 twelve 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 EXPENSE

As required by Consob resolution no. 15519 of 27 July 2006, income and expense deriving from non-recurring transactions are recognized under income statement.

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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 Direct Channel business unit

On 6 February 2018, Press-di Abbonamenti S.p.A. acquired the Direct Channel business unit, specialized in marketing-related database management and information systems through the development of management systems and CRM for magazine subscription selling and the planning of marketing and fundraising activities for important non-profit bodies, with the aim of expanding the range of services tailored to third-party publishers.

The acquisition, completed for the price of € 605 thousand, was accounted for in accordance with IFRS 3.

Acquisition of Direct Channel

(Euro/thousands)

Intangible assets and property, plant and equipment	52
Trade receivables	410
Other business	25
Trade payables	(84)
Provision for post-employment benefits and other provisions	(235)
Other liabilities	(299)
Cash and cash equivalents	89
Price paid	(605)
Price difference to be allocated	647

At the date of preparing this Annual Report, the Group has completed the Purchase Price Allocation process, assisted by an independent expert; the higher consideration of € 138 thousand paid with respect to net assets acquired has been allocated to the customer portfolio, € 430 thousand to the digital platform and € 78 thousand to goodwill.

Disposal of the investment in Inthera S.p.A.

On 2 May 2018, an agreement was concluded on the transfer to HCI Holding of 100% of the share capital of Inthera S.p.A., specialized in strategy, planning and development of content & data driven marketing solutions, CRM, database analysis and management.

The disposal resulted in the deconsolidation of the income statement and balance sheet amounts of the investment as from 1 May, and generated a loss of € 2,082 thousand and a negative impact of € 2,016 thousand on the Group's net financial position.

Disposal of Inthera S.p.A.

(Euro/thousands)

Intangible assets and property, plant and equipment	(252)
Trade receivables	(3,035)
Inventory	(498)
Other business	(713)
Trade payables	2,517
Provision for post-employment benefits and other provisions	1,125
Other liabilities	790
Cash and cash equivalents	(2,959)
Price collected	943
Loss	(2,082)

11. INFORMATION RELATING TO IFRS 5

On 27 September 2018, the Board of Directors of Arnoldo Mondadori Editore S.p.A. authorized the Chief Executive Officer to open exclusive negotiations with Reworld Media S.A. with a view to the possible sale of Mondadori France.

The transaction falls into the repositioning strategy pursued by the Group and aimed at consolidating its leadership in the books sector.

At the reporting date of the Interim Management Statement at 30 September 2018, owing to the negotiations underway, the Directors deemed that all the requirements of the international accounting standards for the presentation of the transaction as a discontinued operation had been met, including the other likelihood of its being executed under IFRS 5. The successful outcome of the negotiations, in fact, implies the Mondadori Group's exit from the French magazine publishing market, considered a major line of business under IFRS 5.

On 18 February 2019, Arnoldo Mondadori Editore S.p.A. signed a put option that guarantees the right to sell its subsidiary Mondadori France S.a.s. to Reworld Media S.A.

The value attributed to Mondadori France was € 70 million (cash free/debt free), plus an earn-out of € 5 million, the benefit of which was not taken into account in determining the operating impact of the transaction.

Under the terms for exercising the put option:

- 86% of the value of the investment (€ 60 million) will be paid in cash, € 50 million of which at the closing date, and € 10 million 24 months from the closing date; the deferred payment is not subject to any condition;
- the remaining 14% of the value of Mondadori France S.a.s., for a nominal value of € 10 million, is paid through issue of new Reworld Media S.A. shares, to be subscribed by Arnoldo Mondadori Editore S.p.A. at a price equal to 112.5% of the average stock exchange price over the 20 days before the signing and, in any case, ranging from a floor of € 2.2 to a cap of € 2.9.

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Following the signing, Arnoldo Mondadori Editore S.p.A. would hold an investment of between 8% and 10% in the share capital of Reworld Media S.A.

The transaction envisages a price adjustment mechanism linked to the achievement of pre-established targets relating to 2018 adjusted EBITDA and normalized net working capital at the closing date.

The earn-out to Arnoldo Mondadori Editore S.p.A. will be subject to the achievement by Reworld Media S.A., in its new setup, of certain operating results in 2020.

Under the terms for exercising the put option, Arnoldo Mondadori Editore S.p.A. is required to provide the buyer with the customary representations and warranties.

Following completion of the transaction, the estimated improvement in the Mondadori Group's net financial position at closing date was approximately € 58 million, considering: financial payables to third parties in Mondadori France (approximately € 7 million); fair value adjustment of Reworld Media shares subscribed by Arnoldo Mondadori Editore S.p.A. at closing (approximately € 3 million calculated to date); estimated transaction costs of € 2 million.

If the put option is exercised, the parties will sign a purchase and sale agreement envisaging completion of the transaction if the following conditions precedent are met:

- authorization by the Autorité de la Concurrence;
- approval of the reserved capital increase by the shareholders of Reworld Media;
- provision of a bank loan to Reworld Media.

At the reporting date of this Annual Report, therefore, all the requirements of the international accounting standards for the presentation of the transaction as a discontinued operation, under IFRS 5, have been met.

The “Income / (Loss) from discontinued operations” includes the net results of the Mondadori France Group in 2018 and the adjustment of the assets subject to disposal, previously measured at value in use, to fair value, determined in line with the amounts of the put option.

In accordance with IFRS 5, the amounts for 2017 have been restated, classifying the net results of the Mondadori France Group in the same line of the income statement.

Income / (Loss) from discontinued operations (Euro/thousands)	2018	2017
Revenue from sales and services	305,608	330,295
Decrease (increase) in inventory	2,190	1,412
Cost of raw and ancillary materials, consumables and goods	27,935	33,564
Cost of services	188,162	207,805
Cost of personnel	59,134	66,593
Other (income) expense	6,053	2,558
EBITDA	22,134	18,363
Depreciation and impairment loss on property, plant and equipment	2,021	2,091
Amortization and impairment loss on intangible assets	8,439	11,252
Impairment loss on equity-accounted investees and other companies	-	-
EBIT	11,674	5,020
Financial income (expense)	(2,026)	(206)
Income (expense) from other investments	-	-
Result before tax	9,648	4,814
Income tax	1,871	(7,787)
Net result	7,777	12,601
Fair value adjustment of discontinued operations	(200,128)	-
Result from discontinued operations	(192,351)	12,601
Attributable to:		
- Non-controlling interests	1,960	2,522
- Parent Company shareholders	(194,311)	10,079

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“Assets of discontinued operations” and “liabilities of discontinued operations” included the balance sheet amounts of the Mondadori France Group at 31 December 2018.

Discontinued assets / (liabilities) (Euro/thousands)	31/12/2018
Intangible assets	160,387
Investment property	-
Property, plant and equipment	1,970
Investments	453
Non-current financial assets	5,361
Pre-paid tax assets	3,491
Other non-current assets	928
Total non-current assets	172,590
Tax receivables	6,934
Other current assets	5,127
Inventory	4,606
Trade receivables	39,954
Other current financial assets	156
Cash and cash equivalents	375
Total current assets	57,152
Assets of discontinued operations	229,742
Provisions	7,721
Post-employment benefits	7,730
Non-current financial liabilities	-
Deferred tax liabilities	20,094
Other non-current liabilities	-
Total non-current liabilities	35,545
Income tax payables	3,162
Other current liabilities	50,019
Trade payables	46,053
Payables to banks and other financial liabilities	1,983
Total current liabilities	101,217
Liabilities of discontinued operations	136,762

Fair value adjustment booked at 31 December 2018.

Fair value adjustment (Euro/thousands)	2018
Net assets subject to disposal	94,299
Net financial position (*)	173,129
Enterprise value	267,428
Nominal consideration	70,000
Fair value adjustment of Reworld Media shares	(2,700)
Amount	67,300
Fair value adjustment	(200,128)

(*) determined on the basis of the put option contract

12. INTANGIBLE ASSETS

“Intangible assets” decreased by € 366,332 thousand versus 2017, due mainly to the discontinuity of Mondadori France, which amounted to € 368,525 thousand.

Intangible assets (Euro/thousands)	31/12/2018	31/12/2017
Intangible assets with finite useful life	44,460	188,689
Intangible assets with indefinite useful life	182,212	404,315
Total intangible assets	226,672	593,004

Intangible assets with finite useful life in 2017 mainly comprised titles published by the Mondadori France Group, such as *Télé Star*, *Closer*, *Pleine Vie*, *Le Chasseur Français*, and *Auto Plus*, and the EMAS list of subscription customers.

Intangible assets with finite useful life (Euro/thousands)	Magazines	Customer lists	Expense 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 amortization and impairment loss at 31/12/2016	93,605	7,086	7,297	24,930	3,332	36,351	172,601
Amortization	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 amortization 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

The most significant changes in “Intangible assets with finite useful life” in 2018 are broken down below:

- the classification under “Assets of discontinued operations” of the amount of the titles and the customer list of the Mondadori France Group, as well as the reversal of software for € 13,051 thousand, amortized for € 11,465 thousand;
- capital expenditure of € 18,514 thousand, the largest portion for software and applications (€ 7,312 thousand), including the SAP management system, and for the development of publishing products in the Educational Books Area (€ 9,678 thousand);

- the acquisition of the Direct Channel business unit, which increased the value of “Software” by € 430 thousand and of “Other intangible assets” for € 138 thousand, included in the amounts referred to in the point above;
- amortization for the year, amounting to € 16,160 thousand, in line on a like-for-like basis with € 16,044 thousand in 2017.

Intangible assets with finite useful life (Euro/thousands)	Magazines	Customer lists	Expense on shop lease contract takeovers	Software	Licenses, patents and rights	Other intangible assets - intangible assets in progress and advances	Total
Historical cost at 31/12/2017	247,200	9,684	1,849	37,358	4,681	75,906	376,678
Capital expenditure	-	-	-	2,342	-	16,172	18,514
Disposals	-	-	-	(2,294)	-	-	(2,294)
Change in the consolidation scope	-	-	-	156	-	198	354
Other changes	(247,200)	(8,000)	-	(23,848)	(909)	(19,300)	(299,257)
Historical cost at 31/12/2018	0	1,684	1,849	13,714	3,772	72,976	93,995
Provision for amortization and impairment loss at 31/12/2017	102,462	8,842	1,849	30,093	2,258	42,485	187,989
Amortization	-	421	-	2,816	731	12,192	16,160
Impairment/(reinstatement of value)	-	-	-	-	-	-	0
Disposals	-	-	-	(2,294)	-	-	(2,294)
Change in the consolidation scope	-	-	-	(96)	-	22	(74)
Other changes	(102,462)	(8,000)	-	(21,872)	(907)	(19,005)	(152,246)
Provision for amortization and impairment loss at 31/12/2018	0	1,263	1,849	8,647	2,082	35,694	49,535
Net book value at 31/12/2017	144,738	842	0	7,265	2,423	33,421	188,689
Net book value at 31/12/2018	0	421	0	5,067	1,690	37,282	44,460

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 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

The most significant changes in “Intangible assets with indefinite useful life” in 2018 are broken down as follows:

- the discontinuity of Mondadori France, which led to a decrease in the value of “Goodwill” of € 428,290 thousand, written down in prior years by € 206,089 thousand;
- the acquisition of the Direct Channel business unit, which increased “Goodwill” by € 78 thousand.

Intangible assets with indefinite useful life (Euro/thousands)	Magazines	Trademarks and series	Goodwill	Total
Historical cost at 31/12/2017	94,114	48,375	485,693	628,182
Capital expenditure	-	-	78	78
Disposals	-	-	-	0
Change in the consolidation scope	-	-	(373)	(373)
Other changes	-	-	(430,357)	(430,357)
Historical cost at 31/12/2018	94,114	48,375	55,041	197,530
Impairment loss at 31/12/2017	8,890	1,208	213,769	223,867
Impairment/(reinstatement of value)	-	-	-	0
Other changes/disposals	-	-	(208,549)	(208,549)
Impairment loss at 31/12/2018	8,890	1,208	5,220	15,318
Net book value at 31/12/2017	85,224	47,167	271,924	404,315
Net book value at 31/12/2018	85,224	47,167	49,821	182,212

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Amortization, write-downs and value reinstatement of intangible assets

Amortization amounted to € 16,160 thousand, slightly different from the amounts of the prior year.

Amortization and impairment loss on intangible assets (Euro/thousands)	2018	2017
Magazines	-	-
Customer lists	421	421
Expense on shop lease contract takeovers	-	-
Software	2,816	3,495
Licenses, patents and rights	731	730
Other intangible assets	12,192	11,398
Total amortization of intangible assets	16,160	16,044
Write-downs of intangible assets	-	-
Value reinstatement of intangible assets	-	-
Total write-downs (value reinstatement) of intangible assets	0	0
Total amortization and impairment loss on intangible assets	16,160	16,044

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 life 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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years. The abovementioned cash flows were measured based on the current market scenario, also considering the uncertainties relating to the growth expectations for the sector. In this context, taking account of the revision of the Group's strategic guidelines, mention should be made that, at the date of this report, the Group's three-year plan is under preparation; accordingly, for the purposes of impairment, the directors have expressed their best estimate of the future cash flows attributable to the individual CGUs, based on the previous approved three-year plan, which appears not to deviate much from actual data, and on the expected trends in the relevant segments.

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 Ed.	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 former Gruner+Jahr Mondadori		2,969	421	2,251	5,641
Trade Books CGU		4,005		1,634	5,639
Digital CGU		10,679	2,656	23,865	37,200
Other CGUs		579	569	2,993	4,141
	85,226	60,840	3,646	49,820	199,532

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 / Fair value	EBITDA 2019-2020 Revenue 2019-2020	g = -3; -5	7.98%
Group of CGU magazines former Elemond	Fair value	Revenue 2019-2020	g = 0	7.98%
Einaudi CGU	Value in use	EBITDA 2019-2020	g = 0	7.98%
Sperling & Kupfer CGU	Value in use	Cash flow 2018-2020	g = 0	7.98%
Education CGU	Value in use	Cash flow 2019-2020	g = 0	7.98%
Piemme CGU	Value in use	EBITDA 2019-2020	g = 0	7.98%
Group of CGU former Gruner+Jahr Mondadori	Value in use	EBITDA 2019-2020	g = -3	7.98%
Trade Books CGU	Value in use	EBITDA 2019-2020	g = 0	7.98%
Digital CGU	Value in use	EBITDA 2019-2020	g = 0	7.98%
Other CGUs	Value in use	EBITDA 2019-2020	g = 0	7.98%

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 magazines was determined based on the higher between value in use and fair value.

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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and

approved on today's date, and on projections for the following two financial years. The abovementioned cash flows were measured based on the current market scenario, also considering the uncertainties relating to the growth expectations for 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 7.98% (6.86% in 2017) and cash flows beyond the period of analytical projection are always assumed as constant ($g=-3\%$).

The directors also deemed it appropriate to determine the fair value of *Chi* by applying the royalty method, based on estimated revenue in the medium term forecast scenarios of each magazine.

To calculate the fair value, in addition to assumed revenue, the following parameters were taken into account:

- a 5% 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 20 years;
- a negative revenue growth rate, beyond the last year included in the medium-term plan, equal to -3%.

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.

It should be noted however that the fair value of *Chi* 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 amount of the title. 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 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 recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years. 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 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 7.98% (6.86% in 2017) and cash flows beyond the period of analytical projection, deriving from medium-term plans, are always assumed as constant ($g=-5\%$).

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 forecast scenarios 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 negative revenue growth rate, beyond the last year included in the medium-term plan, equal to -5%.

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.

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 based on the calculation of the value in use, which is in turn based on cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

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The cash flows used for the projections include tax and financial income and expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

Sperling & Kupfer Cash Generating Unit

This Cash Generating Unit includes the series published by Sperling & Kupfer, a company acquired in 1995.

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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years.

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 expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

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), the acquisition of the Le Monnier Group between 1999 and 2001 (€ 12,070 thousand) and the acquisition of Texto, publisher of school textbooks under the Piemme Scuola trademark, completed in 2004 (€ 380 thousand). 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, add up to the abovementioned values.

Lastly, the decision was taken to also bring the amounts attributed to the Rizzoli trademarks (€ 10,550 thousand) 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.

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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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years. 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 expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

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 based on the calculation of the value in use, which is in turn based on cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years.

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 expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

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 four 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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years. 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 cash flows used for the projections include tax and financial income and expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) and cash flows beyond the period of analytical projection deriving from medium-term plans, are always assumed as constant ($g=-3\%$).

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.

Trade Books Cash Generating Unit

The CGU includes the BUR trademark (€ 4,005 thousand) and goodwill (€ 1,634 thousand), 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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14

February 2019 and approved on today's date, and on projections for the following two financial years. 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 expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years. 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 expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

Other Cash Generating Units

This group of Cash Generating Units, each of which independent, comprises:

- the value of the bookclub member database of former Mondolibri S.p.A., amounting to € 2,500 thousand;
- the Grazia Cina trademark, regarding the local publication of the weekly, amounting to € 521 thousand;
- the goodwill of Skira Rizzoli, amounting to € 415 thousand;
- the value attributed to the assets of the Direct Channel business unit, amounting to € 647 thousand;
- residual assets of € 58 thousand.

The recoverable value of the cash generating unit was calculated on the basis of the higher of value in use and fair value.

The cash flows used for the projections include tax and financial income and expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

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 (k_e) 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 5.96% (source: Damodaran, January 2019);

- the cost of debt (k_d) 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 (k_d) 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 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
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
Provision for depreciation and impairment loss at 31/12/2016	-	2,061	2,061
Depreciation	-	105	105
Write-downs/(reinstatement of value)	-	-	0
Disposals	-	-	0
Other changes	-	1	1
Depreciation and impairment losses 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

In 2018, Arnoldo Mondadori Editore S.p.A. completed the sale of a property in Bari and the property located in Verona, headquarters of the former Sporting Club, respectively leased to third parties and subject to a rent to buy contract signed in 2014.

Capital gains totaling € 3,933 thousand arose from these transactions.

Investment property (Euro/thousands)	Land	Non-instrumental buildings	Total
Historical cost at 31/12/2017	976	4,022	4,998
Capital expenditure	-	-	0
Disposals	(976)	(4,022)	(4,998)
Other changes	-	-	0
Historical cost at 31/12/2018	0	0	0
Depreciation and impairment losses at 31/12/2017	-	2,167	2,167
Depreciation	-	95	95
Write-downs/(reinstatement of value)	-	-	0
Disposals	-	(2,262)	(2,262)
Other changes	-	-	0
Depreciation and impairment losses at 31/12/2018	0	0	0
Net book value at 31/12/2017	976	1,855	2,831
Net book value at 31/12/2018	0	0	0

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14. PROPERTY, PLANT AND EQUIPMENT

The net amount of “Property, plant and equipment” decreased by € 4,919 thousand, as a result of:

- the discontinuity of Mondadori France for € 3,751 thousand;
- capital expenditure for the year totaling € 4,396 thousand, in plant and equipment for € 795 thousand, in office machines and equipment for € 1,378 thousand, and in furniture, furnishings and renovation work on leased properties for € 2,223 thousand. The latter are attributable mainly to the Retail Area (€ 1,572 thousand);
- sales and disposals, amounting to a net € 966 thousand, relating mainly to furniture, furnishings and office machines;
- depreciation for the year, amounting to € 4,994 thousand.

The table below shows a breakdown of “Property, plant and equipment” in 2017 and 2018:

Property, plant and equipment (Euro/thousands)	Land	Instrumental buildings	Plant and equipment	Other assets	Total
Historical 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
Provision for depreciation and impairment loss at 31/12/2016	-	9,959	37,553	90,186	137,698
Depreciation	-	215	2,425	4,349	6,989
Write-downs/(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)
Depreciation and impairment losses 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

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Property, plant and equipment (Euro/thousands)	Land	Instrumental buildings	Plant and equipment	Other assets	Total
Historical cost at 31/12/2017	903	6,562	31,727	103,248	142,440
Capital expenditure	-	-	795	3,601	4,396
Disposals	-	(957)	(1,221)	(11,215)	(13,393)
Change in the consolidation scope	-	-	14	(1,510)	(1,496)
Other changes	-	-	(9,714)	(35,799)	(45,513)
Historical cost at 31/12/2018	903	5,605	21,601	58,325	86,434
Depreciation and impairment losses at 31/12/2017	-	4,076	25,899	88,411	118,386
Depreciation	-	191	905	3,898	4,994
Write-downs/(reinstatement of value)	-	-	-	-	0
Disposals	-	(352)	(1,088)	(10,987)	(12,427)
Change in the consolidation scope	-	-	18	(1,450)	(1,432)
Other changes	-	-	(7,215)	(35,007)	(42,222)
Depreciation and impairment losses at 31/12/2018	0	3,915	18,519	44,865	67,299
Net book value at 31/12/2017	903	2,486	5,828	14,837	24,054
Net book value at 31/12/2018	903	1,690	3,082	13,460	19,135

“Other tangible assets” are broken down as follows:

Other tangible assets (Euro/thousands)	31/12/2018	31/12/2017
Industrial and commercial equipment	515	764
Electronic office equipment	2,071	2,411
Office furniture, and machines	4,740	5,381
Motor and transport vehicles	44	1
Leasehold improvements	5,722	5,869
Other assets	12	16
Assets under construction and advances	356	395
Total other tangible assets	13,460	14,837

Depreciation of property, plant and equipment

Depreciation amounted to € 4,994 thousand, down by € 556 thousand versus 2017.

Depreciation and impairment loss on property, plant and equipment (Euro/thousands)	2018	2017
Instrumental buildings	191	215
Plant and equipment	905	1,092
Equipment	211	205
Electronic office equipment	1,239	904
Office furniture	993	1,132
Motor and transport vehicles	4	2
Leasehold improvements	1,448	1,344
Other assets	3	4
Total depreciation of property, plant and equipment	4,994	4,898
Write-downs of tangible assets	-	652
Value reinstatement of tangible assets	-	-
Total write-downs (value reinstatement) of property, plant and equipment	0	652
Total depreciation and impairment loss on tangible assets	4,994	5,550

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15. INVESTMENTS

“Investments booked at equity” and “Investments in other companies” amounting to € 32,259 thousand, reported a decrease of € 5,782 thousand, due to the negative results of Monradio S.r.l. and Società Europea di Edizioni S.p.A., and to the higher write-down following the impairment test on the Attica Group and Società Europea di Edizioni S.p.A..

Investments (Euro/thousands)	31/12/2018	31/12/2017
Equity-accounted investees	31,820	37,139
Investments in other companies	439	902
Total investments	32,259	38,041

In 2018, there were no concluded transactions that changed the scope of consolidation of the companies booked at equity; the change in the balance versus 31 December 2017 is attributable mainly to the impairment of the Attica Group for € 2.8 million and Società Europea di Edizioni S.p.A. for € 2.2 million.

Dividends received by the Group in 2018 (€ 775 thousand) were paid out by Edizioni EL S.r.l.

Investments - Investments booked at equity (Euro/thousands)	Net value
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-downs	(5,897)
- impairment	(4,600)
- dividends	(589)
Balance at 31/12/2017	37,139
Changes in 2018:	
- purchases and changes in consolidation scope	4,183
- changes in consolidation method	-
- disposals and other changes	2,018
- revaluations	1,663
- write-downs	(7,408)
- impairment	(5,000)
- dividends	(775)
Balance at 31/12/2018	31,820

Equity-accounted investees - Details (Euro/thousands)	31/12/2018	31/12/2017
Investments in joint ventures:		
- Edizioni EL S.r.l.	3,575	3,322
- Attica Publications Group	9,587	12,242
- Mediamond S.p.A.	2,048	2,034
- Mondadori Seec Advertising Co. Ltd	5,924	5,694
Total investments in joint ventures	21,134	23,292
Investments in associates:		
- Monradio S.r.l.	6,023	7,162
- Mach 2 Libri S.p.A.	-	-
- GD Media Service S.r.l.	162	142
- Società Europea di Edizioni S.p.A.	4,424	6,467
- Venezia Accademia Società per i servizi museali S.c.a r.l.	58	57
- Campania Arte S.c.a r.l.	19	19
Total investments in associates	10,686	13,847
Total equity-accounted investees	31,820	37,139

“Investments in other companies” decreased by € 463 thousand, as a result mainly of the accounting of Mondadori France under IFRS 5.

Investments - Investments in other companies (Euro/thousands)	Net value
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-downs	-
- impairment	-
Balance at 31/12/2017	902
Changes in 2018:	
- purchases and changes in consolidation scope	-
- disposals and other changes	(463)
- changes in consolidation method	-
- write-downs	-
- impairment	-
Balance at 31/12/2018	439

Investments in other companies

Investments in other companies - Details (Euro/thousands)	31/12/2018	31/12/2017
Investments in other companies:		
- Milano Distribuzione Media S.r.l.	164	164
- Società Editrice Il Mulino S.p.A.	197	197
- Consuedit 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
- Sem Issy Media	-	3
- Paycar	-	444
- Mediasbook	-	10
- Confidimpresa	5	5
Total investments in other companies	439	902

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.

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Impairment tests are carried out for each individual investment representing a separate Cash Generating Unit.

The value in use was measured on the basis of cash flow projections deriving from the forecasts held in the 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years.

The expected cash flows of each investment was discounted, based on a country-specific WACC: for Italian companies, 7.98%, and for the Greek investment in the Attica Group, 10.14%.

For the Italian 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 € 2.8 million of the investment in the Attica Group, and for € 2.2 million 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 € 3,525 thousand and € 22,484 thousand, respectively.

(Euro/thousands)	31/12/2018	31/12/2017
IRES on tax losses	9,762	18,804
Pre-paid IRES	47,437	43,694
Pre-paid IRAP	4,209	2,435
Total pre-paid tax assets	61,408	64,933
Deferred IRES	32,666	55,336
Deferred IRAP	5,447	5,261
Total deferred tax liabilities	38,113	60,597

“Pre-paid tax assets” decreased as a result of:

- the discontinuity of Mondadori France for € 7,002 thousand;
- the deduction of prior-years’ tax losses from the taxable income for 2018 of the companies participating in the tax consolidation scheme of Fininvest S.p.A. (€ 7,121 thousand) and Rizzoli Education S.p.A. (€ 1,921 thousand);
- the increase in temporary differences between the balance sheet amounts and the amounts recognized for tax purposes, due mainly to the non-deductibility of the value of the credit notes to be issued for products that are expected to be returned by customers.

The Decree of the Ministry of the Economy and Finance of 10 January 2018 introduced provisions for the alignment of the tax rules on IRES and IRAP with IFRS 15 on revenue from contracts with customers adopted by (EU) regulation 2016/1905. Specifically, art. 3 establishes the non-deductibility, for IRES and IRAP purposes, of provisions made against future liabilities; this applies both when a provision is made for accounting purposes and when revenue is already shown net of the return.

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 estimated results contained in the 2019 budget approved by the Board of Directors and the tax planning documents prepared.

Temporary differences that led to the recognition of pre-paid tax

(Euro/thousands)	31/12/2018			31/12/2017		
	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	2,854	(*)	637	5,990	(*)	1,438
Difference between book and tax value of investment property and investments in property, plant and equipment	1,441	(*)	345	1,379	(*)	331
Provision for bad debt	22,019	(*)	5,220	26,617	(*)	6,504
Depreciation of inventory	28,216	(*)	6,770	25,288	(*)	6,452
Provision for advances to authors	22,236	(*)	5,335	23,733	(*)	5,752
Provisions	54,056	(*)	12,967	58,118	(*)	14,261
Post-employment benefits	2,341	(*)	556	13,268	(*)	3,364
Elimination of intercompany income	11,521	(*)	2,765	11,025	(*)	2,646
Returns to receive	44,449	(*)	10,668	-	(*)	-
Other temporary differences	8,459	(*)	2,174	13,279	(*)	2,946
Total for IRES purposes	197,592		47,437	178,697		43,694
Differences between book and tax value of intangible assets	5,508	(*)	208	8,205	(*)	322
Difference between book and tax value of investment property and investments in property, plant and equipment	1,126	(*)	44	1,357	(*)	53
Depreciation of inventory	23,030	(*)	895	18,856	(*)	734
Provision for advances to authors	19,522	(*)	763	12,475	(*)	487
Provisions	851	(*)	33	5,982	(*)	235
Post-employment benefits	1,313	(*)	51	3,367	(*)	131
Elimination of intercompany income	11,521	(*)	449	11,026	(*)	430
Returns to receive	44,449	(*)	1,734	-	(*)	-
Other temporary differences	847	(*)	32	1,140	(*)	43
Total for IRAP purposes	108,167		4,209	62,408		2,435

(*) 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 discontinuity of Mondadori France for € 21,983 thousand.

Temporary differences that led to the recognition of deferred tax

(Euro/thousands)	31/12/2018			31/12/2017		
	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	135,004	(*)	32,401	222,062	(*)	54,848
Difference between book and tax value of investment property and investments in property, plant and equipment	838	(*)	201	1,180	(*)	283
Post-employment benefits	213	(*)	51	792	(*)	189
Other temporary differences	54	(*)	13	67	(*)	16
Total for IRES purposes	136,109		32,666	224,101		55,336
Capital gains in instalments	-	(*)	-	-	(*)	-
Differences between book and tax value of intangible assets	139,154	(*)	5,427	133,457	(*)	5,204
Difference between book and tax value of investment property and investments in property, plant and equipment	513	(*)	20	776	(*)	31
Post-employment benefits	-	(*)	-	667	(*)	26
Other temporary differences	-	(*)	-	-	(*)	-
Total for IRAP purposes	139,667		5,447	134,900		5,261

(*) 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 € 566 thousand, dropped by € 1,534 thousand, as a result of:

- the discontinuity of Mondadori France for € 892 thousand;
- the decrease in sureties issued by Rizzoli International Publications for leases of € 549 thousand.

Other non-current assets (Euro/thousands)	31/12/2018	31/12/2017
Guarantee deposits	134	1,118
Other	432	984
Total other non-current assets	566	2,102

18. TAX RECEIVABLES AND PAYABLES

Tax receivables (Euro/thousands)	31/12/2018	31/12/2017
Receivables from the Inland Revenue for IRAP	279	324
Receivables from the Inland Revenue for IRES	3,003	6,751
Receivables from Fininvest for IRES	143	199
Receivables from the Inland Revenue for VAT, direct tax to recover and advances on disputes	21,205	22,099
Total tax receivables	24,630	29,373

“Tax receivables” at 31 December 2018 decreased by € 4,743 thousand; net of the effects from the discontinuity of Mondadori France, amounting to € 7,157 thousand, of which € 4,085 thousand for direct tax and € 3,072 thousand for VAT, the balance increased by € 2,414 thousand.

This change relates to direct tax of € 337 thousand and VAT of € 2,178 thousand.

Receivables from the Inland Revenue Office for VAT, direct tax to recover and advances on disputes, amounting to € 21,205 thousand, include:

- the VAT receivable carried forward for € 11,357 thousand;
- receivables for tax disputes for a total of € 9,848 thousand. 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 the assessments have been challenged. 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 relevant decisions have consequently been settled.
 - Year 2004, the Central Division of the Lombardy Region raised a few points on the 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, plus applicable ancillary expense; 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 expense 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. 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 2018, the Revenue Agency served assessment notices for 2013-2015 IRES and IRAP, while 2012 had already been served at end 2017, assessments issued following an inspection started by the Finance Police in 2016 and concluded on 17/5/2017. All the assessments were settled by the Company;

- as for Mondadori Electa S.p.A., mention should be made of the Tax Audit Report by means of which the Revenue Agency challenged certain VAT violations for 2014.

Assessment notices were then served relating to 2012-2014. With regard to the year:

- 2012, the Company filed an appeal, upheld by the competent Tax Commission;
- 2013, the time limits for lodging an appeal are pending;
- 2014, the Company filed an appeal, but the related date of the hearing has not been set yet.

Income tax payables (Euro/thousands)	31/12/2018	31/12/2017
Payables to the Inland Revenue for IRAP	1,511	917
Payables to the Inland Revenue for IRES	564	758
Payables to Fininvest for IRES	13,217	4,075
Total income tax payables	15,292	5,750

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“Income tax payables” increased by € 9,542 thousand, as a result of the non-deductibility of estimated returns to receive, introduced on 1 January 2018 by the Decree of the Ministry of the Economy and Finance of 10 January 2018, containing provisions for the coordination of the tax rules on IRES and IRAP with IFRS 15 on revenue from contracts with customers adopted by EU regulation 2016/1905.

19. OTHER CURRENT ASSETS

The item, amounting to € 83,878 thousand, dropped by € 3,067 thousand, as a result mainly of:

- the discontinuity of Mondadori France of € 4,003 thousand;
- the decrease in receivables from authors for advances paid net of the adjustment provision of € 1,937 thousand;
- the increase in “Other receivables, accrued income and prepaid expenses”, net of Mondadori France, of € 2,675 thousand, attributable to the organization of exhibitions and events inaugurated in 2018 but closing in 2019 or expected to open to the public in 2019.

Other current assets (Euro/thousands)	31/12/2018	31/12/2017
Receivables from agents	450	652
Receivables from authors and workers	126,670	131,932
Provision for advances to authors	(64,322)	(67,647)
Receivables from suppliers	8,228	7,615
Receivables from personnel	518	617
Receivables from social security institutions	95	406
Receivables for guarantee deposits	185	232
Other receivables from associates	296	56
Other receivables, accrued income and prepaid expenses	11,758	13,082
Total other current assets	83,878	86,945

20. INVENTORY

“Inventory” decreased by € 5,271 thousand versus 31 December 2017, as a result of the discontinuity of Mondadori France (€ 6,809 thousand).

Inventory (Euro/thousands)	31/12/2018	31/12/2017
Raw and ancillary materials and consumables	7,250	10,736
Depreciation of raw and ancillary materials and consumables	(502)	(688)
Total raw and ancillary materials and consumables	6,748	10,048
Work in progress and semi-finished goods	12,716	13,582
Depreciation of work in progress and semi-finished goods	(1,159)	(1,685)
Total work in progress and semi-finished goods	11,557	11,897
Contract work in progress	78	2,490
Depreciation of contract work in progress	(15)	(20)
Total contract work in progress	63	2,470
Finished products and goods	187,527	191,460
Depreciation of finished products and goods	(83,559)	(88,268)
Total finished products and goods	103,968	103,192
Advances	-	-
Total inventory	122,336	127,607

“Raw and ancillary materials and consumables”, amounting to € 6,748 thousand, net of the discontinuity of Mondadori France (€ 3,472 thousand), increased by approximately € 200 thousand in the Books Area.

“Work in progress and semi-finished products”, amounting to € 11,557 thousand, decreased by € 340 thousand, due to the Magazines Italy Area.

“Contract work in progress”, amounting to € 63 thousand, decreased by € 2,407 thousand, as a result mainly of the discontinuity of Mondadori France (€ 2,170 thousand).

“Finished products and goods”, amounting to € 103,968 thousand, increased by € 776 thousand, despite the discontinuity of Mondadori France, amounting to € 1,167 thousand.

The increase is attributable to the Retail Area (€ 913 thousand), the Trade Books Area (€ 2,899 thousand) and the US affiliates (€ 1,416 thousand).

Inventory in the Educational Books Area decreased, due partly to the rationalization of the subsidiary warehouses.

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 31/12/2017	688	1,685	20	88,268
Changes in the year:				
- provisions	171	168	-	-
- utilizations	(222)	(234)	(5)	(2,807)
- other changes	(135)	(460)	-	(1,902)
Balance at 31/12/2018	502	1,159	15	83,559

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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)	2018	2017
Changes in finished products and goods	1,967	7,759
Provision for finished products and goods	-	4,178
Utilization of the provision for finished products and goods	(2,807)	-
Total changes in inventory of finished products and goods	(840)	11,937
Changes in work in progress and semi-finished products	1,014	2,812
Provision for work in progress and semi-finished products	168	838
Utilization of the provision for work in progress and semi-finished products	(234)	(346)
Total changes in work in progress and semi-finished products	948	3,304
Changes in contract work in progress	(256)	(20)
Provision for contract work in progress	-	-
Utilization of the provision for contract work in progress	(5)	(23)
Total changes in contract work in progress	(261)	(43)
Changes in raw and ancillary materials and consumables	(185)	1,400
Provision for raw and ancillary materials and consumables	36	59
Utilization of the provision for raw and ancillary materials and consumables	(23)	(623)
Total changes in inventory of raw and ancillary materials and consumables	(172)	836
Total decrease (increase) in inventory	(325)	16,034

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21. TRADE RECEIVABLES

Trade receivables (Euro/thousands)	31/12/2018	31/12/2017
Receivables from customers	175,743	247,599
Receivables from associates	42,128	49,945
Receivables from parent companies	4	4
Receivables from affiliates	1,156	464
Total trade receivables	219,031	298,012

Total "Trade receivables", amounting to € 219,031 thousand, decreased by € 78,981 thousand as a result:

- the discontinuity of Mondadori France for € 43,864 thousand;
- a € 23,242 thousand decrease in the Books Area, of which € 15,807 thousand attributable to the Trade segment due to the drop in revenue, € 4,896 thousand to school textbooks publishers, as a result of the positive performance in managing customer exposure, and € 2,857 thousand to Mondadori Electa, following the cash in of receivables from Public Administration. Receivables of the US affiliates increased by € 318 thousand;
- a € 1,455 thousand reduction in the Retail Area, as a result of the drop in revenue;
- a € 10,789 thousand reduction in the Magazines Italy Area, due mainly to the fall in revenue.

The amount of credit notes to issue for products expected to be returned by customers reported a decrease by € 16,753 thousand, as a result of the discontinuity of Mondadori France for € 11,980 thousand, the decrease in the Magazines Italy Area for € 10,197 thousand, in line with the trend in revenue, and the increase in the Books Area for € 5,368 thousand.

Trade receivables - Receivables from customers (Euro/thousands)	31/12/2018	31/12/2017
Receivables from customers	336,551	432,755
Customers – returns to receive	(135,025)	(151,778)
Provision for bad debt	(25,783)	(33,378)
Total receivables from customers	175,743	247,599

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)	31/12/2018	31/12/2017
Balance at beginning of year	33,378	39,017
Changes in the year:		
- provisions	6,459	7,627
- utilizations	(11,516)	(12,814)
- changes in the consolidation scope and other changes	(2,538)	(452)
Total bad debt provision	25,783	33,378

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“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 decreased exposure versus 31 December 2017 amounted to € 7,817 thousand, due mainly to the shrinking revenue from the sale of advertising space and the termination of the business agreement with Mach 2 Libri S.p.A., put into liquidation in 2018.

There were no trade receivables due over five years.

22. FINANCIAL ASSETS

“Non-current financial assets”, amounting to € 500 thousand, consist entirely of the loan to Attica Publications, classified as non-current due to the Parent Company’s commitment not to request repayment of the loan over the next twelve months.

The drop versus 31 December 2017 is attributable to the discontinuity of Mondadori France.

Non-current financial assets (Euro/thousands)	31/12/2018	31/12/2017
Financial receivables from associates	500	500
Financial receivables	-	1,272
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	500	1,772

“Other current financial assets”, amounting to € 7,861 thousand, mainly includes:

- the credit positions on current accounts held by the Parent Company with a number of associates;
- receivables for € 5,580 thousand from the sale of the area relating to the former Mondadori Sporting Club, which is expected to be collected in the first few months of 2019;
- 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 of € 1,353 thousand.

Other current financial assets (Euro/thousands)	31/12/2018	31/12/2017
Financial receivables from customers	-	133
Financial receivables from associates	25	25
Financial receivables from parent companies	-	-
Financial receivables from affiliates	-	-
Financial receivables from others	7,830	1,521
Total financial receivables	7,855	1,679
Financial assets at fair value with adjustments recognized under income statement	-	-
Available-for-sale financial assets	6	4
Assets resulting from derivative instruments	-	-
Total other current financial assets	7,861	1,683

Assets and liabilities resulting from derivative instruments

Assets and liabilities resulting from derivative instruments - Details (Euro/thousands)	Type of derivative instrument	Fair value at 31/12/2018	Fair value at 31/12/2017
Non-current financial assets (liabilities)			
- Rate derivatives	Cash flow hedge	(777)	(341)
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 tests and, where necessary, 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 2018.

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.

Group criteria to test effectiveness in any retrospective tests include statistic regression analyses and the Dollar Offset Method or Ratio Analysis.

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In addition, the Group calculates the fair value of current hedge transactions on a quarterly basis at least.

At 31 December 2018, 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 € 165.0 million and a weighted average rate of 0.017%.

The table below shows the hedge impact on income statement and equity:

Cash flow hedge reserve (Euro/thousands)	31/12/2018	31/12/2017
Initial balance gross of the tax impact	(1,236)	(2,947)
Amount recognized in the period	491	2,420
Amount endorsed from reserve and recognized under income statement:		
- adjustments to expense	(49)	(229)
- adjustments to income	(577)	(480)
Final balance gross of the tax impact	(1,371)	(1,236)
Inefficient part of hedge	0	0

23. CASH AND CASH EQUIVALENTS

The item amounted to € 82,358 thousand, up by € 15,773 thousand versus 2017; the fair value of cash and cash equivalents is equal to their relevant book value at 31 December 2018.

Cash and cash equivalents (Euro/thousands)	31/12/2018	31/12/2017
Cash and cash on hand	181	2,058
Bank deposits	81,830	63,951
Postal deposits	347	576
Total cash and cash equivalents	82,358	66,585

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)	31/12/2018	31/12/2017
A Cash	181	2,058
- Bank deposits	81,830	63,951
- Postal deposits	347	576
B Other cash and cash equivalents	82,177	64,527
C Cash and cash equivalents and other financial assets (A+B)	82,358	66,585
D Securities held for trading		
- Financial receivables from associates	25	25
- Financial assets measured at fair value	-	-
- Available-for-sale financial assets	6	4
- Derivatives and other financial assets	7,830	1,654
E Receivables and other current financial assets	7,861	1,683
F Current financial assets (D+E)	7,861	1,683
G Current payables to banks	2,942	4,535
- Bonds	-	-
- Loans	-	-
- Borrowings	117,585	15,834
H Current portion of non-current debt	117,585	15,834
- Financial payables to associates	738	-
- Derivatives and other financial liabilities	5,544	6,179
I Other current financial liabilities	6,282	6,179
L Payables to banks and other current financial liabilities (G+H+I)	126,809	26,548
M Current net financial position (C+F-L)	(36,590)	41,720
- Bonds	-	-
- Loans	-	-
- Borrowings	114,178	229,607
N Debt non-current portion	114,178	229,607
O Other non-current financial liabilities	877	3,129
P Non-current net debt (N+O)	115,055	232,736
Q Net debt (M-P)	(151,645)	(191,016)

Should the balance of discontinued current financial assets of € 3,909 thousand and the balance of “Non-current financial assets” of € 500 thousand, both not included in the Consob format, be added to the amount shown in the table, the net financial position would stand at € -147,236 thousand.

Further information regarding the Group’s net financial position is found in Notes 22, 23 and 28.

24. EQUITY

Equity at 31 December 2018, amounting to € 170,699 thousand (€ 345,314 thousand at 31 December 2017), the changes of which are explained in the relevant table, decreased by € 174,615 thousand, as a result mainly of loss for the year (€ -177,133 thousand), the downward change in the cash flow hedge reserve (€ -102 thousand), the upward change in the reserve for the conversion of financial statements denominated in currencies other than the Euro (€ 881 thousand), and the reserve for post-employment discounting (€ 1,845 thousand).

Share capital

Arnoldo Mondadori Editore S.p.A. share capital amounts to € 67,979,168.40, divided into no. 261,458,340 ordinary shares with a nominal value of € 0.26 each.

The legal entity controlling the Mondadori Group is Fininvest S.p.A.

Treasury shares

In 2018, Arnoldo Mondadori Editore S.p.A. purchased 426,703 treasury shares on the Electronic Stock Market (MTA), equal to 0.163% of the share capital, bringing the total of treasury shares held to 1,346,703, equal to 0.515% of the share capital.

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As a result of the purchases, mainly to service the incentive plans named “2017-2019 Performance Share Plan” and “2018-2020 Performance Share Plan”, the value of treasury shares increased by € 628 thousand, reaching € 2,282 thousand at 31 December 2018.

Other reserves and profit/loss carried forward

“Other reserves and profit/loss carried forward” at 31 December 2018 amounted to € 253,411 thousand (€ 219,072 thousand at 31 December 2017) and included:

- a legal reserve of € 13,490 thousand;
- a revaluation reserve used over the years of € 16,711 thousand;
- a cash flow hedge reserve, negative for € 1,042 thousand, net of the relevant tax impact, for the valuation of hedge derivatives;
- a reserve that covers the Incentive Plan, pursuant to IFRS 2, of € 2,413 thousand;
- a reserve for post-employment discounting, net of the relevant tax impact, for a positive € 1,312 thousand;
- the conversion reserve, negative for € 294 thousand, resulting from the conversion of the financial statements of 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 hereafter:

Currency	Actual 31/12/2018	Actual 31/12/2017	Average 2018	Average 2017
British Pound	0.89	0.89	0.88	0.88
US dollar	1.15	1.20	1.18	1.13
Chinese yuan	7.88	7.80	7.80	7.63
New Romanian leu	4.66	4.66	4.65	4.57
Bulgarian leva	1.96	1.96	1.96	1.96
Serbian dinars	118.31	118.64	118.24	121.36

- 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)	31/12/2018	31/12/2017
Net debt	147.2	189.2
Capital (equity)	170.7	345.3
Total capital and net debt	317.9	534.5
Ratio of net debt/capital to net debt	46.3%	35.4%
Treasury shares in portfolio	2.3	1.7

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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 Education S.p.A.
Equity at 31/12/2017	29,485	-	15
Result for 2017	2,476	46	1
Equity at 31/12/2018	28,708	-	16
Result for 2018	1,960	-	1

26. PROVISIONS

The item, amounting to € 69,826 thousand, dropped by € 3,284 thousand, due mainly to:

- the discontinuity of Mondadori France for € 9,210 thousand;
- the sale of Inthera S.p.A. for € 1,493 thousand;
- net increases of € 7,419 thousand. Specifically:
 - an increase in the "Provision for equity investment risks" of € 9,102 thousand, to cover the estimated liquidation costs of Mach 2 Libri S.p.A.;
 - an increase of € 978 thousand in the provision for onerous contracts, in accordance with 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;
 - a decrease of € 3,191 thousand in the "Provision for legal risks", following settlement of certain disputes, and the updated assessment of the risk of liabilities on other positions.

Provisions (Euro/thousands)	31/12/2017	Provisions	Utilizations	Other changes	31/12/2018
Provision for agents' contractual risks	4,313	542	(515)	-	4,340
Provision for personnel downsizing risks	9,469	2,894	(1,968)	(7,234)	3,161
Provision for legal risks	27,895	1,336	(4,527)	(1,368)	23,336
Provision for equity investment risks	964	7,332	-	1,770	10,066
Provision for tax disputes	11,360	526	(1,029)	-	10,857
Provision for onerous contracts	9,251	978	-	-	10,229
Other provisions for risks	9,858	2,247	(3,400)	(868)	7,837
Total provisions	73,110	15,855	(11,439)	(7,700)	69,826

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27. POST-EMPLOYMENT BENEFITS

The item, amounting to € 33,458 thousand, dropped by € 14,047 thousand versus 31 December 2017, as a result of:

- the discontinuity of Mondadori France for € 10,449 thousand;
- the sale of Inthera S.p.A., which resulted in the write-off of post-employment benefits for € 1,081 thousand;
- the rationalization of structures with the resulting reduction in headcount;
- the normal turnover dynamics of employees and agents.

Post-employment benefits (Euro/thousands)	31/12/2018	31/12/2017
Provision for post-employment benefits (TFR)	22,486	36,777
Provision for supplementary agents' indemnity (FISC)	10,902	10,594
Provision for retirement and similar obligations	70	134
Total post-employment benefits	33,458	47,505

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	31/12/2018	31/12/2017
Economic assumptions:		
- increase in cost of living	1.0%	1.0%
- discounting rate	1.57%	1.30%
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 4.08% to 26.88%	From 1.67% to 22.65%
- retirement age	Regulations in force	Regulations in force

Actuarial assumptions to measure FISC	31/12/2018	31/12/2017
Economic assumptions:		
- discounting rate	1.57%	1.30%
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 € 500 thousand.

Post-employment benefits cost items, booked under income statement, include the service cost of companies with less than 50 employees for € 53 thousand, financial expense of € 313 thousand, and the portion paid into the supplementary pension scheme for € 7,703 thousand.

The allocation and utilization of the “Provision for supplementary agents’ indemnity” reflects the turnover in the sales force of the Group in 2018.

“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 31/12/2017	36,777	10,594	134
Changes in 2018:			
- provisions	53	838	-
- utilizations	(3,125)	(568)	(64)
- reversals	-	-	-
- discounting	(313)	-	-
- changes in the consolidation scope and other changes	(10,906)	38	-
Balance at 31/12/2018	22,486	10,902	70

28. FINANCIAL LIABILITIES

Current and non-current financial liabilities, amounting to € 210,140 thousand, decreased by € 22,596 thousand versus 2017, due mainly to the repayment of the A Term Loan of € 15,000 thousand.

Non-current financial liabilities (Euro/thousands)	Actual interest rate	Expiry 1-5 years	Expiry over 5 years	31/12/2018	31/12/2017
Bonds		-	-	-	-
Convertible bonds		-	-	-	-
Borrowings	1.17%	114,178	-	114,178	229,607
Payables to suppliers		-	-	-	-
Payables to associates		-	-	-	-
Payables to parent companies		-	-	-	-
Payables to affiliates		-	-	-	-
Payables for lease agreements		-	-	-	-
Payables for shareholders' contributions		-	-	-	-
Liabilities from derivatives		777	-	777	341
Other financial liabilities		100	-	100	2,788
Total non-current financial liabilities		115,055	0	115,055	232,736

"Non-current financial liabilities" includes:

- € 114,178 thousand from the amortized cost of the Line A Amortizing Term Loan, taken out with a pool of banks, coming to maturity in December 2022;
- € 777 thousand from the fair value of the outstanding derivative contracts;
- € 100 thousand from other financial payables.

Payables to banks and other financial liabilities (Euro/thousands)	Actual interest rate	31/12/2018	31/12/2017
Bank deposits	0.11%	2,942	4,535
Bonds		-	-
Convertible bonds		-	-
Borrowings	0.67%	117,585	15,834
Payables to suppliers		-	-
Payables to associates		738	-
Payables to parent companies		-	-
Payables to affiliates		-	-
Payables for lease agreements		-	-
Payables for shareholders' contributions		-	-
Liabilities from derivatives		-	-
Other financial liabilities		5,544	6,179
Total payables to banks and other financial liabilities		126,809	26,548

“Payables to banks and other financial liabilities” came to € 126,809 thousand and included:

- € 17,500 thousand for the portion of the A Term Loan of the pool loan, coming to maturity in December 2019;
- € 100,085 thousand for the amortized cost of the B Term Loan of the pool loan, coming to maturity in June 2019 (in the event of the disposal of Mondadori France);
- € 738 thousand for financial payables to associates;
- € 5,544 thousand from other financial payables, of which € 3,246 thousand from the short-term portion of the fair value of the Banzai earn out.

At 31 December 2018, the Leverage Ratio Financial Covenant (debt/EBITDA) resulting from the consolidated annual report was equal to 1.70, far below the cap of 3.50 under the pool loan agreement.

Changes in committed credit lines:

(Euro/thousands)	31/12/2017	Utilizations	Repayments	Other changes	31/12/2018
Pool loan December 2017					
Line A	144,857	-	(15,000)	1,821	131,678
Line B	99,750	-	-	335	100,085
Total	244,607	0	(15,000)	2,156	231,763

Information on derivative financial instruments is found in Note 22 – “Financial assets” in these Notes.

29. OTHER CURRENT LIABILITIES

“Other current liabilities”, amounting to € 146,258 thousand, dropped by € 75,586 thousand, attributable to:

- the discontinuity of Mondadori France for € 53,497 thousand, relating mainly to “Tax payables” (€ 4,199 thousand), “Payables to welfare and social security entities” (€ 10,136 thousand) and, as part of “Other payables”, “Payroll and other amounts to personnel” (€ 6,228 thousand) and “Payables to subscription and instalment customers” (€ 29,824 thousand);
- the decrease in “Payroll and other amounts to personnel”, net of the effect of Mondadori France, as a result of the reduction in headcount;
- the decrease in “Payables due to authors and workers” of € 12,256 thousand and in “Payables to agents” of € 2,524 thousand, as a result of the drop in revenue in the Books Area and in Magazines Italy;
- a drop of € 349 thousand in “Payables to subscription and instalment customers”, net of the effect of Mondadori France, due to the fall in Magazines Italy.

Other current liabilities (Euro/thousands)	31/12/2018	31/12/2017
Advances to customers	19,460	21,697
Tax payables	5,877	9,988
Payables to welfare and social security entities	14,098	25,671
Payables to associates	123	124
Other payables	106,700	164,364
Total other current liabilities	146,258	221,844

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Details of “Other payables”.

Other current liabilities – Other payables (Euro/thousands)	31/12/2018	31/12/2017
Payroll and other amounts to personnel	17,626	26,463
Payables to authors and workers	63,341	75,597
Payables to agents	10,093	12,617
Payables to subscription and instalment customers	3,397	33,570
Payables to directors and statutory auditors	1,834	4,549
Deferred income for advance rents	16	-
Other payables, accrued expense and deferred income	10,393	11,568
Total other payables	106,700	164,364

30. TRADE PAYABLES

The item, amounting to € 258,104 thousand, dropped by € 65,434 thousand, as a result of:

- the discontinuity of Mondadori France for € 47,937 thousand;
- the decrease in the purchase of goods and services across all areas of operation of the Group, in line with the trend and with revenue;
- the decrease in the amount of the portion of payables past due.

Trade payables (Euro/thousands)	31/12/2018	31/12/2017
Payables to suppliers	243,911	308,513
Payables to associates	12,036	11,904
Payables to parent companies	40	62
Payables to affiliates	2,117	3,059
Total trade payables	258,104	323,538

“Payables to associates”, relating to the distribution of Edizioni EL S.r.l. and Società Europea di Edizioni S.p.A. publishing products, as well as goods in exchange for advertising pages from Mediamond S.p.A., are in line with the amounts at 31 December 2018.

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.

31. RECONCILIATION OF THE INCOME STATEMENT OF 2017

As a result of the application of IFRS 15 - *Revenue from Contracts with Customers* - as of 1 January 2018, and of IFRS 5 - *Discontinued Operations* -, as described in Note 11, the income statement for 2017 has been restated.

(Euro/thousands)	31/12/2017	IFRS 15 impact on Books	IFRS 15 impact on Magazines Italy	IFRS 15 impact on Magazines France and intra-group	IFRS 5	31/12 2017 restated
Revenue from sales and services	1,268,268	(40,958)	35,436	37,683	(330,295)	970,134
Decrease (increase) in inventory	17,446	-	-	-	(1,412)	16,034
Cost of raw and ancillary materials, consumables and goods	242,214	(40,958)	-	4,761	(33,564)	172,453
Cost of services	677,732	-	35,436	32,922	(207,805)	538,285
Cost of personnel	227,377	-	-	-	(66,593)	160,784
Other (income) expense	(1,574)	-	-	-	(2,558)	(4,132)
EBITDA	105,073	-	-	-	(18,363)	86,710
Depreciation and impairment loss on property, plant and equipment	7,746	-	-	-	(2,091)	5,655
Amortization and impairment loss on intangible assets	27,296	-	-	-	(11,252)	16,044
Impairment loss on equity-accounted investees and other companies	4,600	-	-	-	-	4,600
EBIT	65,431	-	-	-	(5,020)	60,411
Financial income (expense)	(13,989)	-	-	-	206	(13,783)
Income (expense) from investments	(3,955)	-	-	-	-	(3,955)
Result before tax	47,487	-	-	-	(4,814)	42,673
Income tax	14,547	-	-	-	7,787	22,334
Result from continuing operations	32,940	-	-	-	(12,601)	20,339
Income / (Loss) from discontinued operations	-	-	-	-	12,601	12,601
Net Income / (Loss)	32,940	-	-	-	-	32,940

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32. REVENUE FROM SALES AND SERVICES

As a result of the application of IFRS 15 - *Revenue from Contracts with Customers* -, effective from 1 January 2018:

- in the Books Area, where the Group acts as *agent* in the distribution of third-party publisher products, revenue from this activity is booked net of the relating purchase costs, previously recognized under “Cost of raw and ancillary materials and consumables”;
- in the Magazines Italy Area, where the Group acts as principal, circulation revenue is booked based on the cover price or, in any case, of the price actually paid by the purchaser gross of any premiums paid; premiums are no longer recognized as a reduction in revenue, but separately as a distribution cost.

As a result of the first-time application of the standard based on the full retrospective approach, the income statement amounts of 2018 have been restated; the overall impact on revenue amounted to € 761 thousand:

- the Magazines Italy Area saw revenue increase by € 35,436 thousand;
- the Books Area saw revenue drop by € 40,958 thousand;
- in the cancellations between the Books Area and the Retail Area, revenue grew by € 4,761 thousand.

The adoption of IFRS 15 had no impact on EBITDA.

In 2018, consolidated net revenue came to € 891,077 thousand, down by 8.1% versus € 970,134 thousand in 2017.

238	Revenue from sales and services (Euro/thousands)	2018	2017 restated	IFRS 15	2017 published	Variation %
	Books	450,416	482,990	(40,958)	523,948	(6.7%)
	Retail	191,767	198,518	-	198,518	(3.4%)
	Magazines Italy	287,036	326,113	35,436	290,677	(12.0%)
	Other Business and Corporate	34,684	26,273	-	26,273	32.3%
	Aggregate revenue	963,903	1,033,894	(5,522)	1,039,416	(6.8%)
	Intercompany revenue	(72,826)	(63,760)	4,761	(68,521)	14.2%
	Total revenue from sales and of services	891,077	970,134	(761)	970,895	(8.1%)

Revenue from the Books Area, amounting to € 450,416 thousand, is recognized net of returns received and estimated at € 114.9 million, down by 6.7%, with different trends reported by the Trade and Educational segments.

Revenue from the Trade Books Area fell by 13.0% versus the prior year, due to the contraction of the Large Retailers channel and the strong concentration of bestsellers in 2017, unrepeated in 2018.

Revenue in the Educational Books Area fell by 0.5% versus the prior year, as a result of the steady trend of revenue from school products and the US affiliates, and the drop by Mondadori Electa.

Revenue in the Retail Area, amounting to € 191,767 thousand, decreased by 3.4% versus the prior year, as a result of the rationalization of directly-managed stores, the decline of the books market, which accounts for approximately 80% of revenue, and the narrower product range of Consumer Electronics.

Revenue from Magazines Italy, amounting to € 287,036 thousand, dropped by 12%, due to the decline in the sale of copies (-11.1%), add-on products (-21.5%), advertising sales (-5.1%) and distribution services of third publishers' products (-3.0%).

Revenue from Group advertising services totaled € 84.1 million.

The "Directors' Report on Operations" provides further details on revenue trends and the Group's various lines of business.

33. COST OF RAW AND ANCILLARY MATERIALS, CONSUMABLES AND GOODS

Cost of raw and ancillary materials, consumables and goods (Euro/thousands)	2018	2017
Cost of raw materials	43,808	44,339
Goods for re-sale	112,421	121,567
Consumables, maintenance and other materials	6,700	6,547
Total cost of consumables and goods	119,121	128,114
Total cost of raw and ancillary materials, consumables and goods	162,929	172,453

"Cost of raw and ancillary materials, consumables and goods" fell by € 9,524 thousand, attributable to lower purchases of products for re-sale by Rizzoli Education S.p.A. (€ 5,957 thousand) and Mondadori Libri S.p.A. (€ 2,194 thousand), as a result of lower sales of publishing products distributed, and by Mondadori Electa S.p.A. (€ 523 thousand) for products sold at museum bookshops.

34. COST OF SERVICES

Cost of services (Euro/thousands)	2018	2017
Rights and royalties	92,826	102,625
Consultancy services and third-party collaborations	40,806	43,942
Commissions	37,985	40,381
Third-party graphical processing	120,506	126,732
Transport and shipping	80,382	90,098
Purchase of advertising space and promotion expenses	21,642	25,202
Fairs, exhibitions and concession expense	18,018	19,581
Travel and other expense reimbursements	4,150	4,133
Maintenance expenses	4,965	6,099
Telephone and postal expenses	1,528	1,494
Catering and cleaning services	4,941	5,252
Market surveys, news agencies	3,703	4,189
Insurance	2,233	2,343
Subscriptions management	5,409	6,332
Publisher's share	2,258	2,181
Utilities	2,524	2,880
Bank services and commissions	2,226	2,392
IT services	6,457	6,035
Directors' and statutory auditors' fees	4,407	5,092
Temporary work fees	6,950	8,604
Rents and service expenses	15,149	16,587
Leases and rentals	7,637	7,177
Other services	9,744	8,934
Total cost of services	496,446	538,285

“Cost of services” dropped by € 41,839 thousand versus the prior year; the trend affected all the Group's segments of operation (Books Area € 12,741 thousand, Retail Area € 1,433 thousand, Magazines Area € 25,528 thousand), as a result of the decrease in revenue and the cost-cutting actions.

Specifically, the main items were:

- costs for rights and commissions dropped by € 3,931 thousand and € 573 thousand in the Magazines Italy Area, by € 6,316 thousand and € 1,931 thousand in the Books Area;
- industrial and transport costs declined, especially in the Magazines Italy Area by € 13,492 thousand, and in the Books Area by € 5,848 thousand;
- costs for consultancy services and collaborations decreased by € 3,136 thousand, as a result of the cost-cutting actions taken and of certain costs incurred in 2017 for the acquisition of the Rizzoli Libri Group;
- costs for the “Purchase of advertising space and promotion expenses” and “Subscriptions management” fell by € 3,560 thousand and € 923 thousand respectively, in line with the trend in the Magazines Italy Area.

“Directors' and statutory auditors' fees” comprised fees paid to directors and statutory auditors for € 3,901 thousand and € 506 thousand, respectively.

35. COST OF PERSONNEL

Group companies employed 2,132 people with a fixed-term or permanent labour contract, down by approximately 6.2% versus 2,275 in December 2017, as a result of the sale of Inthera S.p.A. in May, of *Panorama* in November, and of the efficiency improvement measures involving each of the business areas.

Employees	Actual 31/12/2018	Actual 31/12/2017	Average 2018	Average 2017
Executives	100	104	101	104
White collars, middle managers and journalists	2,019	2,157	2,104	2,191
Workers	13	14	14	43
Total	2,132	2,275	2,219	2,338

Cost of personnel decreased by € 3,157 thousand, in line with the reduction in workforce.

Cost of personnel (Euro/thousands)	2018	2017
Salaries and wages	108,907	116,013
Social security expense	32,073	32,665
Post-employment benefits TFR	53	101
Supplementary pension scheme plans	7,703	8,044
Other costs	8,891	3,961
Total cost of personnel	157,627	160,784

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Information on the Performance Share Plan

At 31 December 2018, the Mondadori Group had two share-based payment plans in place, the 2018-2020 Performance Share Plan and the 2019-2021 Performance Share Plan, intended for the Chief Executive Officer, the CFO - Executive Director and ten selected Managers of Arnoldo Mondadori Editore S.p.A. who have an employment and/or directorship relationship with the Company or with its subsidiaries.

The reasons underlying the adoption of the Plans 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 encourage teamwork at management level, supporting the shared objective of value creation.

The Board of Directors – or its representative, the CEO – has the power to amend the Performance Targets in extraordinary and/or unforeseen 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.

Shares are allocated to the beneficiaries at the end of the vesting period on the basis of pre-established performance targets. Specifically, these targets are related to:

- Total Shareholder Return (TSR) vis-à-vis the constituents of the FTSE Italia 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%.

For each of the above performance conditions, minimum, target and maximum result levels are set.

When the minimum (90%) is met for EBITDA, Net profit and Free Cash Flow, the number of shares granted is equal to 50% of the target number of options assigned. When the target is met, 100% accrues, while with the maximum, the number of shares granted is equal to 120% of the target number of options assigned.

The TSR is defined vis-à-vis the constituents of the FTSE Italia All Share index by measuring performance over the period of the Plan. If the TSR is equal to or greater than the median, the target is deemed met and the number of shares granted is equal to 100% of the options assigned. If the TSR is lower than the median, no shares are granted.

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.

Pursuant to IFRS 2, the financial instruments underlying the Plan were stated at fair value on their granting.

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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 a Monte Carlo-type simulation model.

The information documents pursuant to art. 114-*bis* of Legislative Decree 58/98, which describe the features of the above plans, are 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. The table below shows for each plan the costs recognized in the income statement and the assumptions underlying the fair value measurement.

In detail, the fair value of shares was determined based on the following assumptions:

Granting date	13 September 2017	1 June 2018
Residual life at granting date (in months)	28	31
Expected volatility of the share price	38.6%	39.6%
Risk-free interest rate	0.20%	0.40%
% on expected dividends	0%	0%
Fair value of share at granting date (Euro)	1.85	1.05

The total cost recognized in the income statement was € 1,395 thousand; the amount referred to employees under “Cost of personnel” was € 1,075 thousand, and the amount referred to directors’ fees under “Cost of services” was € 320 thousand.

36. OTHER (INCOME) EXPENSE

“Other (income) expense” ended with a positive € 3,095 thousand, down by € 1,037 thousand versus 2017, when higher capital gains were earned as a result of extraordinary transactions.

Other (income) expense (Euro/thousands)	2018	2017
Other revenue and income	(13,267)	(17,578)
Other operating expense	10,172	13,446
Total other (income) expense	(3,095)	(4,132)

“Other revenue and income” fell by € 4,311 thousand, as a result mainly of lower contingent assets and lower income from the sale of company assets.

In 2017, capital gains were earned as a result of the sale of the locations in Via San Pietro all’Orto in Milan, and Palermo, of the Logistics business unit, which also included the book storage and shipment site; in 2018, capital gains were earned from the sale of a property in Bari, previously leased to third parties, and of the area relating to the former Mondadori Sporting Club, subject to a rent to buy contract signed in 2014.

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Other (income) expense – Other revenue and income (Euro/thousands)	2018	2017
Capital gains from the disposal of fixed assets and business units	4,088	5,636
Contingent assets	3,404	5,824
Third-party expense reimbursements	4,421	3,905
Other	1,355	2,213
Total other revenue and income	13,268	17,578

“Other operating expense” decreased by € 3,274 thousand, as a result of lower different costs relating mainly to Rizzoli Libri in 2017, offset by the increase in bad debt and losses on the disposal of assets, which includes the expense resulting from the disposal of Inthera S.p.A.

Other (income) expense – Other operating expense (Euro/thousands)	2018	2017
Receivables management	3,917	1,792
Reimbursements and settlements, net of the use of provisions	(1,324)	(195)
Contributions and grants	1,741	2,383
Contingent liabilities	1,432	1,048
Capital loss from the disposal of fixed assets and business units	2,125	591
Other tax and duties	1,684	2,383
Other expense	597	5,444
Total other operating expense	10,172	13,446

37. RESULT FROM INVESTMENTS MEASURED AT EQUITY

The income statement effect of companies consolidated at equity came to € -13,162 versus € -3,955 thousand in 2017.

The deterioration is due mainly to:

- the higher losses and write-downs made for Mach 2 Libri S.p.A. to cover the estimated liabilities following the voluntary liquidation of the company (€ 7,234 thousand);
- the higher losses incurred by Monradio S.r.l. and Società Europea di Edizioni S.p.A..

244	Income (expense) from investments booked at equity (Euro/thousands)	2018	2017
	- Monradio S.r.l.	(1,615)	(816)
	- Attica Publications Group	158	318
	- Società Europea di Edizioni S.p.A.	(3,348)	(2,075)
	- Mach 2 Libri S.p.A.	(9,800)	(2,566)
	- GD Media Service S.r.l.	21	(1)
	- Edizioni EL S.r.l.	1,028	594
	- Consorzio Scuola Digitale	-	(35)
	- Mediamond S.p.A.	110	7
	- Mondadori Seec Advertising Co. Ltd	283	339
	- Venezia Accademia Società per i servizi museali S.c.a r.l.	1	5
	- Campania Arte S.c.a r.l.	-	(11)
	Badwill on acquisition of Skira Rizzoli Publications Inc.	-	286
	Total income (expense) from investments booked at equity	(13,162)	(3,955)

38. FINANCIAL INCOME (EXPENSE)

Net financial expense in 2018 fell sharply by € 7,763 thousand versus the prior year, as a result of:

- lower interest expense (€ 6,640 thousand), due mainly to the reduction in rates charged on committed lines (from 2.72% in 2017 to 0.93% in 2018), and to the reduced average bank exposure of the Group;
- lower commissions on undrawn amounts from the Revolving Line and from Line C (€ 782 thousand);
- lower ancillary expense on loans (€ 269 thousand);
- higher net miscellaneous financial expense (commission expense, discounting of post-employment benefits) of € 72 thousand.

Financial income (expense) (Euro/thousands)	2018	2017
Interest from banks and post offices	21	3
Financial income from derivatives	-	-
Financial income	218	619
Other interest	26	47
Total interest and other financial income	265	669
Interest to banks and post offices	2	1
Interest on bonds, loans and borrowings and other expense	3,916	10,744
Financial expense from derivatives	928	1,101
Other financial expense for discounting assets/liabilities	313	365
Other interest	937	2,259
Total interest expense and other financial expense	6,096	14,470
Realized positive currency differences	96	172
Unrealized positive currency differences	54	74
Realized negative currency differences	(297)	(188)
Unrealized negative currency differences	(42)	(51)
Total income (loss) on currency transactions	(189)	7
Income (expense) from financial assets	-	11
Total financial income (expense)	(6,020)	(13,783)

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39. INCOME TAX

Costs for income tax and tax charges dropped by € 7,449 thousand versus 2017, as a result mainly of:

- lower operating results;
- lower provisions for tax disputes and greater benefits from tax consolidation and adjustments to taxable income made in the preparation of the 2018 Unified Tax Return.

Current tax increased sharply, as a result of the non-deductibility of the value of the credit notes to be issued for products that are expected to be returned by customers; this determined the concurrent recognition of an equivalent gain for the recognition of prepaid tax assets, partly offset by the expense for the reduction of prepaid tax assets recorded in prior years against tax losses generated.

Income tax (Euro/thousands)	2018	2017
IRES on income for the period	21,692	5,876
IRAP for the period	5,132	3,698
Total current tax	26,824	9,574
Deferred/pre-paid tax for IRES	(7,421)	8,570
Deferred/pre-paid tax for IRAP	(1,540)	1,681
Total deferred/pre-paid tax	(8,961)	10,251
Other tax items	(2,978)	2,509
Total income tax	14,885	22,334

Reconciliation between the theoretical tax charge and the current tax charge

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(Euro/thousands)	2018			2017		
	Pre tax result	Tax amount	Current tax rate	Pre tax result	Tax amount	Current tax rate
Theoretical IRES tax amount	32,064	7,695	24.00%	42,673	10,242	24.00%
Theoretical IRAP tax amount	32,064	1,251	3.90%	42,673	1,664	3.90%
Total theoretical tax amount/rate		8,946	27.90%		11,906	27.90%
Actual IRES tax amount		11,362	35.43%		17,049	39.95%
Actual IRAP tax amount		3,523	10.99%		5,285	12.38%
Total actual tax amount/rate		14,885	46.42%		22,334	52.33%
Theoretical tax amount/rate		8,946	27.90%		11,906	27.90%
Effect relating to the recognition of prior years' tax		(4,208)	(13.12%)		807	1.89%
Effect relating to companies posting losses		-	-		-	-
Effect of differences in tax rates on taxable income of foreign subsidiaries		16	0.05%		6	0.01%
Net effect of other permanent differences		7,858	24.50%		5,994	14.04%
Effect of different IRAP tax base		2,273	7.09%		3,621	8.49%
Current tax amount/rate		14,885	46.42%		22,334	30.64%

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.

	2018	2017
Net result for the period (Euro/000)	17,179	20,339
Average number of outstanding ordinary shares (no./000)	260,409	261,101
Basic earnings per share from continuing operations (Euro)	0.066	0.078

	2018	2017
Net result for the period (Euro/000)	(177,133)	30,417
Average number of outstanding ordinary shares (no./000)	260,409	261,101
Basic earnings per share (Euro)	(0.680)	0.116

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.

	2018	2017
Net result for the period (Euro/000)	17,179	30,417
Average number of outstanding ordinary shares (no./000)	260,409	261,101
Number of options with diluted effect (no./000)	681	176
Diluted earnings per share of continuing operations (Euro)	0.066	0.078

	2018	2017
Net result for the period (Euro/000)	(177,133)	30,417
Average number of outstanding ordinary shares (no./000)	260,409	261,101
Number of options with diluted effect (no./000)	883	176
Diluted earnings per share (Euro)	(0.678)	0.116

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41. COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 2018, the Mondadori Group has commitments underwritten for a total of € 95,766 thousand (€ 95,326 thousand at 31 December 2017), consisting of guarantees issued on VAT receivables subject to reimbursement and prize contests transactions, of leases contracts and letters of patronage.

Lease commitments

Commitments for operating leases totaled € 127.8 million at 31 December 2018; the discounting effect is equal to € 15.3 million; financial liabilities arising from leases, pursuant to IFRS 16, as indicated in Note 6.26, amounted to € 112.5 million.

42. NON-RECURRING (INCOME) EXPENSE

Under Consob Resolution no. 15519 of 27 July 2006, the Mondadori Group in 2018, as in 2017, recorded no non-recurring income or expense.

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 2018, 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	General Manager Trade Books Area
Pierluigi Bernasconi	General Manager Retail Business Unit
Carlo Luigi Mandelli	General Manager Magazines Italy, Digital and International Business Unit
Carmine Perna	General Manager Mondadori France Business Unit
Antonio Porro	General Manager Books Business Unit and Educational Books Area
Daniele Sacco	Head of Human Resources and Organization

The group of Key Management Personnel, shown above in the situation at 31 December, remains unchanged versus the end of the prior year.

Total compensation paid to Key Management Personnel in 2018 totaled € 6.2 million, -27% overall than last year. The difference is due mainly to the fact that no medium/long-term incentives were paid during the year, as was the case in 2017, with particular regard to the Chief Executive Officer.

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 31 DECEMBER 2018

(Euro/thousands)	Trade receivables	Financial receivables	Tax receivables	Other current assets	Trade payables
Parent companies:					
- Fininvest S.p.A.	4		143		40
Associates:					
- Mach 2 Libri S.p.A.	8,278				31
- Venezia Musei Società per i servizi museali S.c.ar.l.	260			12	
- Harlequin Mondadori S.p.A.					
- Attica Publications Group	38	500			14
- Edizioni EL S.r.l.	971			12	5,834
- Società Europea di Edizioni S.p.A.	494			43	460
- 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					
- Venezia Accademia Soc. per i servizi museali S.c.ar.l.	45	25			18
- Mediamond S.p.A.	31,494			229	5,015
- Mondadori Seec Advertising Co. Ltd	532				300
- GD Media Service S.r.l.					364
- Monradio S.r.l.	16				
- Gold5 S.r.l.					
- Skira Rizzoli Publications Inc.					
- EDIGITA S.r.l.					
Total associates	42,128	525	0	296	12,036

Financial payables	Tax payables	Other current liabilities	Revenue	Purchases of raw materials	Purchases of services	Cost of personnel	Other expense (income)	Financial income (expense)
	13,217		4		58			
			(3,470)	13	2		78	
			2					(24)
			(6,082)	50	75		(12)	
738		123	2,111	229	2		(11)	
			22		31		(15)	
			73,818	3,017	2,258		72	
			1,312				162	
				313	838			
			82		85		(19)	
738	0	123	67,795	3,622	3,291	0	255	(24)

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TRANSACTIONS WITH RELATED PARTIES: FIGURES AT 31 DECEMBER 2018

(Euro/thousands)	Trade receivables	Financial receivables	Tax receivables	Other current assets	Trade payables
Affiliates:					
- RTI - Reti Televisive Italiane S.p.A.	1,116				1,356
- Publitalia '80 S.p.A.					739
- Digitalia '08 S.r.l.					10
- Banca Mediolanum S.p.A.	29				
- Publieurope Ltd					
- Il Teatro Manzoni S.p.A.					
- Mediaset S.p.A.	11				
- Alba Servizi Autotrasporti S.p.A.					
- Mediolanum Comunicazione S.p.A.					
- Fininvest Real Estate Services S.p.A.					12
- Milan Entertainment S.r.l.					
- Mediaset Premium S.p.A.					
- Media4Commerce S.p.A.					
- Mediobanca S.p.A.					
Total affiliates	1,156	0	0	0	2,117
Total related parties	43,288	525	143	296	14,193
of which related parties from discontinued operations	-	-	-	-	-
Percentage on item	19.8%	6.3%	0.6%	0.4%	5.5%

Financial payables	Tax payables	Other current liabilities	Revenue	Purchases of raw materials	Purchases of services	Cost of personnel	Other expense (income)	Financial income (expense)
		480	(3,152)		301	(69)	297	
			39		2,378			
					21			
		7	255		1		(6)	
			108		108			
			11					
			13				6	
					10			
				1				
0	0	487	(2,726)	1	2,819	(69)	297	0
738	13,217	610	65,073	3,623	6,168	(69)	552	(24)
-	-	-	-	-	-	-	-	-
0.6%	86.4%	0.4%	7.3%	2.2%	1.2%	n.s.	n.s.	0.4%

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TRANSACTIONS WITH RELATED PARTIES: FIGURES AT 31 DECEMBER 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 servizi museali 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
- Gold5 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 expense (income)	Financial income (expense)
	4,075		4		61		21	47
			9,677		11			
			11					24
		1	(5,433)	64	78			
		123	2,120	230	(5)		(16)	
							(1)	
			22		76		(15)	
			79,680	3,700	2,894		(37)	
			1,241				48	
			2	366	911			
			87	87	5		(27)	
0	0	124	87,407	4,447	3,970	0	(48)	24

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TRANSACTIONS WITH RELATED PARTIES: FIGURES AT 31 DECEMBER 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 expense (income)	Financial income (expense)
			(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	84,580	4,373	8,703	(225)	(27)	71
-	-	-	-	-	-	-	-	-
0.0%	70.9%	0.1%	8.7%	2.5%	1.6%	n.s.	0.7%	n.s.

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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.

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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, 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 € 24.8 million, 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, 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 € 24.8 million, 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, 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 € 40.5 million, 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.

Sensitivity analysis (Euro/millions)	Underlying	Interest rate increase/ (decrease)	Income (expense)	Equity increase (decrease)
2018	(78.6)	1%	0.1	2.8
2017	(131.1)	1%	-	4.5
2018	(78.6)	(0.2%)	-	(0.6)
2017	(131.1)	(0.2%)	-	(0.9)

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.

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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 2018, 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 2018, liquidity risk was managed by Mondadori Group through the following tools:

- bank and postal deposits totaling € 82.4 million;
- committed credit lines totaling € 435.0 million (€ 200.0 million of which unused) and uncommitted credit lines of € 209.2 million, unused at 31 December 2018.

The table below details Group exposure to liquidity risk and the relevant maturity dates.

Liquidity risk (Euro/millions)	Analysis of maturity periods at 31/12/2018						Total
	< 6 months	6-12 months	1-2 years	2-5 years	5-10 years	> 10 years	
Trade payables	246.1	-	-	-	-	-	246.1
Medium/long-term loans	101.1	18.3	23.9	97.4	-	-	240.8
Other financial liabilities:							
- committed lines	-	-	-	-	-	-	-
- uncommitted lines	9.2	-	-	-	-	-	9.2
Other liabilities	90.0	-	-	-	-	-	90.0
Payables to associates	12.0	-	-	-	-	-	12.0
Total	458.4	18.3	23.9	97.4	-	-	598.1
Derivatives on rate risk	(0.3)	(0.2)	(0.5)	(0.6)	-	-	(1.7)
Derivatives on currency risk	-	-	-	-	-	-	-
Total exposure	458.7	18.5	24.4	98.1	-	-	599.8

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Liquidity risk (Euro/millions)	Analysis of maturity periods at 31/12/2017						Total
	< 6 months	6-12 months	1-2 years	2-5 years	5-10 years	> 10 years	
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

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)	31/12/2018	31/12/2017
Deposits	82.2	64.5
Receivables and loans:		
- trade receivables and other current financial assets	240.5	314.7
- trade receivables and other non-current financial assets	7.7	11.0
Available-for-sale assets	0.4	0.9
Receivables from hedge derivatives	-	-
Guarantees	-	-
Total maximum exposure to credit risk	330.8	391.1

The table below shows the Group's exposure to credit risk by geographical area:

Trade credit risk concentration				
	Euro/millions 31/12/2018	Euro/millions 31/12/2017	% 31/12/2018	% 31/12/2017
By geographical area:				
Italy	211.6	247.0	96.6%	82.9%
France	-	43.9	-	14.7%
Other countries	7.4	7.1	3.4%	2.4%
Total	219.0	298.0	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

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 order to curb the credit risk, the Group stipulated an insurance; given the soundness and solvency of its counterparties, 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 31/12/2018					
	Net overdraft					
	Net to maturity	0-30 days	30-60 days	60-90 days	Over	Bad debt provision
Books	109.7	1.9	1.5	2.3	8.9	9.2
Magazines Italy	53.2	8.1	0.9	0.4	2.4	9.2
Magazines France	-	-	-	-	-	-
Retail	13.6	3.1	0.7	0.6	10.8	7.4
Other business	(0.8)	1.2	-	0.2	0.2	-
Total	175.7	14.3	3.2	3.5	22.3	25.8

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	-	2.4
Retail	16.0	2.7	0.8	0.6	10.4	7.2
Other business	0.4	-	-	-	-	0.1
Total	242.2	29.7	9.5	(3.7)	20.3	33.4

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Other information requested pursuant to IFRS 7

The table below summarizes financial assets and liabilities classified according to the categories defined by IFRS 9 and the relevant fair value:

Classification

(Euro/millions)	Book value						Fair value	
	Total		of which current		of which non-current			
	31/12/18	31/12/17	31/12/18	31/12/17	31/12/18	31/12/17	31/12/18	31/12/17
Financial assets held to collect, measured at fair value with adjustments recognized under income statement	-	-	-	-	-	-	-	-
Receivables and loans:								
- cash and cash equivalents	82.4	66.6	82.4	66.6	-	-	82.4	66.6
- trade receivables	176.9	248.1	173.6	244.6	3.3	3.5	176.9	248.1
- other financial assets	29.1	27.6	28.6	24.1	0.6	3.4	29.1	27.5
- receivables from affiliates and joint ventures	42.7	50.4	42.2	50.0	0.5	0.5	42.7	50.5
Available-for-sale financial assets	0.4	0.9	0.4	0.9	-	-	0.4	0.9
Derivatives	-	-	-	-	-	-	-	-
Total financial assets	331.5	393.6	327.2	386.2	4.4	7.4	331.5	393.6
Financial liabilities held to collect, measured at fair value with adjustments recognized under income statement:								
- non-hedge derivatives	-	-	-	-	-	-	-	-
Financial liabilities at amortized cost:								
- trade payables	246.1	311.6	246.1	311.6	-	-	246.1	311.6
- payables to banks and other financial liabilities	331.0	369.0	216.8	136.6	114.3	232.4	335.2	377.7
- payables to associates and joint ventures	12.0	11.9	12.0	11.9	-	-	12.0	11.9
Derivatives	0.8	0.3	-	-	0.8	0.3	0.8	0.3
Total financial liabilities	589.9	692.8	474.9	460.1	115.1	232.7	594.1	701.5

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 2018, 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 expense recognized under the income statement and attributable to financial assets and liabilities, classified according to the categories set out by IFRS 9.

Income and loss from financial instruments (Euro/millions)	2018	2017
Interest earned on financial assets not measured at fair value:		
- deposits	-	-
- other financial assets	0.3	0.7
Total income	0.3	0.7
Net loss on derivative instruments	0.9	1.1
Interest due on financial liabilities not measured at fair value:	-	-
- deposits	-	-
- bonds	-	-
- borrowings	2.0	8.6
- other	0.9	2.3
Losses from financial instrument impairment:		
- trade receivables	9.4	9.2
Expense and commissions not included in effective interest rates	1.9	2.1
Total costs	15.1	23.3
Total	(14.8)	(22.6)

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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 31/12/2018	Fair value hierarchy	Valuation method and main inputs
Interest rate swap contracts	(777)	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	439	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 2017 changes as a result of the discontinuity of Mondadori France.

SEGMENT REPORTING: FIGURES AT 31 DECEMBER 2018

(Euro/thousands)

	Books	Retail
Revenue from sales and services from external customers	410,472	191,138
Revenue from sales and services from other sectors	39,944	629
EBITDA	82,880	(33)
EBIT	70,915	(3,397)
Financial income (expense)	-	-
Income (expense) from equity-accounted investees	(8,771)	-
Result before tax and non-controlling interests	61,211	(3,986)
Income tax	-	-
Result attributable to non-controlling interests	1	-
Income / (Loss) from discontinued operations	-	-
Net Income / (Loss)	61,210	(3,986)
Amortization, depreciation and impairment	11,964	3,364
Non-monetary costs	62,007	2,684
Non-recurring income (expense)	-	-
Capital expenditure	10,389	2,626
Equity-accounted investees	3,652	-
Total assets	365,537	102,634
Total liabilities	244,163	73,853
Italy		
France		
Other EU countries		
USA		
Other countries		
Consolidated result		

Magazines Italy	Corporate e Shared Services	Unallocated items and consolidation adjustments	Consolidated result
287,712	1,755	-	891,077
(676)	32,919	(72,816)	0
(213)	(4,612)	(527)	77,495
(7,324)	(8,422)	(526)	51,246
-	(6,020)	-	(6,020)
541	(4,963)	-	(13,193)
(6,981)	(14,511)	(3,669)	32,064
-	14,885	-	14,885
-	-	1,960	1,961
-	-	(192,351)	(192,351)
(6,981)	(29,396)	(197,980)	(177,133)
7,111	3,810	-	26,249
5,761	312	-	70,764
-	-	-	0
2,596	7,478	-	23,089
17,721	10,447	-	31,820
230,572	214,115	197,519	1,110,377
164,267	344,860	112,535	939,678
Revenue from sales and services			Fixed assets
	834,251		242,591
	1,029		-
	14,641		-
	35,765		3,216
	5,391		-
	891,077		245,807

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SEGMENT REPORTING: FIGURES AT 31 DECEMBER 2017

(Euro/thousands)

	Books	Retail
Revenue from sales and services from external customers	443,615	197,817
Revenue from sales and services from other sectors	39,375	701
EBITDA	76,206	606
EBIT	64,532	(3,723)
Financial income (expense)	-	-
Income (expense) from equity-accounted investees	(1,727)	-
Result before tax and non-controlling interests	62,805	(3,723)
Income tax	-	-
Result attributable to non-controlling interests	1	-
Income / (Loss) from discontinued operations	-	-
Net Income / (Loss)	62,804	(3,723)
Amortization, depreciation and impairment	11,674	4,329
Non-monetary costs	24,401	3,281
Non-recurring income (expense)	-	-
Capital expenditure	11,536	2,636
Equity-accounted investees	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 e Shared Services	Unallocated items and consolidation adjustments	Consolidated result
326,890	-	1,812	-	970,134
(777)	-	24,391	(63,690)	0
12,136	-	(2,741)	503	86,710
6,356	-	(7,257)	503	60,411
-	-	(13,783)	-	(13,783)
663	-	(2,891)	-	(3,955)
7,019	-	(23,931)	503	42,673
-	-	22,334	-	22,334
-	-	-	2,522	2,523
-	-	-	12,601	12,601
7,019	-	(46,265)	10,582	30,417
5,780	-	4,516	-	26,299
3,908	-	2,607	-	34,197
-	-	-	-	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
905,990				243,938
639				372,276
21,847				-
36,228				3,675
5,430				-
970,134				619,889

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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 2018 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
Auditing	Deloitte & Touche S.p.A.	Arnoldo Mondadori Editore S.p.A.	410,427
	Deloitte & Touche S.p.A.	Subsidiaries	582,231
	Other network companies	Subsidiaries	241,650
Certification	Deloitte & Touche S.p.A.	Arnoldo Mondadori Editore S.p.A. (1)	98,682
	Deloitte & Touche S.p.A.	Subsidiaries (2)	13,627
	Other network companies	Subsidiaries (3)	5,000
Other services	Deloitte & Touche S.p.A.	Subsidiaries (4)	40,000
Total			1,391,617

⁽¹⁾ Accertamento Diffusione Stampa (circulation auditing). Auditing of the Company financial statements, tax returns and auditor's stamp

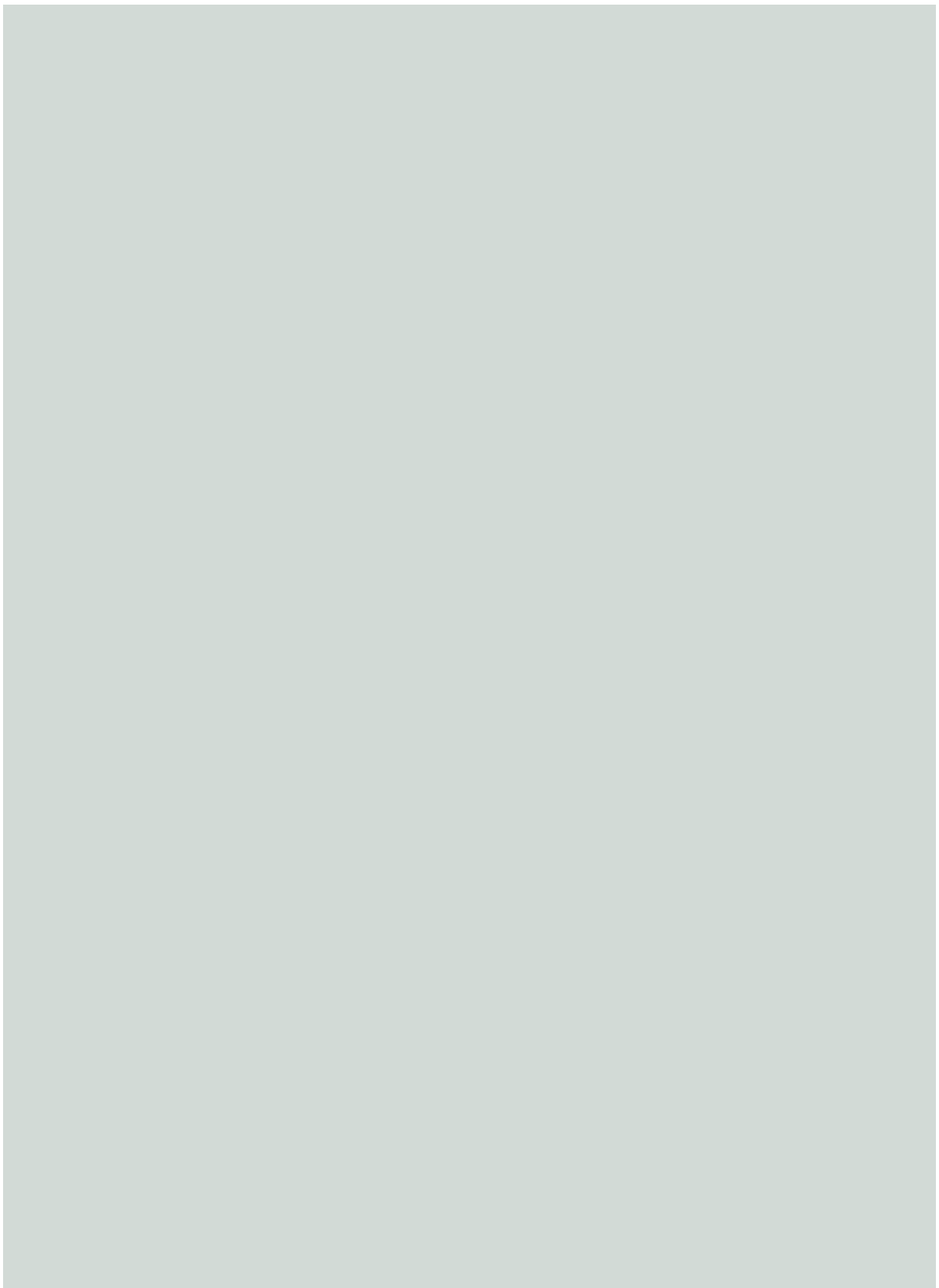
⁽²⁾ Audits for underwriting of tax returns

⁽³⁾ Auditing procedure for the obtaining of subsidized postal tariffs (CPAPP)

⁽⁴⁾ Agreed audit procedures

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 24 February 1998, hereby certify:

- the adequacy in relation to the Company's characteristics and
- the effective application

of the administrative and accounting procedures for the drafting of the Group's consolidated financial statements in 2018.

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 2018 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:

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3.1 the consolidated financial statements at 31 December 2018:

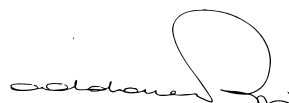
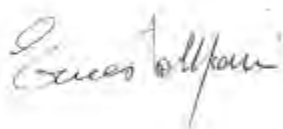
- a) were drafted in compliance with the applicable international accounting standards acknowledged at the EU level pursuant to EC regulation no. 1606/2002 of the EU Parliament and Council of 19 July 2002, as well as with the provisions set out for the implementation of art. 9 of Legislative Decree no. 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 and the group of businesses included in the consolidation scope.

3.2 the Report on Operations includes a reliable analysis of performance and results, of the situation of the Company and of the businesses included in the consolidation scope, along with the description of the main risks and uncertainties they are exposed to.

14 March 2019

The CEO
(Ernesto Mauri)

The Financial Reporting Manager
(Oddone Pozzi)





Edithon

A contest launched to assign 8 junior editor positions to the book departments of the Group's various publishing houses: *Millennial Editor*, a project dedicated to young talents who have a strong passion for books and reading, gathered over 4,200 applications. The 81 selected youngsters then took part in *Edithon*, a day of workshops at the Group's headquarters, which picked out the 8 editors of the future.

**Arnoldo Mondadori
Editore S.p.A.
Financial Statements
at 31 December 2018**

BALANCE SHEET

Assets (Euro)	Notes	31/12/2018	31/12/2017
Intangible assets	1	128,877,436	125,429,390
Investment property	2	-	2,831,303
Land and buildings		2,593,467	3,389,029
Plant and equipment		847,677	1,162,009
Other tangible assets		1,960,703	1,216,312
Property, plant and equipment	3	5,401,848	5,767,350
Investments	4	404,738,917	491,098,408
Non-current financial assets	4	500,000	165,000,000
Pre-paid tax assets	5	6,514,969	12,897,505
Other non-current assets	6	295,988	323,098
Total non-current assets		546,329,157	803,347,055
Tax receivables	7	29,485,163	25,964,816
Other current assets	8	4,903,654	4,290,277
Inventory	9	5,072,905	6,034,120
Trade receivables	10	45,291,732	50,549,470
Other current financial assets	11	62,972,862	90,043,845
Cash and cash equivalents	12	76,837,332	61,026,292
Total current assets		224,563,648	237,908,820
Assets of discontinued operation or transferred	13	64,092,382	-
Total assets		834,985,187	1,041,255,874

Liabilities (Euro)	Notes	31/12/2018	31/12/2017
Share capital		67,979,168	67,979,168
Treasury shares		(2,282,396)	(1,653,869)
Other reserves and profit/(loss) carried forward		253,408,440	219,070,942
Profit (loss) for the year		(177,130,510)	30,417,415
Total equity	14	141,974,702	315,813,656
Provisions	15	36,747,918	36,734,645
Post-employment benefits	16	10,733,145	11,855,680
Non-current financial liabilities	17	114,997,243	232,798,918
Deferred tax liabilities	5	28,324,295	28,831,578
Other non-current liabilities		-	-
Total non-current liabilities		190,802,601	310,220,821
Income tax payables	18	-	-
Other current liabilities	19	37,329,900	47,857,683
Trade payables	20	73,097,956	75,280,614
Payables to banks and other financial liabilities	17	391,780,028	292,083,100
Total current liabilities		502,207,884	415,221,397
Liabilities of discontinued operations or transferred		-	-
Total liabilities		834,985,187	1,041,255,874

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INCOME STATEMENT

(Euro)	Notes	2018	2017*
Revenue from sales and services	21	256,625,974	282,343,151
Decrease (increase) in inventory	9	961,215	1,668,234
Cost of raw and ancillary materials, consumables and goods	22	22,052,680	25,776,759
Cost of services	23	167,620,158	188,212,307
Cost of personnel	24	82,226,324	76,035,366
Other (income) expense	25	(9,211,702)	(11,282,787)
EBITDA		(7,022,701)	1,933,273
Depreciation of property, plant and equipment	2-3	1,154,086	1,202,807
Amortization and impairment loss of intangible assets	1	3,913,397	3,741,677
EBIT		(12,090,184)	(3,011,211)
Financial income (expense)	26	(4,463,406)	(11,571,505)
Income (expense) from investments	27	30,439,677	36,789,835
Result before tax		13,886,087	22,207,119
Income tax	28	(3,322,447)	1,895,704
Result from continuing operations		17,208,534	20,311,415
Income (loss) from discontinued operations	29	(194,339,044)	10,106,000
Net result		(177,130,510)	30,417,415

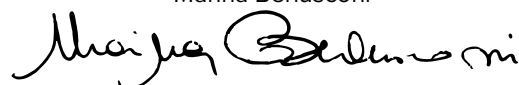
* Comparative information has been restated following initial application of IFRS 15 and reclassifications made under IFRS 5

COMPREHENSIVE INCOME STATEMENT

(Euro)	2018	2017
Net result	(177,130,510)	30,417,415
<i>Items reclassifiable to income statement</i>		
Effective part of profit / (loss) on cash flow hedge instruments (cash flow hedge)	(436,818)	(340,718)
Tax effect	104,836	81,772
Items of the comprehensive income statement of investments measured at equity	(859,000)	(3,053,000)
<i>Reclassified entries under income statement</i>		
Effective part of profit / (loss) on cash flow hedge instruments (cash flow hedge)	301,876	2,051,017
Tax effect	(72,450)	(492,244)
<i>Items not reclassifiable to income statement</i>		
Actuarial income/ (losses)	25,725	132,975
Tax effect	(6,174)	(31,914)
Actuarial gains/(losses) from equity-accounted investees	1,825,449	277,939
Comprehensive net result	(174,529,066)	29,043,242

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For the Board of Directors
The Chairman
Marina Berlusconi



STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2017 AND 2018

(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

* Financial statement restated in accordance with IAS 8 following change in the measurement of investments in subsidiaries, joint ventures and associates

(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 31/12/2017	67,979	(1,654)	850	428	(940)	218,734	30,417	315,814
Effect 1 st application of IFRS 9	-	-	-	-	-	(267)	-	(267)
Balance at 01/01/2018	67,979	(1,654)	850	428	(940)	218,467	30,417	315,547
Changes in:								
- Allocation of result	-	-	-	-	-	30,417	(30,417)	-
- Purchase of treasury shares	-	(628)	-	-	-	-	-	(628)
- Performance share	-	-	1,563	-	-	-	-	1,563
- Other reserves	-	-	-	-	-	22	-	22
- Comprehensive profit/(loss)	-	-	-	19	(102)	2,685	(177,131)	(174,529)
Balance at 31/12/2018	67,979	(2,282)	2,413	447	(1,042)	251,591	(177,131)	141,975

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For the Board of Directors
The Chairman
Marina Berlusconi



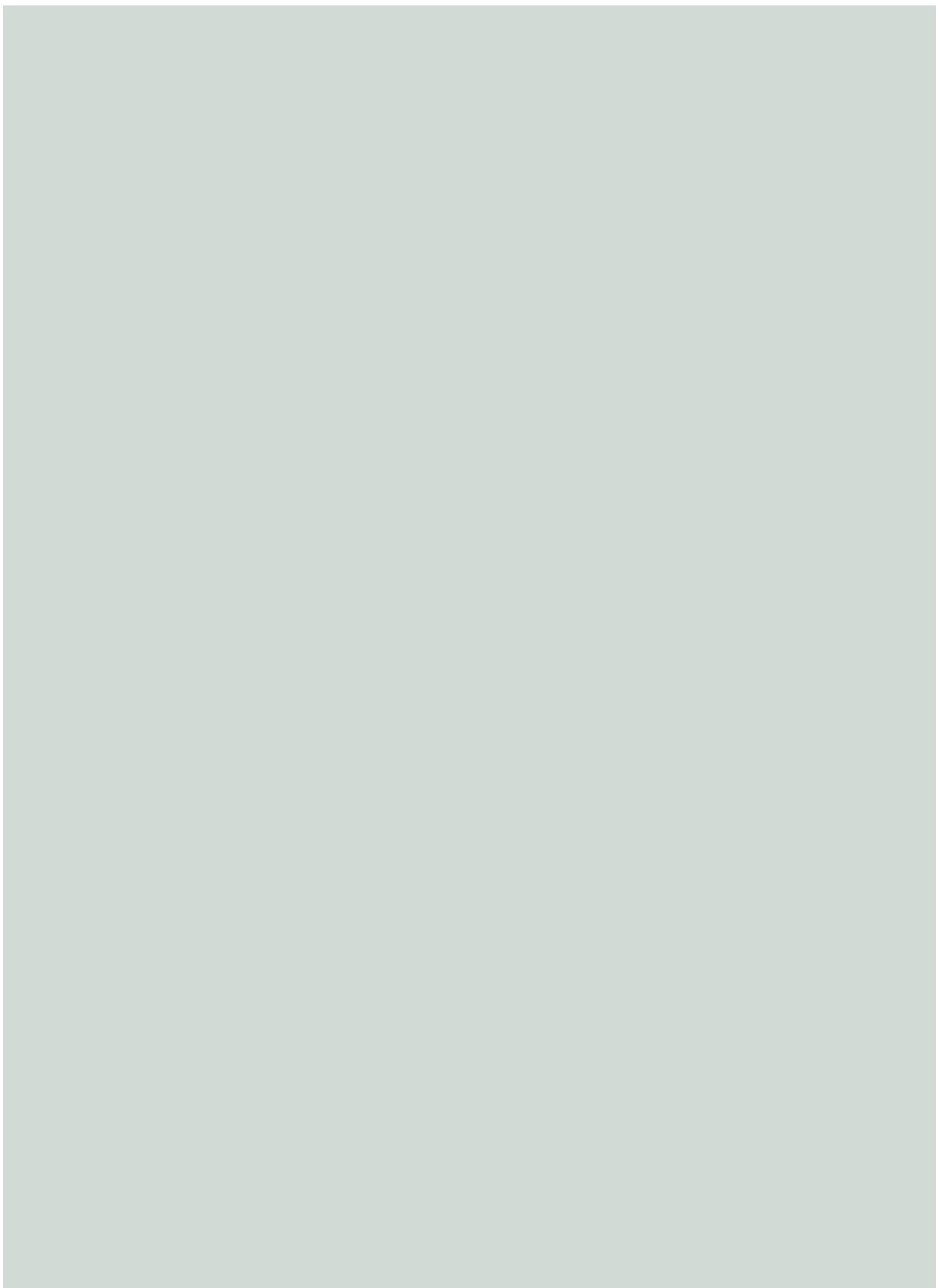
CASH FLOW STATEMENT

(Euro/thousands)	Notes	2018	2017 *
Result for the year		(177,131)	30,417
<i>Adjustments</i>			
Amortization, depreciation and impairment		5,067	4,945
Income tax for the year		(3,322)	(34)
Stock options		904	415
Fund provisions and post-employment benefits		(1,563)	392
Gains (losses) from disposal of intangible assets, property plant and equipment and investments		(1,870)	(4,161)
(Income)/expense from measurement of investments at equity		(33,002)	(40,083)
Net financial expense (income) on loans and transactions with derivatives		4,843	11,845
Other non-monetary adjustments to discontinued operations		194,339	(10,106)
Cash flow generation from operations		(11,735)	(6,370)
(Increase) decrease in trade receivables		5,394	(3,206)
(Increase) decrease in inventory		961	1,665
Increase (decrease) in trade payables		(2,618)	(487)
(Payment) cash-in from income tax		7,605	7,761
Fund provisions and post-employment benefits		(1,134)	(1,166)
Net difference for other assets/liabilities		(15,260)	(4,447)
Cash flow generated from (absorbed by) operations		(16,787)	(6,250)
Cash and cash equivalents contributed from merger		-	6
(Purchase) disposal of intangible assets		(6,570)	(5,158)
(Purchase) disposal of property, plant and equipment		5,645	4,979
(Purchase) disposal of investments		(4,767)	(6,545)
Income from investments - dividends		35,135	44,070
(Purchase) disposal of securities		-	-
Cash flow generated from (absorbed by) investing activities		29,443	37,352
Increase (decrease) in payables to banks for loans	16	(15,000)	(81,235)
Change in other financial assets - intercompany		12,679	(6,104)
Change in other financial liabilities - intercompany		(4,217)	26,967
(Purchase) disposal of treasury shares		(629)	(1,580)
Net difference for other financial assets/liabilities		3,366	13,855
Collection of financial revenue (payment of expense) on loans and transactions with derivatives		(6,687)	(17,894)
Cash flow generated from (absorbed by) discontinued operations		13,643	23,296
Dividends paid		-	-
Cash flow generated from (absorbed by) financing activities		3,155	(42,695)
Increase (decrease) in cash and cash equivalents		15,811	(11,593)
Cash and cash equivalents beginning of period		61,026	72,619
Cash and cash equivalents end of period		76,837	61,026
<i>of which cash, cheques and securities</i>		<i>1</i>	<i>1</i>
<i>of which bank deposits</i>		<i>76,836</i>	<i>61,025</i>

* Comparative information has been restated following application of IFRS 5

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	31/12/2018	of which related parties (Note 30)	31/12/2017	of which related parties (Note 30)
Intangible assets	1	128,877		125,429	
Investment property	2	-		2,831	
Land and buildings		2,593		3,389	
Plant and equipment		848		1,162	
Other tangible assets		1,961		1,216	
Property, plant and equipment	3	5,402		5,767	
Investments	4	404,739		491,098	
Non-current financial assets	4	500	500	165,000	165,000
Pre-paid tax assets	5	6,515		12,898	
Other non-current assets	6	296	140	323	140
Total non-current assets		546,329	640	803,347	165,140
Tax receivables	7	29,485	8,684	25,965	7,355
Other current assets	8	4,904	26	4,290	25
Inventory	9	5,073		6,034	
Trade receivables	10	45,292	41,586	50,549	43,884
Other current financial assets	11	62,973	60,390	90,044	89,615
Cash and cash equivalents	12	76,837		61,026	
Total current assets		224,564	110,668	237,909	140,879
Assets of discontinued operation or transferred	13	64,092		-	
Total assets		834,985	111,308	1,041,256	306,019

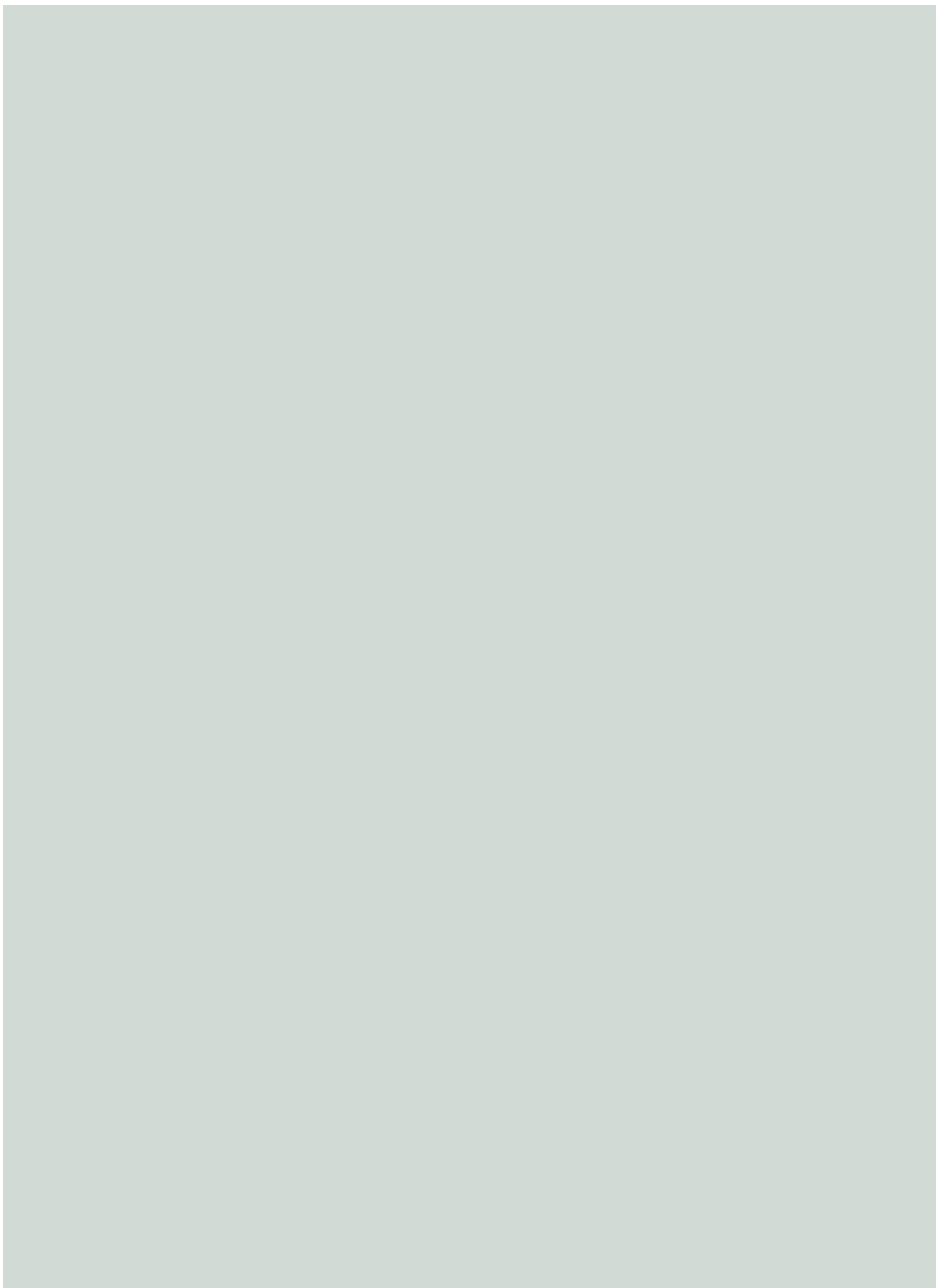
Liabilities (Euro/thousands)	Notes	31/12/2018	of which related parties (Note 30)	31/12/2017	of which related parties (Note 30)
Share capital		67,979		67,979	
Treasury shares		(2,282)		(1,654)	
Other reserves and profit/(loss) carried forward		253,408		219,071	
Profit (loss) for the year		(177,131)		30,417	
Total equity	14	141,975		315,814	
Provisions	15	36,748	5,214	36,735	3,634
Post-employment benefits	16	10,733		11,856	
Non-current financial liabilities	17	114,997		232,799	
Deferred tax liabilities	5	28,324		28,832	
Other non-current liabilities		-		-	
Total non-current liabilities		190,803	5,214	310,221	3,634
Income tax payables	18	-		-	
Other current liabilities	19	37,330	7,621	47,858	6,567
Trade payables	20	73,098	8,349	75,281	9,748
Payables to banks and other financial liabilities	17	391,780	270,463	292,083	273,943
Total current liabilities		502,208	286,433	415,221	290,258
Liabilities of discontinued operations or transferred		-		-	
Total liabilities		834,985	291,647	1,041,256	293,892

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

(Euro/thousands)	Notes	2018	of which related parties (Note 30)	of which non-recurring (income) expense (Note 29)	2017 *	of which related parties (Note 30)	of which non-recurring (income) expense (Note 29)
Revenue from sales and services	21	256,626	253,630		282,343	279,373	
Decrease (increase) in inventory	9	961			1,668		
Cost of raw and ancillary materials, consumables and goods		22,053	1,281		25,777	1,607	
Cost of services	22	167,620	53,056		188,212	61,692	
Cost of personnel	23	82,226	(2,419)		76,035	(2,623)	
Other (income) expense	24	(9,212)	(2,868)		(11,283)	(5,603)	
EBITDA	25	(7,023)	204,580		1,933	224,300	
Depreciation of property, plant and equipment	2-3	1,154			1,203		
Amortization and impairment loss of intangible assets	1	3,913			3,742		
EBIT		(12,090)	204,580		(3,011)	224,300	
Financial income (expense)	26	(4,463)	1,260		(11,572)	1,965	
Income (expense) from investments	27	30,440	30,440		36,790	36,790	
Result before tax		13,886	236,280		22,207	263,055	
Income tax	28	(3,322)			1,896		
Result from continuing operations		17,209	236,280		20,311	263,055	
Income (loss) from discontinued operations	29	(194,339)	(194,339)		10,106	10,106	
Net result		(177,131)	41,941		30,417	273,161	

* Comparative information has been restated following initial application of IFRS 15 and reclassifications made under IFRS 5



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.linfo.it website.

The draft financial statements of Arnoldo Mondadori Editore S.p.A. for the year ended 31 December 2018 were approved by the Board of Directors on 14 March 2019 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 Auditing Firm's 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 17 April 2019 to approve the 2018 financial statements.

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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 31 December 2018 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).

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 31 December 2018 were prepared in accordance with the accounting standards used for the preparation of the IAS/IFRS consolidated financial statements at 31 December 2018, considering the amendments and the new standards effective as of 1 January 2018, as per Note 3.26.

The following criteria were adopted in the preparation of these financial statements:

- current and non-current assets and current and non-current liabilities are presented 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 regard 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 31 December 2018.

3.1 Intangible assets

When it is probable that costs will generate future economic benefits, intangible assets include the cost, including ancillary expense, 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

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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 ancillary expense 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 depreciated over the useful life of the asset. Depreciation 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:

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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 depreciation 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 recognized based on historical cost, including any ancillary expense, 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 expense

Under IAS 23, the Company capitalizes financial expense resulting from asset purchase, development or production. In case of failed identification of assets justifying capitalization, the expense is recognized under income statement in the year in which it is 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.

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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 investor's profit or loss includes its share of the investee's profit or loss, and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

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 reinstatement of value 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 expense 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 ancillary purchasing expense, 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 classified as "held to collect" and measured at fair value through P&L

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, under IFRS 9, 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.

3.10 Trade receivables and other receivables

Trade and other receivables are recorded at the fair value of the price collected during the 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

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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, under IFRS 9, are initially measured 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*, as an exception to the provisions of IFRS 9: 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.

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.

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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 31 December 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 31 December 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 (expense)”.

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 expense (income)”.

3.19 Equity compensation plans

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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 revenue and costs

Revenue from the sale of goods is recorded net of discounts, allowances and returns, when the right to payment and the operating benefits resulting from the sale become unconditional.

Revenue from services is recognized based on the relevant state of completion.

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.

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

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 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.

With regard to State aid and/or “*de minimis*” aid, pursuant to art. 1, paragraphs 125-129, of Law no. 124/2017, received by the Company, reference is made to the content contained and published in the National State Aid Register.

3.24 Dividends

Dividends are recognized as a reduction 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 “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.

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3.26 Accounting standards, amendments and interpretations adopted by the EU, with effect from 1 January 2018 and applied by Arnoldo Mondadori Editore S.p.A

The following accounting standards, amendments and IFRS interpretations have been applied by the Company for the first time as of 1 January 2018:

- IFRS 15 – *Revenue from Contracts with Customers* (published on 28 May 2014 and supplemented with additional clarification published on 12 April 2016), which replaced 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 applies 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 full retrospective approach was adopted for the application of IFRS 15, which involved restating the amounts of the prior year's financial statements presented for comparative purposes.

The restatement had no effect on the amounts of the balance sheet at 31 December 2017, but only on those of the income statement, as shown in the table hereafter. Further comments on the nature of the effects of the adoption of IFRS 15 are found in Note 28 - Revenue from sales and services.

(Euro/thousands)	2017	Impacts IFRS 15	2017 Restated
Revenue from sales and services	241,559,151	40,784,000	282,343,151
Decrease (increase) in inventory	1,668,234	-	1,668,234
Cost of raw and ancillary materials, consumables and goods	25,776,759	-	25,776,759
Cost of services	147,428,307	40,784,000	188,212,307
Cost of personnel	76,035,366	-	76,035,366
Other (income) expense	(11,282,787)	-	(11,282,787)
EBITDA	1,933,273	-	1,933,273
Depreciation of property, plant and equipment	1,202,807	-	1,202,807
Amortization and impairment loss of intangible assets	3,741,677	-	3,741,677
EBIT	(3,011,211)	-	(3,011,211)
Financial income (expense)	(4,758,505)	-	(4,758,505)
Income (expense) from investments	40,082,835	-	40,082,835
Result before tax	32,313,119	-	32,313,119
Income tax	1,895,704	-	1,895,704
Result from continuing operations	30,417,415	-	30,417,415
Income (loss) from discontinued operations	-	-	-
Net income/ loss	30,417,415	-	30,417,415

- 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. More specifically, for financial assets, the new standard adopts a single approach based on the financial instrument management methods and on the characteristics of contractual cash flow of the financial assets in order to determine the measurement criteria, replacing the alternative rules established by IAS 39. For financial liabilities, the main change introduced regards the recognition of variations in the fair value of financial liabilities designated as a financial liability measured at fair value in the income statement, whenever these changes are due to a change in the credit rating of the issuer of the liability. According to the new standard, these amendments must be recognized in the statement of "Other comprehensive income", and no longer in the income statement. Additionally, changes to non-substantial liabilities are no longer allowed to spread the income statement effects of the renegotiation on the residual duration of the debt, by changing the effective interest rate at that date, but the related effect will need to be recorded in the income statement.

With regard to impairment, 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. The standard requires that the impairment model apply to all financial instruments, i.e. financial assets measured at amortized cost, those measured at fair value through other comprehensive income, receivables arising from lease agreements and trade receivables.

Lastly, the standard introduces a new hedge accounting model in order to adapt the requirements of the current IAS 39, which were considered at times too stringent and unsuitable to reflect company risk management policies. The main amendments of the document regard:

- increase in the types of transactions eligible for hedge accounting, also including the risks of non-financial assets/liabilities eligible to be managed in hedge accounting;
- change in the accounting method for forward contracts and options when included in a hedge accounting relation in order to reduce volatility of the income statement;

- changes to the effectiveness test through the replacement of the current methods based on the parameter of 80-125% with the standard of “economic relation” between the hedged item and the hedging instrument; in addition, an evaluation of the retrospective effectiveness of the hedging relation shall no longer be required.

The greater flexibility of the new accounting rules is balanced by additional requests for disclosure on the company’s risk management activities.

The standard was applied as of 1 January 2018, adopting the modified retrospective approach. As a result, no changes were made to the comparative statements, and the relating impacts were recorded in initial equity. With regard to the main changes introduced by IFRS 9, mention should be made of the following impacts:

Classification and measurement of financial assets and liabilities

The only impact brought by IFRS 9 is the recognition of the fair value difference of € 267 thousand in equity reserves generated by the renegotiation of the loan payable made in December 2017.

The renegotiation produced a non-material change to the loan, resulting in a variation in the current amount of the residual cash flows of the loan below 10% and equal to € 267 thousand. Under IAS 39 in force at the renegotiation date, the transaction did not involve the recognition of income in the income statement for the period. IFRS 9, on the other hand, would have involved the recognition of the above amount in the income statement at the renegotiation date. On the first-time application of IFRS 9 at 1 January 2018, therefore, the amount was recognized in initial equity.

Provision for bad debt

Under IFRS 9, the Expected Credit Loss model was adopted for outstanding receivables, including intercompany receivables.

With regard to trade receivables, in particular, the application of this method involved a specific write-down of receivables that are difficult to collect, and a general write-down for all other receivables, including those that have not fallen due. This approach basically reflects the approach adopted in prior years and, therefore, did not result in the recognition of significant additional write-downs.

Hedge accounting

The company has chosen, as allowed by IFRS 9, to continue applying the hedge accounting rules under IAS 39 to the existing hedge derivative.

- 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 were applied as of 1 January 2018. The adoption of the amendment had no impact on the Company’s financial statements.
- On 8 December 2016, IASB published “Annual Improvements to IFRSs: 2014-2016 Cycle”, which partly supplements the pre-existing principles as part of their annual improvements. The main amendments regard:
 - IFRS 1 – *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*. The amendment was applied as of 1 January 2018 and regards the deletion of certain short-term exemptions under sections E3-E7 of Appendix E of IFRS 1, as the benefit of such exemptions is considered outdated.
 - 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*. The amendment clarifies that

the option for a venture capital organization or other entity classified as such (such as a mutual fund or similar entity) to measure investments in associates and joint ventures measured at fair value through profit or loss (rather than the equity method) is exercised for each single investment on initial recognition. The amendment was applied as of 1 January 2018.

- IFRS 12 – *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*. The amendment clarifies the scope of IFRS 12, specifying that the disclosures required by the standard, with the exception of the disclosures under sections B10-B16, apply to all interests that are classified as held for sale, held for distribution to owners, or as discontinued operations in accordance with IFRS 5. The amendment was applied as of 1 January 2018.

The adoption of these amendments had no impact on the financial statements of the Company.

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 31 December 2018

- 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. Conversely, the standard introduces no material changes for the lessor.

The standard is applicable as of 1 January 2019, but early adoption is allowed.

The Company has completed a preliminary assessment of the potential impacts from applying the new standard at the transition date (1 January 2019). The process involved several steps, including the complete mapping and review of contracts potentially suitable for containing a lease, in order to understand the main clauses relevant for the purposes of IFRS 16.

The application of the new standard to the identified contracts will determine the initial recognition in the balance sheet of (i) an asset representing the right of use under IFRS 16 (equal to the present value of the mandatory minimum future lease payments to be made by the lessee as of 1 January 2019 including prepaid expenses), which will be depreciated over the shorter of the technical-economic life and the residual duration of the contract, and (ii) a financial payable equal to the present value of the mandatory minimum future lease payments to be paid by the lessee as of 1 January 2019, including accrued expenses unpaid at the transition date. The payable will then be reduced as lease payments are made from time to time. In the 2019 income statement, the lease payment will no longer be recorded in EBITDA, recording instead (i) the depreciation of the right of use and (ii) the financial expense on the payable entered.

In the adoption of IFRS 16, the Company intends to make use of the exemptions granted by section IFRS 16.5(a) relating to short-term leases, and by IFRS 16.5(b) relating to lease contracts whose underlying asset is a low-value asset.

For such contracts, the introduction of IFRS 16 will not imply the recognition of the financial liability of the lease and the relating right of use, but lease payments will be recognized in the income statement on a straight-line basis for the duration of the respective contracts.

The table below shows the estimated impacts from the adoption of IFRS 16 at 1 January 2019:

(Euro/thousands)	Impacts at transition date (01/01/2019)
ASSETS	
Non-current assets	
Buildings usage rights	62,779
Vehicles usage rights	469
Hardware usage rights	530
Total	63,778
EQUITY AND LIABILITIES	
Non-current liabilities	
Financial liabilities from non-current leases	58,421
Current liabilities	
Financial liabilities from current leases	5,357
Total	63,778

306 The entry into force of the new standard will produce no impact on the determination of the covenants.

In order to help understand the impact from the first-time adoption of the standard, the following table provides a reconciliation between future commitments for leases, as disclosed in paragraph 30 of these financial statements at 31 December 2018, and the expected impact of the adoption of IFRS 16 at 1 January 2019:

Reconciliation of lease commitments (€ thousands)	01/01/2019
Operating lease commitments at 31 December 2018	74,100
Minimum payments on finance lease liabilities at 31 December 2018	-
Rental payments for short-term leases (exemption)	-
Rental payments for low-value leases (exemption)	-
Amount of non-lease components included in the liability	-
Other changes	-
Financial liability not discounted for leases at 1 January 2019	74,100
Discounting effect	10,322
Financial liability for leases at 1 January 2019	63,778
Present value of financial lease liabilities at 31 December 2018	-
Additional financial liability for leases owing to transition to IFRS 16 at 1 January 2019	63,778

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 had not yet completed the validation process necessary for the adoption of the amendments and standards listed here below:

- *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28).
- Document “*Annual Improvements to IFRSs 2015-2017 Cycle*”.
- *Plant Amendment, Curtailment or Settlement* (Amendments to IAS 19).
- *Definition of a Business* (Amendments to IFRS 3).
- *Definition of Material* (Amendments to IAS 1 and IAS 8).
- Amendment “*IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*”.

The directors do not expect any significant impact on the financial statements of the Company from the adoption of these amendments.

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.

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These estimates are periodically reviewed and any effects are recognized under income statement.

Estimates are based on the current status of information available and are examined periodically; 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 recoverability of receivables is measured by taking into account the risk of non-payment, the lifetime expected credit losses, ageing and losses on receivables recorded in the past for similar types of receivables.

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.

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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 EXPENSE

As required by Consob resolution no. 15519 of 27 July 2006, in a specific statement, income and expense 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 expense was identified in the current year, as outlined in the above Consob Resolution.

7. INFORMATION RELATING TO IFRS 5

Signing of a put option for the disposal of Mondadori France to Reworld Media

On 18 February 2019, Arnoldo Mondadori Editore S.p.A. signed a put option that guarantees the right to sell its subsidiary Mondadori France S.a.s. to Reworld Media S.A. The transaction falls into the repositioning strategy pursued by the Group and aimed at consolidating its leadership in the books sector. At the date of these financial statements, the directors have concluded that the requirements of the international accounting standards for the presentation of the transaction as a discontinued operation have all been met, in accordance with IFRS 5, considering the Mondadori Group's exit from the French magazine publishing market.

The value attributed to Mondadori France was € 70 million (cash free/debt free), plus an earn-out of € 5 million. Under the terms for exercising the put option:

- (i) 86% of the value of the investment (€ 60 million) will be paid in cash, € 50 million of which at the closing date, and € 10 million 24 months from the closing date; the deferred payment is not subject to any condition;
- (ii) the remaining 14% of the value of Mondadori France S.a.s., for a nominal value of € 10 million, is paid through issue of new Reworld Media S.A. shares, to be subscribed by Arnoldo Mondadori Editore S.p.A. at a price equal to 112.5% of the average stock exchange price over the 20 days before the signing and, in any case, ranging from a floor of € 2.2 and a cap of € 2.9.

Following the signing, Arnoldo Mondadori Editore S.p.A. would hold from an 8% to 10% interest in the share capital of Reworld Media S.A.

The transaction envisages a price adjustment mechanism linked to the achievement of pre-established targets relating to 2018 adjusted EBITDA and normalized net working capital at the closing date.

The earn-out to Arnoldo Mondadori Editore S.p.A. will be subject to the achievement by Reworld Media S.A., in its new setup, of certain operating results in 2020.

Under the terms for exercising the put option, Arnoldo Mondadori Editore S.p.A. is required to provide the buyer with the customary representations and warranties.

Following completion of the transaction, the estimated improvement in the Mondadori Group's net financial position at closing date was approximately € 58 million, considering: financial payables to third parties in Mondadori France (approximately € 7 million); fair value adjustment of Reworld Media shares subscribed by Arnoldo Mondadori Editore S.p.A. at closing (approximately € 3 million calculated to date).

If the put option is exercised, the parties will sign a purchase and sale agreement envisaging completion of the transaction if the following conditions precedent are met:

- authorization by the Autorité de la Concurrence;
- approval of the reserved capital increase by the shareholders of Reworld Media;
- provision of a bank loan to Reworld Media.

Following the above transaction, the assets related to Mondadori France, consisting of the amount of the investment and the financial receivable measured at fair value, have been reclassified under "Assets (liabilities) of discontinued operations", to which reference is made for further details. Likewise, the operating impacts, consisting of the result of the investee, the adjustment of the book value to fair value, interest income accrued in the year from the outstanding loan and transaction costs have been reclassified to "Profit (loss) from discontinued operations".

Fair value adjustment booked at 31 December 2018:

Fair value adjustment (Euro/thousands)	2018
Net assets subject to disposal	94,299
Net financial position (*)	173,129
Enterprise value	267,428
Nominal consideration	70,000
Fair value adjustment of Reworld Media shares	(2,700)
Amount	67,300
Fair value adjustment	(200,128)

(*) determined on the basis of the put option contract

Details regarding the items of the financial statements

All the amounts are expressed in Euro thousands, with the exception of some ancillary data, which is expressed in Euro millions. The amounts in brackets refer to 2017 figures.

BALANCE SHEET

ASSETS

1. Intangible assets

Intangible assets (Euro/thousands)	31/12/2018	31/12/2017
Intangible assets with finite useful life	23,962	20,513
Intangible assets with indefinite useful life	104,916	104,916
Total intangible assets	128,878	125,429

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 life (Euro/thousands)	Licences, rights and content	Trademarks	Software	Cost of development	Others and Contract work	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

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Intangible assets with finite useful life (Euro/thousands)	Licences, rights and content	Trademarks	Software	Cost of development	Others and Contract work	Total
Historical cost at 01/01/2018	4,397	14,633	13,513	14,533	2,318	49,393
Capital expenditure	-	-	1,055	160	6,220	7,436
Disposals	(846)	-	(8,547)	(10,533)	(133)	(20,059)
Historical cost at 31/12/2018	3,551	14,633	6,021	4,161	8,405	36,770
Provision for depreciation and impairment loss at 01/01/2018	1,995	3,093	10,198	13,366	228	28,880
Depreciation	712	860	1,334	790	217	3,913
Disposals	(846)	-	(8,547)	(10,533)	(60)	(19,986)
Depreciation and impairment losses at 31/12/2018	1,861	3,953	2,986	3,624	385	12,809
Net book value at 01/01/2018	2,402	11,540	3,314	1,167	2,090	20,513
Net book value at 31/12/2018	1,690	10,680	3,035	537	8,020	23,962

Capital expenditure in the year, amounting to € 7,436 thousand, refers mainly to the SAP ERP project (€ 5,327 thousand) adopted by the Company, with successful go live on 1 January 2019: relating fixed assets under construction were recorded at 31 December 2018 for work progress consisting of external consultancy and cost of personnel for the dedicated resources. The Company additionally purchased the Oroscoipo.it website, and a fan page, *Design d'Autore*, for a total of € 820 thousand. Development costs refer to the cost of personnel for resources working specifically on website creation. Disposals refer to the amortization of intangible assets that were fully amortized and derecognized from the asset book.

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. 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 life (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/(reinstatement of value)	-	-	-	-
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

Intangible assets with indefinite useful life (Euro/thousands)	Magazines	Trademarks	Goodwill	Total
Historical cost at 01/01/2018	83,577	1,910	19,429	104,916
Capital expenditure	-	-	-	0
Disposals	-	-	-	0
Historical cost at 31/12/2018	83,577	1,910	19,429	104,916
Impairment loss at 01/01/2018	-	-	-	-
Impairment/(reinstatement of value)	-	-	-	-
Impairment loss at 31/12/2018	-	-	-	-
Net book value at 01/01/2018	83,577	1,910	19,429	104,916
Net book value at 31/12/2018	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.

Amortization, write-downs and value reinstatement of intangible assets

Amortization and impairment loss on intangible assets (Euro/thousands)	2018	2017
Licences, rights and content	712	719
Trademarks	860	909
Software	1,334	1,220
Cost of development	790	831
Other	217	63
Total amortization of intangible assets	3,913	3,742
Write-downs of intangible assets	-	-
Value reinstatement of intangible assets	-	-
Total write-downs (value reinstatement) of intangible assets	0	0
Total amortization of intangible assets	3,913	3,742

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 magazines was determined based on the higher between value in use and fair value. 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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14

February 2019 and approved on today's date, and on projections for the following two financial years. The abovementioned cash flows were measured based on the current market scenario, also considering the uncertainties relating to the growth expectations for the sector. In this context, taking account of the revision of the Group's strategic guidelines, mention should be made that, at the date of this report, the three-year plan is under preparation; accordingly, for the purposes of impairment, the directors have expressed their best estimate of the future cash flows attributable to the individual CGUs, based on the previous approved three-year plan, which appears not to deviate much from actual data, and on the expected trends in the relevant segments.

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 7.98% (6.86% in 2017) and cash flows beyond the period of analytical projection, deriving from medium-term plans, are always assumed as constant ($g=-3\%$).

The directors also deemed it appropriate to determine the fair value of *Chi* by applying the royalty method, based on estimated revenue in the medium term forecast scenarios of each magazine.

To calculate the fair value, in addition to assumed revenue, the following parameters were taken into account:

- a 5% 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 20 years;
- a negative revenue growth rate, beyond the last year included in the medium-term plan, equal to -3%.

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.

It should be noted however that the fair value of *Chi* 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 amount of the title. 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 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 recoverable value of the Cash Generating Unit was determined based on the calculation of the value in use, which is in turn based on cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years. 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 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 7.98% (6.86% in 2017) and cash flows beyond the period of analytical projection, deriving from medium-term plans, are always assumed as constant ($g=-5\%$).

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 forecast scenarios 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 negative revenue growth rate, beyond the last year included in the medium-term plan, equal to -5%.

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.

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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years. The abovementioned cash flows were measured based on the current market scenario, also considering the uncertainties relating to the growth expectations for the sector. In this context, taking account of the revision of the Group's strategic guidelines, mention should be made that, at the date of this report, the three-year plan is under preparation; accordingly, for the purposes of impairment, the directors have expressed their best estimate of the future cash flows attributable to the individual CGUs, based on the previous approved three-year plan, which appears not to deviate much from actual data, and on the expected trends in the relevant segments.

The cash flows used for the projections include tax and financial income and expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

2. Investment property

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
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

Investment property (Euro/thousands)	Land	Non- instrumental buildings	Total
Historical cost at 01/01/2018	1,032	3,966	4,998
Capital expenditure	-	18	18
Disposals	(1,032)	(3,984)	(5,016)
Historical cost at 31/12/2018	-	-	-
Depreciation and impairment losses at 01/01/2018	-	2,167	2,167
Depreciation	-	95	95
Disposals	-	(2,262)	(2,262)
Depreciation and impairment losses at 31/12/2018	-	-	-
Net book value at 01/01/2018	1,032	1,799	2,831
Net book value at 31/12/2018	-	-	-

Non-instrumental land and buildings at 31 December 2017 consisted of a property in Bari used as store and the Sporting real estate complex in Verona, next to the Group's former rotary presses, previously part of a rent-to-buy contract signed in 2014. In October and December, both sites were sold, with a total gain recorded in the income statement of € 3,933 thousand.

Depreciation of investment property

Depreciation accounted for in the income statement for the year under “Depreciation of investment property” amounted to € 95 thousand.

3. Property, plant and equipment

Property, plant and equipment (Euro/thousands)	Land	Instrumental buildings	Plant and equipment	Other tangible assets	Total
Cost at 01/01/2017	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
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	-	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

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Property, plant and equipment (Euro/thousands)	Land	Instrumental buildings	Plant and equipment	Other tangible assets	Total
Historical cost at 01/01/2018	903	6,445	11,702	36,651	55,701
Capital expenditure	-	-	122	1,425	1,547
Disposals	-	(957)	(755)	(23,618)	(25,330)
Historical cost at 31/12/2018	903	5,488	11,069	14,458	31,918
Provision for depreciation and impairment loss at 01/01/2018	-	3,959	10,540	35,436	49,935
Depreciation	-	191	307	562	1,060
Disposals	-	(352)	(626)	(23,501)	(24,479)
Provision for depreciation and impairment loss at 31/12/2018	-	3,798	10,221	12,497	26,516
Net book value at 01/01/2018	903	2,486	1,162	1,215	5,766
Net book value at 31/12/2018	903	1,690	848	1,961	5,402

Other tangible assets (Euro/thousands)	31/12/2018	31/12/2017
Industrial and commercial equipment	113	212
Electronic office equipment	952	523
Office furniture, and machines	296	306
Leasehold improvements	510	82
Motor vehicles	44	-
Assets under construction and advances	46	93
Total other tangible assets	1,961	1,216

Investments in the year regarded upgrades to:

- the technology made available to the magazine editing offices for € 550 thousand;
- data processing tools (personal computers and local networks) for € 568 thousand;
- the Segrate offices (editorial office automation, office automation, furniture and equipment, plant) for € 192 thousand;
- goodwill and improvements to the new headquarters in via Rivoltana, Segrate for € 713 thousand.

Disposals, for a net amount of € 852 thousand, refer mainly to the sale of the Sporting property complex in Verona, for part of the building used as the staff's canteen considered instrumental, and for the related plants. Disposals with a residual amount of zero refer instead to the depreciation of tangible assets, mainly electronic office equipment, no longer present or in use in the company, fully depreciated and derecognized from the asset book.

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Depreciation of property, plant and equipment

Depreciation of property, plant and equipment (Euro/thousands)	2018	2017
Instrumental buildings	191	215
Plant and equipment	307	364
Equipment	104	104
Electronic office equipment	303	261
Office furniture	98	102
Motor and transport vehicles	3	-
Leasehold improvements	54	52
Total depreciation of property, plant and equipment	1,060	1,098

In 2018, 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

The Company has 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.

“Investments”, amounting to € 404,739 thousand (€ 491,098 thousand), consists of the cost of investments for € 315,537 thousand, of the positive measurement at equity of investments for € 83,162 thousand, 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 € 825 thousand. The detail for each subsidiary and associate is shown in Annexes A and B, to which reference is made.

The decrease versus 2017 is due mainly to the reclassification of the investment in Mondadori France to assets of discontinued operations.

Investments are broken down as follows:

Investments (Euro/thousands)	31/12/2018	31/12/2017
Subsidiaries	384,637	465,160
Associates	20,035	25,871
Other companies	68	67
Total investments	404,739	491,098

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Changes in investments in subsidiaries over the past two years:

Subsidiaries (Euro/thousands)	31/12/2018	31/12/2017
Opening amount	465,160	476,035
Increases:		
• Purchases, establishments and capital contributions	-	1,000
• Granting of performance share	435	398
• Pro-rata share of the result	47,871	52,384
• Reversal of dividends	(35,135)	(44,070)
• Other changes	1,257	582
Total increases	14,428	10,294
Decreases:		
• Pro-rata share of the result	(1,924)	(1,483)
• Reclassification to assets of discontinued operations	(89,833)	-
• Disposal of investments	(3,031)	(16,509)
• Other changes	(164)	(3,177)
Total decreases	(94,952)	(21,169)
Closing amount	384,636	465,160

“Disposal of investments” includes the sale of 100% of the shares held in the subsidiary Inthera S.p.A. on 2 May 2018 to the HCI – Holding Call Center e Innovazione group, considered no longer strategic for the Group. The sale resulted in a loss of € 2,082 thousand recorded in the income statement under “Income (expense) from investments”.

“Reclassification to assets of discontinued operations” refers to the investment in Mondadori France S.A.

Increases in investments as a result of the performance share plan are the following:

- Mondadori Libri S.p.A. for € 418 thousand;
- Mondadori International Business S.r.l. for € 17 thousand.

The “Pro-rata share of the result” included in increases reflects the positive results of the following companies:

- Mondadori Libri S.p.A. for € 42,677 thousand;
- Direct Channel S.p.A. (former Press-di Abbonamenti S.p.A.) for € 2,545 thousand;
- Mondadori Scienza S.p.A. for € 1,239 thousand;
- Mondadori International Business S.r.l. for € 424 thousand;
- Adkaora S.r.l. for € 986 thousand.

“Reversal of dividends” refers to the dividends received in the year from:

- Mondadori Libri S.p.A. for € 33,055 thousand;
- Direct Channel S.p.A. (former Press-di Abbonamenti S.p.A.) for € 1,080 thousand;
- Press-di Distribuzione Stampa e Multimedia S.r.l. for € 1,000 thousand.

The “Pro-rata share of the result” included in the decreases reflects the negative results of the following companies:

- Press-di Distribuzione Stampa e Multimedia S.r.l. for € 1,134 thousand;
- Inthera S.p.A. for € 790 thousand.

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)	31/12/2018	31/12/2017
Opening amount	25,871	31,200
Increases:		
• Purchases, establishments and capital contributions	3,505	1,845
• Granting of performance share	-	-
• Pro-rata share of the result	158	317
Total increases	3,663	2,162
Decreases:		
• Pro-rata share of the result	(4,483)	(2,891)
• Value adjustments	(5,000)	(4,600)
Total decreases	(9,483)	(7,491)
Closing amount	20,051	25,871

“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 € 1,135 thousand;
- Società Europea di Edizioni S.p.A. for € 3,348 thousand.

“Value adjustments” includes the write-down of investments following impairment testing on the following companies:

- Società Europea di Edizioni S.p.A. for € 2,200 thousand;
- Attica Publications S.A. for € 2,800 thousand.

Impairment test

As explained above, investments are measured at equity, and therefore the Company adjusts their amounts to the net assets presented in the Group’s consolidated financial statements, which include goodwill, publications and brands. The impairment test on investments follows the same procedures as the test at consolidated level.

At closing, market capitalization is higher than booked equity.

Specifically, a first level impairment test was carried out on the single Cash Generating Units, based on the cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today’s date, and on projections for the following two financial years. The abovementioned cash flows were measured based on the current market scenario, also considering the uncertainties relating to the growth expectations for the sector. In this context, taking account of the revision of the Group’s strategic guidelines, mention should be made that, at the date of this report, the Group’s three-year plan is under preparation; accordingly, for the purposes of impairment, the directors have expressed their best estimate of the future cash flows attributable to the individual CGUs, based on the previous approved three-year plan, which appears not to deviate much from actual data, and on the expected trends in the relevant segments.

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.

Key elements used to calculate the recoverable value:

Cash Generating Unit	Subsidiary	Criterion used	Economics	Growth rate on terminal value	Discounting rate
Einaudi CGU	Mondadori Libri	Value in use	EBITDA 2019-2020	g = 0	7.98%
Sperling & Kupfer CGU	Mondadori Libri	Value in use	Cash flow 2018-2020	g = 0	7.98%
Education CGU	Mondadori Libri	Value in use	Cash flow 2019-2020	g = 0	7.98%
Piemme CGU	Mondadori Libri	Value in use	EBITDA 2019-2020	g = 0	7.98%
Group of CGU former Gruner+Jahr Mondadori	Mondadori Scienza	Value in use	EBITDA 2019-2020	g = -3	7.98%
Trade Books CGU	Mondadori Libri	Value in use	EBITDA 2019-2020	g = 0	7.98%
Other CGUs	Mondadori Retail	Value in use	EBITDA 2019-2020	g = 0	7.98%

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 based on the calculation of the value in use, which is in turn based on cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and in the 2018-2020 Plan. 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 expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

Sperling & Kupfer Cash Generating Unit

This Cash Generating Unit includes the series published by Sperling & Kupfer, a company acquired in 1995.

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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and in the 2018-2020 Plan.

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 expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

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), the acquisition of the Le Monnier Group between 1999 and 2001 (€ 12,070 thousand) and the acquisition of Texto, publisher of school textbooks under the Piemme Scuola trademark, completed in 2004 (€ 380 thousand). 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, add up to the abovementioned values.

Lastly, the decision was taken to also bring the amounts attributed to the Rizzoli trademarks (€ 10,550 thousand) 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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and in the 2018-2020 Plan. The abovementioned cash flows were measured on the basis of the current market scenario, also considering uncertainties on growth expectations in the sector.

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The cash flows used for the projections include tax and financial income and expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

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 based on the calculation of the value in use, which is in turn based on cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and in the 2018-2020 Plan.

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 expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

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 four 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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and in the 2018-2020 Plan. 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 cash flows used for the projections include tax and financial income and expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) and cash flows beyond the period of analytical projection, deriving from medium-term plans, are always assumed as constant ($g=-3\%$).

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.

Trade Books Cash Generating Unit

The CGU includes the BUR trademark (€ 4,005 thousand) and goodwill (€ 1,634 thousand), 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 cash flow projections deriving from the forecasts held in the respective 2019 budgets, the guidelines of which were reviewed by the meeting of the Board of Directors held on 14 February 2019 and approved on today's date, and on projections for the following two financial years. 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 expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

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, 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.

The cash flows used for the projections include tax and financial income and expense; the discount rate before tax, applied to cash flow projections, is 7.98% (6.86% in 2017) 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.

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 (k_e) 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 5.96% (source: Damodaran, January 2019);

- 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.

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Associates

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 14 February 2019, approved on today's date.

The expected cash flows of each investment was discounted, based on a country-specific WACC: for Italian companies, 7.98%, and for the Greek investment in the Attica Group, 10.14%.

For the Italian 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 € 2.8 million of the investment in the Attica Group, and for € 2.2 million of the investment in Società Europea di Edizioni S.p.A.

Non-current financial assets

The composition of other financial investments, amounting to € 500 thousand (€ 165,000 thousand), refers to the intercompany loan granted to the associate Attica Publications S.A.. The decrease is explained by the full write-down for € 164,500 thousand of the receivable from Mondadori France S.a.s. relating to the disposal mentioned above. The balancing entry in the income statement was included in loss from discontinued operations.

5. Pre-paid tax assets and deferred tax liabilities

Tax assets of € 6,515 thousand (€ 12,898 thousand) and tax liabilities of € 28,324 thousand (€ 28,832 thousand) 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)	31/12/2018	31/12/2017
IRES on tax losses	-	5,265
Pre-paid IRES	6,312	7,411
Pre-paid IRAP	203	222
Total pre-paid tax assets	6,515	12,898
Deferred IRES	24,262	24,913
Deferred IRAP	4,062	3,919
Total deferred tax liabilities	28,324	28,832

“IRES on tax losses” 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. Having estimated the full recovery of tax losses with the payment relating to the 2018 tax return, the Company reclassified the entire amount under tax receivables.

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)	31/12/2018			31/12/2017		
	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	1,807	24.00%	434	2,272	24.00%	545
Provision for bad debt	403	24.00%	97	515	24.00%	124
Depreciation of inventory	121	24.00%	28	121	24.00%	29
Provisions	21,077	24.00%	5,059	23,017	24.00%	5,524
Prior-years' tax losses	-	24.00%	-	21,938	24.00%	5,265
Other temporary differences	2,893	24.00%	694	4,953	24.00%	1,189
Total for IRES purposes	26,301		6,312	52,816		12,676
Difference between book value and fiscal value of assets	5,084	3.9%	198	5,574	3.9%	217
Depreciation of inventory	121	3.9%	5	121	3.9%	5
Total for IRAP purposes	5,205		203	5,695		222

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

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(Euro/thousands)	31/12/2018			31/12/2017		
	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	101,091	24.00%	24,262	103,804	24.00%	24,913
Total for IRES purposes	101,091		24,262	103,804		24,913
Difference between book value and fiscal value of assets	104,167	3.9%	4,062	100,478	3.9%	3,919
Total for IRAP purposes	104,167		4,062	100,478		3,919

Changes in pre-paid and deferred tax amounts led to costs of € 663 thousand as shown in Note 28.

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 can be expected as a result of tax-relevant transactions and for audits in progress, which led to the recognition of a cost under income statement.

6. Other non-current assets

“Other non-current assets”, amounting to € 296 thousand (323 thousand), is broken down and commented on below:

Other non-current assets (Euro/thousands)	31/12/2018	31/12/2017
Guarantee deposits	71	97
Medium/long-term tax receivables from Fininvest	140	140
Other	85	86
Total other non-current assets	296	323

The receivable from Fininvest S.p.A., amounting to € 140 thousand, includes the amount due from Fininvest S.p.A. on foreign withholding tax amounts not yet reimbursed.

7. Tax receivables

“Tax receivables”, amounting to € 29,485 thousand (€ 25,965 thousand), is broken down as follows:

Tax receivables (Euro/thousands)	31/12/2018	31/12/2017
Advances to the Inland Revenue for disputes	9,208	9,208
Receivables from the Inland Revenue for VAT	11,299	8,997
Receivables from the Inland Revenue for direct and indirect tax to recover	286	403
Receivables from Fininvest for IRES	8,692	7,357
Total tax receivables	29,485	25,965

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Advances, amounting to € 9,208 thousand (€ 9,208 thousand), refer to payments made provisionally for pending disputes.

Receivables from the Inland Revenue for VAT, amounting to € 11,299 thousand (€ 8,997 thousand), include € 11,258 thousand from the Group's VAT receivable accrued in the last two years, still pending a reimbursement claim. The change versus 2017 is attributable to the receivable generated and sold by the Group companies that are not entitled to request the advantage of a quarterly repayment. 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 € 286 thousand (€ 403 thousand), refer to the receivable for withholdings paid abroad of € 248 thousand, and to VAT receivables remaining from the liquidation of Gold 5 S.r.l. and Glaming S.r.l. of € 26 thousand and € 11 thousand, respectively.

The receivable from Fininvest S.p.A. relating to IRES of € 8,692 thousand (€ 7,357 thousand) includes € 2,840 thousand owed by Fininvest for the tax receivable accrued in the period and € 5,852 thousand in tax on prior losses forecast to be recovered in the Fininvest Group's tax return in June 2019, 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.

8. Other current assets

"Other current assets", amounting to € 4,903 thousand (€ 4,290 thousand), includes:

Other current assets (Euro/thousands)	31/12/2018	31/12/2017
Prepayments	3,017	3,073
Receivables from personnel	202	180
Receivables from suppliers	68	170
Receivables from social security institutions	36	94
Other receivables from Group companies	26	25
Other receivables	1,554	748
Total other current assets	4,903	4,290

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"Prepayments", amounting to € 3,017 thousand (€ 3,073 thousand), refers to:

(Euro/thousands)	31/12/2018	31/12/2017
Freelance prepayments	794	690
Promotional campaigns	806	573
Rents	550	482
Accrued income	1	11
Other prepayments (rents, subscriptions, membership fees)	867	1,317
Total prepayments	3,017	3,073

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 € 5,073 thousand (€ 6,034 thousand), is broken down as follows:

Inventory (Euro/thousands)	31/12/2018	31/12/2017
Raw and ancillary materials and consumables	2,380	2,447
Depreciation of raw and ancillary materials and consumables	(121)	(121)
Total raw and ancillary materials and consumables	2,259	2,326
Work in progress and semi-finished goods	2,801	3,688
Depreciation of work in progress and semi-finished goods	-	-
Total work in progress and semi-finished goods	2,801	3,688
Finished products and goods	12	20
Depreciation of finished products and goods	-	-
Total finished products and goods	12	20
Total inventory	5,073	6,034

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. The reduction in work in progress is due mainly to the lower turnover from add-on sales.

Decrease (increase) in inventory to the income statement

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Decrease (increase) in inventory (Euro/thousands)	2018	2017
Changes in finished products and goods	(8)	(7)
Provision for finished products and goods	-	-
Utilization of the provision for finished products and goods	-	-
Total changes in inventory of finished products and goods	(8)	(7)
Changes in semi-finished products	(887)	1,650
Provision for semi-finished products	-	-
Utilization of the provision for semi-finished products	-	-
Total changes in inventory of semi-finished products	(887)	1,650
Changes in raw and ancillary materials and consumables	(67)	21
Provision for raw and ancillary materials and consumables	-	4
Utilization of the provision for raw and ancillary materials and consumables	-	-
Total changes in inventory of raw and ancillary materials and consumables	(67)	25
Total decrease (increase) in inventory	(962)	1,668

No inventory is subject to restriction to cover liabilities.

10. Trade receivables

“Trade receivables”, amounting to € 45,292 thousand (€ 50,550 thousand), is broken down as follows:

Trade receivables (Euro/thousands)	31/12/2018	31/12/2017
Receivables from customers	4,585	7,031
Receivables from associates	29,848	31,786
Receivables from subsidiaries	10,859	11,733
Receivables from parent companies	-	-
Total trade receivables	45,292	50,550

Trade receivables do not include amounts due over five years; the average collection period in 2018, calculated using the count back method, was 118.9 days, improving versus 134.9 days in 2017, due mainly to lower turnover.

Information by geographical area is provided in the relevant separate section.

Receivables from subsidiaries of € 10,859 thousand (€ 11,733 thousand) and receivables from associates of € 29,848 thousand (€ 31,786 thousand) refer to trade transactions performed at standard market conditions. The breakdown by company and the changes versus 2017 are shown in Annex C1. The decrease in trade receivables from associates is attributable entirely to Mediamond S.p.A., as a result of the reduction in advertising sales in the print segment.

Trade transactions with the Fininvest Group are carried out under standard market conditions. Receivables from customers include receivables from Fininvest group companies for € 861 thousand (€ 366 thousand), relating to RTI S.p.A. and referring mainly to the sale of rights of the *Panorama d'Italia* tour and editorial cooperation in the publication of *Uomini e Donne* and for the *Giallo Zafferano* TV programme broadcast on Canale 5.

Receivables from customers amount to € 4,585 thousand (€ 7,031 thousand):

Trade receivables - Receivables from customers (Euro/thousands)	31/12/2018	31/12/2017
Receivables from customers	5,071	7,653
Provision for bad debt	(486)	(622)
Total receivables from customers	4,585	7,031

The changes in the provision for bad debt of € 486 thousand (€ 622 thousand) are detailed below:

Trade receivables - Receivables from customers - Bad debt provision (Euro/thousands)	31/12/2018	31/12/2017
Balance at beginning of year	622	505
Changes in the year:		
- provisions	83	-
- merger of Banzai Media S.p.A.	-	165
- utilizations	(219)	(48)
Total provision for bad debt	486	622

The provision, considered appropriate to cover presumable risks of insolvency, was determined by analytically considering receivables under dispute and, for the other receivables, a general write-down in addition to a specific analysis of the non-performing positions based on the expected credit loss model.

11. Other current financial assets

“Other current financial assets”, amounting to € 62,973 thousand (€ 90,044 thousand), includes:

Other current financial assets (Euro/thousands)	31/12/2018	31/12/2017
- financial receivables from subsidiaries	56,498	89,615
- financial receivables from associates	-	-
- other financial receivables	6,475	429
Total financial receivables	62,973	90,044
Total other current financial assets	62,973	90,044

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Financial receivables from subsidiaries of € 56,498 thousand (€ 89,615 thousand) refer mainly to current account balances amounting to € 55,241 thousand, bearing interest in line with market rates, and financial receivables from the subsidiary Direct Channel S.p.A. (former Press-di Abbonamenti S.p.A.) of € 1,250 thousand. The reduction versus the prior year is attributable to the full write-down of the current portion of the loan granted to Mondadori France S.A., and to the reclassification of the current account under “assets of discontinued operations”.

The breakdown by company and the changes versus 2017 are shown in Annex C1.

Other financial receivables, amounting to € 6,475 thousand (€ 429 thousand), include: € 5,500 thousand for the receivable from the disposal of the Sporting real estate complex in Verona, completed on 21 December 2018, the effects of which were subject to fulfilment of the negative suspensive condition, which took place on 3 March 2019, of non-exercise of the pre-emptive rights by the competent public bodies (Ministry of Cultural and Environmental Heritage and subordinate public entities); € 475 thousand for the price adjustment from the sale of *Panorama*; € 327 thousand for the adjustment of the earn out of Adkaora borne by the seller ePrice S.p.A.

12. Cash and cash equivalents

“Cash and cash equivalents”, amounting to € 76,837 thousand (€ 61,026 thousand), includes receivables from banks of € 76,836 thousand (€ 61,025 thousand), and € 1 thousand (€ 1 thousand) in cash and cash on hand.

Cash and cash equivalents (Euro/thousands)	31/12/2018	31/12/2017
Cash and cash on hand	1	1
Bank deposits	76,836	61,025
Postal deposits	-	-
Total cash and cash equivalents	76,837	61,026

The fair value of cash and cash equivalents at 31 December 2018 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”.

13. Assets of discontinued operation

Assets of discontinued operation (Euro/thousands)	31/12/2018	31/12/2017
Investments in subsidiaries	60,200	-
Financial receivables from subsidiaries	166,029	-
Current accounts with subsidiaries	3,892	-
Provision for write-down of financial receivables	(166,029)	-
Total assets of discontinued operation	64,092	-

As mentioned in par. 7 of this note on IFRS 5, on 18 February 2019, Arnoldo Mondadori Editore S.p.A. signed a put option that guarantees the right to sell its subsidiary Mondadori France S.a.s. to Reworld Media S.A.

The amounts of the investment and relating financial receivable were adjusted to fair value and reclassified under assets of discontinued operation; a bad debts provision was specifically allocated for the total write-down of the financial receivable. The € 5 million earn-out envisaged under the contract on the results of the Reworld Media/Mondadori France Group at 31 December 2020 was not recorded as considered unfeasible.

The income statement items of the write-down of the financial receivable and the fair value adjustment of the investment, as well as interest income accrued in the year from the loan and transaction costs, were reclassified under “Profit (loss) from discontinued operations” and amount to € 194,339 thousand.

LIABILITIES

14. Equity

The share capital of € 67,979 thousand is fully underwritten and paid up and is divided into 261,458,340 ordinary shares with a par value of € 0.26 each.

The tables below show the changes in equity items over the past two years, representing the effect of first-time adoption of IFRS 9 on initial equity:

(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

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(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 31/12/2017	67,979	(1,654)	850	428	(940)	218,734	30,417	315,814
Effect of change in accounting standards - IFRS 9	-	-	-	-	-	(267)	-	(267)
Balance at 01/01/2018	67,979	(1,654)	850	428	(940)	218,467	30,417	315,547
Changes in:								
- allocation of result	-	-	-	-	-	30,417	(30,417)	-
- purchase of treasury shares	-	(628)	-	-	-	-	-	(628)
- performance share	-	-	1,563	-	-	-	-	1,563
- other reserves	-	-	-	-	-	22	-	22
- comprehensive profit/(loss)	-	-	-	19	(102)	2,685	(177,131)	(174,529)
Balance at 31/12/2018	67,979	(2,282)	2,413	447	(1,042)	251,591	(177,131)	141,975

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	13,596	B	
- extraordinary reserve	97,886	A,B,C	82,595
IAS/IFRS:			
- negative reserve for change in accounting policies	(21,579)		
- reserve for change in accounting policies (investments)	90,112	A,B,C	83,644
- prior years' profit reserve (change in accounting policies)	52,779	A,B,C	44,465
- reserves for investments measured at equity	2,085		
- post-employment discounting reserve	447	A,B	
- performance share reserve	2,413	B	
- cash flow hedge reserve	(1,042)	B	
Treasury shares in portfolio	(2,282)		
Total	319,105		210,704
Undistributable portion ⁽¹⁾			4,809
Residual distributable portion			205,895

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

If the Shareholders' Meeting approves the resolution to cover loss for 2018, as provided for in these financial statements, the residual amount of distributable reserves would be approximately € 52 million.

The table "Changes in equity" includes details regarding the individual sub-items under equity and, specifically:

Treasury shares

In the period from 03 January to 12 December, the Company purchased a total of no. 426,703 treasury shares (0.163% of the share capital) on the Electronic Stock Market (MTA) at an average unit price of € 1.4475. The value of treasury shares increased by € 628 thousand, reaching € 2,282 thousand at 31 December 2018.

The purchase was authorized by the Shareholders' Meeting of 24 April 2018, following expiry of the term relating to the previous authorization approved on 27 April 2017, and is instrumental in the implementation of the long-term incentive plan (performance share) approved at the same meeting for the 2018-2020 period. This is an additional plan to the one approved by the Shareholders' Meeting on 27 April 2017 for the 2017-2019 three-year period.

15. Provisions

“Provisions”, amounting to € 36,748 thousand (€ 36,735 thousand) in the year, is broken down as follows:

Provisions (Euro/thousands)	31/12/2017	Provisions	Utilizations	Adjustment to equity of investment	31/12/2018
Provision for legal risks	13,444	-	(534)	-	12,910
Provision for INPGI contribution dispute	1,899	-	-	-	1,899
Provision for charges on advertising receivables	5,666	272	(836)	-	5,103
Provision for charges on subscription receivables	489	-	(100)	-	389
Provision for charges on tax disputes	10,457	-	-	-	10,457
Provision for equity investment risks	3,634	-	-	1,580	5,214
Provision for other charges	1,146	346	(716)	-	776
Total provisions	36,735	618	(2,186)	1,580	36,748

The provisions above are intended to cover potential liabilities from legal disputes, bad debt, contractual clauses and commitments, and tax and contribution disputes.

The provision for investment risks includes the equity measurement of subsidiaries and associates that exceed cost; in particular, the provision recorded in the financial statements refers to the subsidiary Mondadori Retail S.p.A.

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16. Post-employment benefits

Post-employment benefits, amounting to € 10,733 thousand (€ 11,856 thousand), are composed as follows:

Post-employment benefits (Euro/thousands)	31/12/2018	31/12/2017
Provision for post-employment benefits (TFR)	10,662	11,722
Provision for journalists (IFGP)	71	134
Total post-employment benefits	10,733	11,856

Changes in the year are detailed below:

Post-employment benefits - Details (Euro/thousands)	Post-employment benefits	IFGP	Total
Balance at 31/12/2017	11,722	134	11,856
Changes in 2018:			
- provisions	-	1	1
- utilizations	(1,903)	(62)	(1,965)
- disposals/acquisitions of Group companies	797	-	797
- discounting	114	-	114
- other	(68)	-	(68)
Balance at 31/12/2018	10,662	71	10,733

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	31/12/2018	31/12/2017
Economic assumptions:		
- increase in cost of living	1.50%	1.00%
- discounting rate	1.57%	1.30%
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	10.75%	14.51%
- 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 € 0.2 million and € 0.3 million, respectively.

“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 and is broken down as follows:

Cost of post-employment benefits (Euro/thousands)	2018	2017
Cost of post-employment benefits allocated to supplementary pension plans	4,085	4,053
Financial expense	140	162
Total cost of post-employment benefits	4,225	4,215

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 expense for the period.

17. Financial liabilities

“Non-current financial liabilities”, amounting to € 114,997 thousand (€ 232,799 thousand), is broken down as follows:

Non-current financial liabilities (Euro/thousands)	Actual interest rate	Expiry over 5 years	31/12/2018	31/12/2017
Liabilities from derivatives	-		777	341
Other financial liabilities			-	2,788
Medium/long-term loans and borrowings	1.04%		114,220	229,670
Total non-current financial liabilities	1.04%		114,997	232,799

“Medium/long-term loans and borrowings” is made up entirely of the amortized cost of the Line A Amortizing Term Loan, taken out with a pool of banks, coming to maturity in December 2022.

Liabilities in derivative instruments, amounting to € 777 thousand, 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 amortizing pool loan agreement concluded in December 2017, coming to maturity in December 2022 for a total notional amount of € 165.0 million and a weighted average rate of 0.017%.

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.

In addition, the Group calculates the fair value of current hedge transactions on a monthly basis.

“Payables to banks and other financial liabilities” amounted to € 391,780 thousand (€ 292,083 thousand):

Payables to banks and other financial liabilities (Euro/thousands)	31/12/2018	31/12/2017
Financial payables to subsidiaries	269,725	273,943
Short-term loans	117,585	15,000
Other financial liabilities	4,451	3,091
Accrued liabilities and deferred income	19	49
Total payables to banks and other financial liabilities	391,780	292,083

Payables to subsidiaries of € 269,725 thousand (€ 273,943 thousand) refer mainly to current account transactions negotiated at interest rates in line with market rates. The breakdown by company and the changes versus 2017 are shown in Annex D1.

Short-term loans amounting to € 117,585 thousand (€ 15,000 thousand) include the portion of the Line A Amortizing Term Loan of the amortizing pool loan of € 17,500 thousand, and the portion of the Line B Amortizing Term Loan of the amortizing pool loan of € 100,085 thousand, reclassified under short-term loans repayable by June 2019.

Other financial payables, amounting to € 4,451 thousand, refer mainly to the short-term portion of the fair value of the Banzai earn-out, and to the payable for the capital increase in the investee “Società Europea di Edizioni”

Accrued liabilities and deferred income of € 19 thousand (€ 49 thousand) were determined on an accrual basis and refer to short-term loan interest rates.

Changes in the drawdowns of committed credit lines are shown below:

(Euro/thousands)	Balance at 1/1/2018	Utilizations	Repayments	Other changes	Balance at 31/12/2018
Term Loan A maturity 2022	144,920	-	(15,000)	1,800	131,720
Term Loan B maturity 2019	99,750	-	-	335	100,085
Balance at 31/12/2018	244,670	-	(15,000)	2,135	231,805

The above loans are tied, *inter alia*, to financial obligations (financial covenants), checked every six months or year, respectively, Group debt/EBITDA ratio and net financial exposure limits; at the date of drafting of these financial statements, the obligations have been met.

At 31 December 2018, the Leverage Ratio Financial Covenant (debt/EBITDA) resulting from the consolidated annual report was equal to 1.70, far below the cap of 3.50 under the pool loan agreement.

The Company's comprehensive financial position at 31 December 2018, outlined as per Consob recommendations, indicates a net debt of € 366,966 thousand (€ 373,812 thousand).

Net debt (Euro/thousands)	31/12/2018	31/12/2017
A Cash	1	1
- Bank deposits	76,836	61,025
- Postal deposits	-	-
B Other cash and cash equivalents	76,836	61,025
C Cash and cash equivalents and other financial assets (A+B)	76,837	61,026
D Securities held for trading		
- Financial receivables from subsidiaries	55,248	88,365
- Financial receivables from affiliates	1,250	1,250
- Derivatives and other financial assets	6,475	429
E Receivables and other current financial assets	62,973	90,044
F Current financial assets (D+E)	62,973	90,044
G Current payables to banks	-	-
- Borrowings	117,585	15,049
H Current portion of non-current debt	117,585	15,049
- Financial payables to subsidiaries	269,725	273,943
- Derivatives and other financial liabilities	4,469	3,091
I Other current financial liabilities	274,194	277,034
L Payables to banks and other current financial liabilities (G+H+I)	391,779	292,083
M Current net financial position (C+F-L)	(251,969)	(141,013)
- Borrowings	114,220	229,670
N Debt non-current portion	114,220	229,670
O Other non-current financial liabilities	777	3,129
P Non-current net debt (N+O)	114,997	232,799
Q Net debt (M-P)	(366,966)	(373,812)

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The net financial position, if one includes the balance of "Non-current financial assets", would remain basically unchanged, as it would improve by € 500 thousand, referring to the loan granted to the associate Attica Publications Media S.A. for € 500 thousand (€ 224,362 thousand in 2017 for the loan to Mondadori France, reclassified under "Assets of discontinued operation" in these financial statements).

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.

18. Income tax payables

The Company's income amounts are defined for fiscal purposes until 2013, 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.

19. Other current liabilities

"Other current liabilities", amounting to € 37,330 thousand (€ 47,858 thousand), is detailed and commented on below:

Other current liabilities (Euro/thousands)	31/12/2018	31/12/2017
Payroll and other amounts to personnel	10,544	12,230
Payables to welfare and social security entities	6,554	7,133
Payables to collaborators	6,543	8,306
Tax payables	5,971	5,710
Cost of post-employment benefits allocated to supplementary pension plans	1,302	1,596
Payables to directors and statutory auditors	1,197	3,879
Accrued liabilities and deferred income	586	682
Associates for transparent income	123	123
Advances to customers	48	72
Other payables	4,462	8,127
Total other current liabilities	37,330	47,858

Tax payables of € 5,971 thousand (€ 5,710 thousand) regard IRPEF withholdings on employee salaries and professional fees paid in January 2019 for € 2,841 thousand, payables to subsidiaries for the VAT receivable balance from their settlement in January, following participation in the Group VAT settlement regime for € 3,053 thousand, and other tax for € 77 thousand.

Post-employment benefits allocated to supplementary pension plans of € 1,302 thousand (€ 1,596 thousand) refer to pension funds in which post-employment benefits flow, also paid in January 2019.

Payables to welfare and social security entities of € 6,554 thousand (€ 7,133 thousand) include € 3,317 thousand (€ 3,453 thousand) for contributions on salaries relating to December and paid in January 2019; € 3,237 thousand (€ 3,680 thousand) for contributions allocated for deferred salary items.

Other payables mainly include the pre-paid subscription fee collection for the subsidiary Direct Channel S.p.A. (former Press-di Abbonamenti S.p.A.) of € 3,965 thousand (€ 6,445 thousand).

“Accrued liabilities and deferred income” of € 586 thousand (€ 682 thousand) was determined on an accrual basis and is broken down as follows:

Accrued liabilities and deferred income (Euro/thousands)	31/12/2018	31/12/2017
Insurance, membership fees and other prepayments	115	150
Total accrued liabilities	115	150
Accrued liabilities	471	532
Total accrued liabilities	471	532
Total accrued liabilities and deferred income	586	682

20. Trade payables

“Trade payables”, amounting to € 73,098 thousand (€ 75,281 thousand):

Trade payables (Euro/thousands)	31/12/2018	31/12/2017
Payables to suppliers	65,682	67,649
Payables to subsidiaries	2,872	3,582
Payables to associates	4,507	4,179
Payables to parent company	37	51
Total trade payables	73,098	75,281

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Payables to suppliers amounted to € 73,098 thousand (€ 67,469 thousand) and include payables for the purchase of fixed assets for € 4,852 thousand (€ 1,806 thousand), relating mainly to costs incurred for the SAP project.

Payables to associates refer to trade transactions performed at standard market conditions.

Trade payables to subsidiaries of € 2,872 thousand (€ 3,582 thousand) and trade payables to associates of € 4,507 thousand (€ 4,179 thousand) refer to trade transactions performed at standard market conditions.

The breakdown by company and the changes versus 2017 are shown in Annex D1. Information by geographical area is provided in the relevant separate section.

The item also includes trade payables to Fininvest Group companies amounting to € 662 thousand (€ 1,940 thousand), the largest portion of which refer to Publitalia '80 S.p.A. for € 317 thousand (€ 1,596 thousand), RTI S.p.A. for € 276 thousand (€ 324 thousand) and other minor payables for a total of € 19 thousand (€ 20 thousand).

No trade payables are due over five years; in 2018, the average payment period, calculated with the count back method, was 169.6 days (167.3 days in 2017).

INCOME STATEMENT

(Intercompany trade transactions in 2018 with related parties are explained in Annexes C2 and D2)

21. Revenue from sales and services

Sales trend by segment is exhaustively detailed in the Directors' Report on Operations.

Revenue is detailed in the following tables:

Revenue from sales and services (Euro/thousands)	2018	2017	Var. %
Revenue from the sale of products:			
- disposal of book rights	27	15	80.0%
- magazines/publications	133,026	154,881	(14.1%)
- magazines/subscriptions	10,656	12,337	(13.6%)
- corporate and other business:			
reproduction rights	2,095	3,216	(34.9%)
special initiatives	2,155	1,804	19.5%
sub-products and scrap material	512	877	(41.6%)
Revenue from the sale of services:			
- print advertising services	52,528	58,134	(9.6%)
- online advertising services	18,981	18,068	5.1%
- corporate and other business:			
online revenue, content deal and website management	127	175	(27.4%)
revenue from administrative services	35,187	30,509	15.3%
other services, consulting and sponsorships	1,332	2,327	(42.8%)
Total revenue	256,626	282,343	(9.1%)

As a result of the application of IFRS 15 – *Revenue from Contracts with Customers*, as of 1 January 2018, the Company, which acts as principal in magazine circulation at newsstands, recognizes such revenue on the basis of the cover price or, in any case, of the price actually paid by the purchaser gross of any premiums paid; premiums are no longer recognized as a reduction in revenue, but separately as a distribution cost. The 2017 figures are shown like-for-like vis-à-vis this accounting treatment, the impact of which amounts to € 40,784 thousand.

The decrease in revenue from the sale of magazines/publications of € 21,855 thousand and of magazines/subscriptions of € 1,681 thousand, is due mainly to the performance of the relevant market, which witnessed a sharp drop in 2018 too, and to the disposal of *Panorama*.

Revenue by geographical area:

Geographical area (Euro/thousands)	Magazines	Advertising	Rights and other	2018	2017
Italy	144,665	69,902	38,455	253,023	277,664
EU countries	597	1,573	638	2,808	3,800
USA	283	-	22	306	230
Switzerland	4	-	1	4	7
Other countries	229	33	223	485	642
Total	145,778	71,509	39,340	256,626	282,343

22. Cost of raw and ancillary materials, consumables and goods

Cost of raw and ancillary materials, consumables and goods decreased by € 3,724 thousand versus the prior year:

Cost of raw and ancillary materials, consumables and goods (Euro/thousands)	2018	2017
Paper	18,848	21,308
Recovery of paper purchasing costs	(1,686)	(1,792)
Production material	28	7
Total cost of raw and ancillary materials	17,190	19,523
Goods for re-sale	4,416	5,184
Consumption and maintenance materials	175	829
Stationery and printed materials	127	159
Packaging	1	3
Other consumables and goods	143	80
Total cost of consumption materials and goods	4,863	6,254
Total cost of raw and ancillary materials, consumables and goods	22,053	25,777

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The decrease in the cost of raw and ancillary materials, consumables and goods is due mainly to the lower turnover of print magazines.

23. Cost of services

“Cost of services” amounted to € 167,620 thousand (€ 188,212 thousand), and is broken down below:

Cost of services (Euro/thousands)	2018	2017
Newsstands channel fee	34,779	40,784
Third party graphical processing	30,321	34,534
Rights and royalties	19,253	22,581
Advertising services	15,921	15,346
Third-party collaborations	12,501	14,587
Transport and shipping	8,783	10,094
Administrative and EDP services	6,767	6,341
Consultancy services	6,753	6,610
Rental expense	6,470	6,199
Fees to Directors and Statutory Auditors	3,314	3,897
Maintenance	2,535	2,933
Rental of vehicles and other	2,287	2,096
Catering and cleaning services	2,175	2,425
Subscription management	1,729	4,207
Storage	1,643	1,565
Temporary employment and internships	1,611	2,236
Travel and other expense reimbursements	1,570	1,424
Market research	1,392	1,669
Participation in events	1,360	2,199
Utilities (electricity, gas, water)	1,231	1,180
Insurance	731	724
Audit and certification expenses	581	518
Staff selection and courses	497	648
Postal costs and telephone	462	521
Press agency	313	429
Commissions	81	304
Utilization of the provision for agents' contractual risks	-	(220)
Other services	2,560	2,380
Total cost of services	167,620	188,212

The newsstands channel fee consists of the premium guaranteed to newsstands magazine sales, reclassified under distribution costs in accordance with IFRS 15, as explained in par. 21 relating to Revenue.

The decrease in cost of services, being composed mainly of variable costs, is associated with the decrease in revenue.

24. Cost of personnel

“Cost of personnel” amounted to € 82,226 thousand (€ 76,035 thousand):

Cost of personnel (Euro/thousands)	2018	2017
Salaries and wages and related costs	55,072	55,491
Capitalization of cost of personnel	(1,699)	(389)
Performance Share	640	415
Charging/ (recovery) of costs for seconded staff	(2,419)	(2,623)
Social security expense	17,709	16,493
Post-employment benefits, retirement indemnity and supplementary pension scheme plans	11,835	6,852
Provision/utilization for risks from personnel reorganization	1,088	(203)
Total cost of personnel	82,226	76,035

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 1 January 2019, and to the man-days of staff dedicated to the development of property websites.

The increase in cost of personnel is due mainly to the expense from leaving incentives, to the early retirement schemes for journalists, and to the restructuring action implemented by the Company in the year.

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Cost of personnel by category is broken down here below:

(Euro/thousands)	2018	2017
Executives	14,383	14,368
White collars and managers	39,385	35,689
Journalists	31,412	29,147
Workers	332	279
IAS adjustment to provision for post-employment benefits (TFR)	(256)	(233)
Costs / (Recovery) seconded staff	(2,419)	(2,623)
Provision/(utilization) for risks for personnel reorganization	1,088	(203)
Capitalization of cost of personnel	(1,699)	(389)
Total	82,226	76,035

At 31 December 2018, Company employees amounted to 926 units, down slightly by four units versus 31 December 2017, a net effect of the transfer at 1 January 2018 of all the resources employed in staff functions of the subsidiaries (administration, finance, control, IT, HR) to the parent company, of the reduction in journalistic staff, not in the Magazines Area, as well as the disposal of *Panorama*.

Employees	Actual 31/12/2018	Actual 31/12/2017	Average 2018	Average 2017
Executives	50	53	51	52
Journalists	184	234	213	235
White collars and managers	686	638	701	642
Workers	6	5	6	5
Total	926	930	971	934

In the reporting period, there were an average 971 employees (934 employees in 2017).

Share-based payments (Performance Share Plans)

At 31 December 2018, the Mondadori Group has two share-based payment plans in place intended for managers of Group companies and for members of the Board of Directors of the Parent.

The reasons underlying the adoption of the Plans 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 Board – or its representative, the CEO – has the power to amend the Performance Targets in extraordinary and/or unforeseen 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.

Shares are allocated to the beneficiaries at the end of the vesting period on the basis of pre-established performance targets. Specifically, these targets are related to:

- Total Shareholder Return (TSR) vis-à-vis the constituents of the FTSE Italia 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%

For each of the above performance conditions, minimum, target and maximum result levels are set.

When the minimum (90%) is met for EBITDA, Net profit and Free Cash Flow, the number of shares granted is equal to 50% of the target number of options assigned. When the target is met, 100% accrues, while with the maximum, the number of shares granted is equal to 120% of the target number of options assigned.

The TSR is defined vis-à-vis the constituents of the FTSE Italia All Share index by measuring performance over the period of the Plan. If the TSR is equal to or greater than the median, the target is deemed met and the number of shares granted is equal to 100% of the options assigned. If the TSR is lower than the median, no shares are granted.

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.

Pursuant to IFRS 2, the financial instruments underlying the Plan were stated at fair value on their granting.

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 a Monte Carlo-type simulation model.

The information documents pursuant to art. 114-bis of Legislative Decree 58/98, which describe the features of the above plans, are 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. The following table shows for each plan the costs recognized in the income statement and the assumptions underlying the fair value measurement.

2018-2020 long-term incentive plan

At 31 December 2018, the cost of the 2018-2020 Performance Share Plan (reserved for the Chief Executive Officer, the CFO - Executive Director and 10 selected Mondadori Managers who have an employment and/or directorship relationship with the Company or with its subsidiaries), recognized in the income statement under Cost of personnel, amounted to € 331 thousand.

The fair value of shares was determined based on the following assumptions:

Granting date	1 June 2018
Residual life at granting date (in months)	31
Expected volatility of the share price	39.6%
Risk-free interest rate	0.40%
% on expected dividends	0%
Fair value of share at granting date (Euro)	1.05

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2017-2019 long-term incentive plan

At 31 December 2018, the cost of the 2017-2019 Performance Share Plan (reserved for the CFO - Executive Director and 10 selected Mondadori Managers who have an employment and/or directorship relationship with the Company or with its subsidiaries), recognized in the income statement under Cost of personnel, amounted to € 573 thousand.

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

25. Other (income) expense

Other (income) expense (Euro/thousands)	2018	2017
Other revenue and income	(11,810)	(13,511)
Other operating expense	2,598	2,228
Total other (income) expense	(9,212)	(11,283)

“Other revenue and income”, amounting to € 11,810 thousand (€ 13,511 thousand), refers to:

Other (income) expense - Other revenue and income (Euro/thousands)	2018	2017
Capital gains and contingent assets	(4,277)	(4,809)
Supplier rebates and miscellaneous contributions	(323)	(57)
Rental income	(2,708)	(4,517)
Third-party expense reimbursements	(4,337)	(4,046)
Other (promotions, publishing facilities)	(165)	(83)
Total other revenue and income	(11,810)	(13,511)

“Capital gains and contingent assets” refers mainly to capital gains, amounting to € 3,933 thousand, earned from the disposal of non-instrumental properties in Bari and, specifically, of the Sporting real estate complex in Verona. In 2017, the item included the gain from the sale of the Verona property to Ceva Logistic as part of the sale of the Mondadori Group’s logistics business.

The decrease in rental income is due to the reclassification in revenue of the service component included in the sublease contracts with subsidiaries.

“Other operating expense”, amounting to € 2,598 thousand (€ 2,228 thousand), includes:

Other (income) expense - Other operating expense (Euro/thousands)	2018	2017
Compensation, settlements and allowances	889	552
Bad debt	219	48
Contractual charges for advertising and subscriptions	940	496
Membership fees and disbursements	1,251	1,190
Capital loss/contingent liabilities	157	706
Provisions for bad debt	83	-
Provisions for other risks	272	267
(Utilization) provision for bad debt	(219)	(48)
(Utilization) provision for legal risks	(534)	(673)
(Utilization) provision for other risks	(935)	(826)
Council tax	93	118
Other tax and duties	289	323
Other expense	93	75
Total other operating expense	2,598	2,228

The provision for bad debt and the provision for other risks are allocated to cover potential losses that may arise in future years.

26. Financial income (expense)

The item, amounting to € 4,463 thousand in expense (€ 11,572 thousand), consists of:

Financial income (expense) (Euro/thousands)	2018	2017
Interest from subsidiaries	1,132	1,941
Interest from associates	24	24
Interest from banks and post offices	21	3
Other interest and financial income	131	397
Total interest and other financial income	1,308	2,364
Interest on loans and borrowings	(2,049)	(8,608)
Financial expense from derivatives	(928)	(1,095)
Other financial expense for discounting assets/liabilities	(140)	(162)
Interest to banks and post offices	(2)	(1)
Other interest expense and financial expense	(2,627)	(4,093)
Total interest expense and other financial expense	(5,746)	(13,959)
Financial income from the management of securities	-	-
Financial expense from management of securities	-	-
Utilization of the provision for security depreciation	-	11
Total income (expense) from management of securities	-	11
Realized currency gains	(20)	13
Unrealized currency gains	(5)	-
Total income (loss) on currency transactions	(25)	13
Total financial income (expense)	(4,463)	(11,572)

Interest income accrued on the loan to Mondadori France S.a.s. has been reclassified under "Income (loss) from discontinued operations" for both years. The sharp reduction in interest expense on loans is explained by the reduction in borrowing costs following the rescheduling of the debt in December 2017, and by the positive cash generation of the Group.

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.

27. Income (expense) from investments

The breakdown of this item is shown in the table below, representing 2017 figures on a like-for-like basis, i.e. reclassifying the equity measurement of the subsidiary Mondadori France S.a.s., reclassified as “Income (loss) from assets of discontinued operation”:

Proventi (oneri) da partecipazioni (Euro/thousands)	2018	2017
Revaluations	48,029	49,408
Impairment loss	(15,025)	(12,618)
Loss from on the disposal of Inthera	(2,082)	-
Other	(480)	-
Total income (expense) from investments	30,440	36,790

Revaluations refer to:

(Euro/thousands)	2018	2017
Subsidiaries:		
Direct Channel S.p.A. – former Press-di Abbonamenti S.p.A.	2,545	1,946
Press-di Distribuzione e Stampa Multimedia S.r.l.	-	1,142
AdKaora S.r.l.	986	586
Mondadori International Business S.r.l.	424	1,232
Mondadori Libri S.p.A.	42,677	42,820
Mondadori Scienza S.p.A.	1,239	1,365
Total subsidiaries	47,871	49,091
Associates:		
Attica Publications S.A.	158	317
Total associates	158	317
Total revaluations	48,029	49,408

Write-downs, which include the negative performance of the companies and the value adjustments of the investments following impairment testing, refer to:

Write-downs (Euro/thousands)	2018	2017
Subsidiaries:		
Inthera S.p.A.	790	1,483
Mondadori Retail S.p.A.	3,618	3,644
Press-di Distribuzione e Stampa Multimedia S.r.l.	1,134	-
Total subsidiaries	5,542	5,127
Associates:		
Monradio S.r.l.	1,135	816
Attica Publications S.A. - Impairment	2,800	1,700
- Società Europea di Edizioni S.p.A. - Result	3,348	2,075
Società Europea Edizioni S.p.A. – Impairment	2,200	2,900
Total associates	9,483	7,491
Total write-downs	15,025	12,618

During the year, the Company received dividends from its subsidiaries for a total of € 35,135 thousand: € 33,055 thousand from Mondadori Libri S.p.A., € 1,000 thousand from Press-di Distribuzione Stampa e Multimedia S.r.l. and € 1,080 thousand from Direct Channel S.p.A. (former Press-di Abbonamenti S.p.A.).

Other expense of € 480 thousand regards the sale in 2015 of 80% of the share capital of Monradio S.r.l. to R.T.I. S.p.A.: specifically, at the time of the sale, the Company had guaranteed the buyer total reimbursement of any outlays arising from outstanding lawsuits at the date of the transfer of the shares. Following the unfavourable decision rendered in the current year, R.T.I., in accordance with the guarantees issued, has taken steps to recover the amount paid by Monradio.

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28. Income tax

“Income tax” amounted to an income of € 3,322 thousand (expense of € 1,896 thousand). The main components for the years ended at 31 December 2017 and 2018 are shown in the table below:

Income tax (Euro/thousands)	2018	2017
Income from tax consolidation (IRES tax on income for the year)	(2,834)	(25)
IRAP for the period	-	-
Total current tax	(2,834)	(25)
Deferred (pre-paid) tax for IRES	499	(25)
Deferred (pre-paid) tax for IRAP	163	202
Total deferred (pre-paid) tax	662	177
Prior-years' tax	(1,150)	(186)
Provision for tax disputes	-	1,930
Total income tax	(3,322)	1,896

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 € 2,834 thousand, which will be paid by the consolidating entity in 2019, and used to offset the current tax profit transferred from Mondadori companies to tax consolidation. Income from prior years' tax is due to the use of the GOI contributed by the merger of Banzai Media S.r.l. and used in the income tax return to deduct part of the non-deductible interest expense of 2017.

Reconciliation between the financial statement tax charge and the theoretical tax charge

(Euro/thousands)	2018			2017		
	Pre tax result	Tax amount	Current tax rate	Pre tax result	Tax amount	Current tax rate
Theoretical IRES tax amount	13,886	3,333	24.00%	32,313	7,755	24.00%
Theoretical IRAP tax amount	-	542	3.90%	-	1,260	3.90%
Total theoretical tax amount/rate	13,886	3,874	27.90%	32,313	9,015	27.90%
Actual IRES tax amount	13,886	(3,485)	(25.10%)	32,313	1,695	5.25%
Actual IRAP tax amount	-	163	1.17%	-	201	0.62%
Total actual tax amount/rate	13,886	(3,322)	(23.92%)	32,313	1,896	5.87%
Theoretical tax amount/rate	13,886	3,874	27.90%	32,313	9,015	27.90%
Effects of dividends	1,757	422	3.04%	2,203	529	1.64%
Effects of investments	(27,296)	(6,551)	(47.18%)	(40,083)	(9,620)	(29.77%)
Effects of non-deductible interest expense	1,049	252	1.81%	4,510	1,082	3.35%
Effects of other permanent increases	1,055	253	1.82%	9,233	2,216	6.86%
Effects of different taxable amount for IRAP (collaborations, financial and extraordinary expense/income, bad debt)	(1,577)	(379)	(2.73%)	(4,413)	(1,059)	(3.28%)
Effects of other permanent decreases	(4,973)	(1,193)	(8.59%)	(1,112)	(267)	(0.83%)
Current tax amount/rate	-	(3,322)	(23.92%)	-	1,896	5.87%

29. Income (loss) from discontinued operations

The balance of the item shows an expense of € 194,339 thousand (income of € 10,106 thousand). Having reclassified the operating effects of the investment in Mondadori France S.a.s. for 2017, the main components of this item for the two years are as follows:

Income (loss) from discontinued operations (Euro/thousands)	2018	2017
Income from equity measurement of the investment	2,646	3,293
(Expense) from fair value adjustment of the investment	(34,099)	-
Write-down of financial receivables for fair value adjustment	(166,029)	-
Interest income accrued on IC loan	3,143	6,813
Total Income (loss) from discontinued operations	(194,399)	10,106

30. Commitments and contingent liabilities

The following table shows Company commitments at 31 December 2018:

(Euro/thousands)	Total	
	31/12/2018	31/12/2017
Guarantees, sureties, endorsements:		
- in favour of subsidiaries	26,733	26,733
- in favour of other companies	41,528	40,772
	68,261	67,505
Lease payments and rental expense:	-	-
- in favour of other companies	74,100	68,512
Total	142,361	136,017

Guarantees, sureties, endorsements:

- **in favour of subsidiaries:** € 26,733 thousand (€ 26,733 thousand) refer mainly to letters of patronage issued in favour of subsidiaries, € 9,000 thousand 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 enterprises:** € 41,528 thousand (€ 40,772 thousand) 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;
 - to the Gaming Monopoly Authority for € 261 thousand;
 - to the Lombardy Regional Inland Revenue Office for VAT reimbursements of € 25,910 thousand;
 - to other entities and companies for a total of € 12,809 thousand, € 10,000 thousand 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 2019 and 2030 and are renewable. Future rental commitments for leases in place at 31 December 2018 amount to € 74,100 thousand.

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 the assessments have been challenged. 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 declared no longer effective by the competent Tax Commission.
- Year 2004, the Central Division of the Lombardy Region raised a few points on the 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, plus applicable ancillary expense; 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 plus applicable ancillary expense 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.

31. Non-recurring (income) expense

In accordance with Consob Resolution no. 15519 of 27 July 2006, the Company did not carry out non-recurring transactions in 2018, net of the provisions of par. 7 of these explanatory notes relating to IFRS 5.

32. 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 2017 and 2018.

33. Financial risk management and other information required by the application of IFRS 7 and IFRS 9

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.

Sensitivity analysis (Euro/millions)	Underlying	Interest rate increase/(decrease)	Income (expense)	Equity increase (decrease)
2018	45.3	1%	0.4	2.8
2017	82.0	1%	0.5	4.5
2018	45.3	(0.2%)	(0.1)	(0.6)
2017	82.0	(0.2%)	(0.1)	(0.9)

While identifying potential impact correlated to positive and negative interest rate variations, floating-rate loans (short-term credit lines) were also analyzed.

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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.

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 2017 and 2018.

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 31 December 2018, liquidity risk was managed by the Company by resorting to its own financial resources and to 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 31/12/2017						Total
	< 6 months	6-12 months	1-2 years	2-5 years	5-10 years	> 10 years	
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

Liquidity risk (Euro/millions)	Analysis of maturity periods at 31/12/2018						Total
	< 6 months	6-12 months	1-2 years	2-5 years	5-10 years	> 10 years	
Trade payables	65.7	-	-	-	-	-	65.7
Intercompany loans medium/long-term	-	-	-	-	-	-	-
Third-party loans medium/long-term	101.1	18.3	23.9	97.4	-	-	240.8
Other financial liabilities:							
- committed lines	-	-	-	-	-	-	-
- uncommitted lines	3.7	-	-	-	-	-	3.7
Other liabilities	9.0	-	-	-	-	-	9.0
Intercompany payables	281.9	-	-	-	-	-	281.9
Total	461.5	18.3	23.9	97.4	-	-	601.2
Derivatives on rate risk	(0.3)	(0.2)	(0.5)	(0.6)	-	-	(1.7)
Total exposure	461.8	18.5	24.4	98.1	-	-	602.9

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.

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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 hereafter 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)	31/12/2018	31/12/2017
Deposits	76.8	61.0
Receivables and loans:		
- trade receivables and other current financial assets	114.8	142.1
- trade receivables and other non-current financial assets	2.0	166.5
- guarantees	-	-
Total maximum exposure to credit risk	193.6	369.6

As to trade receivables, the table below illustrates the Company's exposure to credit risk by geographical area and business unit:

	Credit risk concentration			
	31/12/2018 (Euro/millions)	31/12/2017 (Euro/millions)	31/12/2018 %	31/12/2017 %
By business area:				
Magazines (print + web)	34.8	39.8	76.8%	78.7%
Other	10.5	10.8	23.2%	21.3%
Total	45.3	50.6	100.0%	100.0%
By geographical area:				
Italy	44.5	48.1	98.2%	95.1%
Other countries	0.8	2.5	1.8%	4.9%
Total	45.3	50.6	100.0%	100.0%

Below is a description of management criteria used for the main business segments:

Magazines (Print)

Sale and distribution in the newsstands and subscription channels is performed by the subsidiaries Press-Di Distribuzione Stampa e Multimedia S.r.l. and Direct Channel S.p.A. (former 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 (Print + Web)

Receivables from advertising refer to the sale of advertising space in 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 such 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 and IFRS 9

The table below summarizes financial assets and liabilities classified according to the categories defined by IFRS 9 and the relevant fair value:

(Euro/millions)	Classification							
	Book value						Fair value	
	Total		of which current		of which non-current			
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets classified as "held to collect", measured at fair value with adjustments recognized under income statement	-	-	-	-	-	-	-	-
Receivables and loans:								
- cash and cash equivalents	76.8	61.0	76.8	61.0	-	-	76.8	61.0
- trade receivables	3.4	5.4	3.4	5.4	-	-	3.4	5.4
- other financial assets	11.7	4.9	11.5	4.7	0.2	0.2	11.7	4.9
- receivables from subsidiaries, associates	101.6	298.1	99.8	131.9	1.8	166.3	101.6	298.1
Available-for-sale financial assets (investments)	0.1	0.1	0.1	0.1	-	-	0.1	0.1
Cash flow hedges	-	-	-	-	-	-	-	-
Total financial assets	193.6	369.6	191.7	203.2	2.0	166.4	193.6	369.6
Financial liabilities classified as "held to collect", measured at amortized cost or fair value with adjustments recognized under income statement:	-	-	-	-	-	-	-	-
- trade payables	65.7	67.5	65.7	67.5	-	-	65.7	67.5
- payables to banks and other financial liabilities	244.6	265.2	130.3	32.7	114.2	232.5	248.7	273.9
- payables to subsidiaries, associates	281.9	288.3	281.9	288.3	-	-	281.9	288.3
Cash flow hedges	0.8	0.3	-	-	0.8	0.3	0.8	1.6
Total financial liabilities	593.0	621.3	478.0	388.5	115.0	232.8	597.2	630.0

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The table below summarizes income and expense recognized under income statement and attributable to financial assets and liabilities, classified according to the categories defined by IFRS 9:

Income and loss from financial instruments (Euro/millions)	2018	2017
Interest income on financial assets:		
- intercompany receivables	4.3	8.8
- other financial assets	0.2	0.4
Total income	4.5	9.2
Net loss on derivative instruments	0.9	1.1
Interest due on financial liabilities:		
- borrowings	3.9	10.7
- other	0.8	1.9
Losses from financial instrument impairment:		
- trade receivables	1.1	0.5
Total expense	6.8	14.3
Total	(2.3)	(5.1)

34. 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 31/12/2018	Fair value hierarchy	Valuation method and main inputs
Interest rate swap contracts	(777)	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	68	Level 3	Based on the nature of the investments held in other companies, the cost may be considered representative of the fair value

35. Information pursuant to art. 149-duodecies of Consob Issuer Regulation

The table hereafter, drafted pursuant to art. 149-duodecies of the Consob Issuer Regulation, shows the fees paid in 2018 (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 2018
Auditing	Deloitte & Touche S.p.A.	410.4
Certification	Deloitte & Touche S.p.A. ⁽¹⁾	98.7
Total		509.1

⁽¹⁾ Attività di Accertamento Diffusione Stampa (circulation auditing), auditing of the Company financial statements, tax returns

36. Draft resolutions of the Board of Directors

The Financial Statements at 31 December 2018 show a loss for the year of € 177,130,510.10.

First resolution:

The Shareholders' Meeting of Arnoldo Mondadori Editore S.p.A., convened in ordinary session, having reviewed the draft financial statements for the year ended 31 December 2018, which show a loss for the year of € 177,130,510.10, the Directors' Report on Operations, and having taken note of the Statutory Auditors' Report and the Independent Auditors' Report

resolves

to approve the financial statements at 31 December 2018, 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 reference to coverage of loss for the year of € 177,130,510.10 resulting from the Financial Statements at 31 December 2018

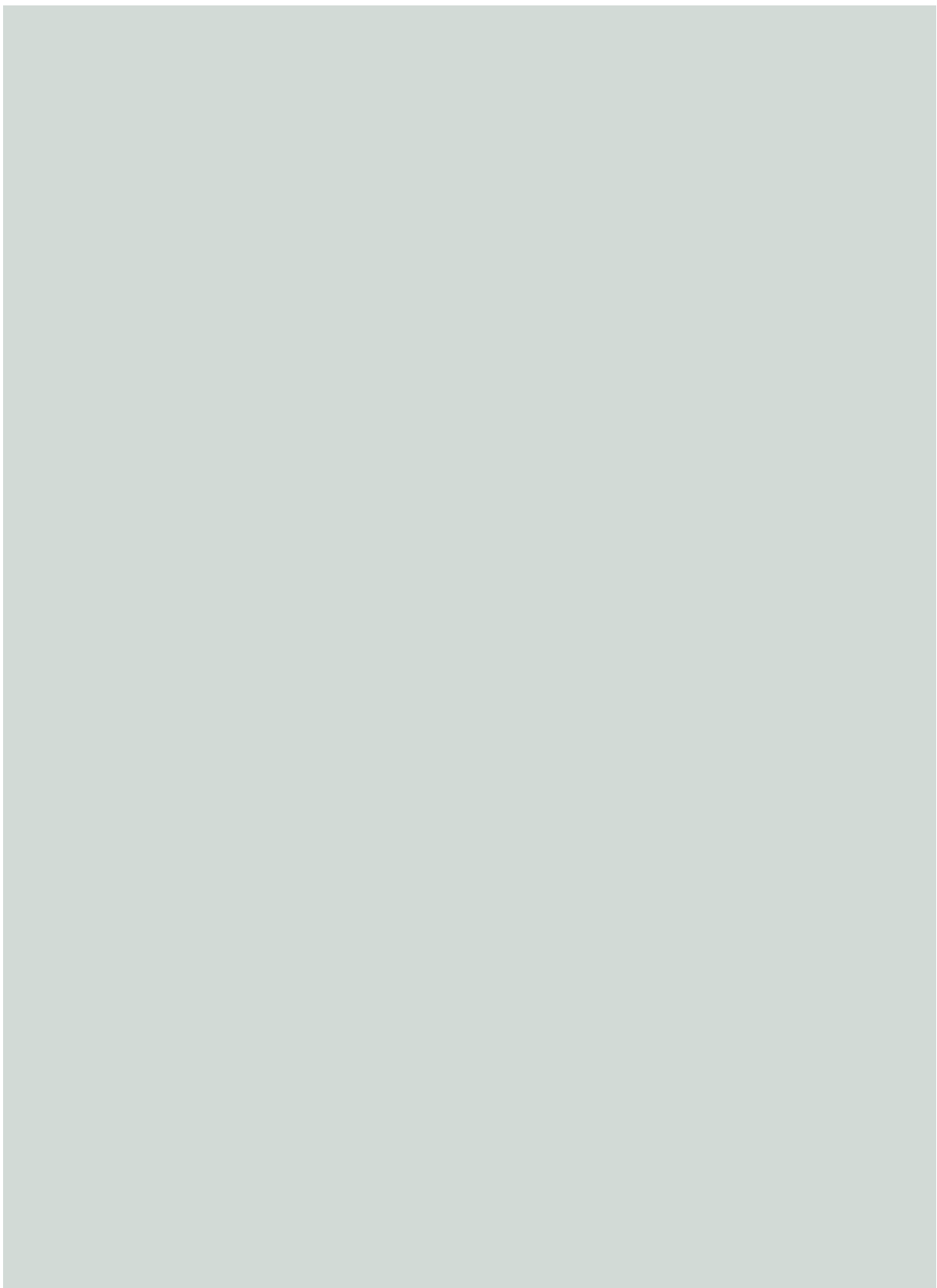
resolves

to approve full coverage of loss for the year at 31 December 2018 of € 177,130,510.10 as follows:

- € 15,291,359.00 through full use of the capital portion of the extraordinary reserve, included in "Other reserves and profit (loss) carried forward";
- € 138,023,802.79 through full use of the following reserves under "Other reserves and profit (loss) carried forward":
- Revaluation reserve pursuant to Law 72 of 19 March 1983 amounting to € 12,022,460.17;
- Revaluation reserve pursuant to Law no. 413 of 30 December 1991 amounting to € 4,688,951.44;
- Retained earnings reserve of € 52,778,621.64;
- Reserves for changes in accounting standards of € 68,533,769.54;
- € 23,815,348.31 by partly resorting to the portion of profit of the extraordinary reserve under "Other reserves and profit/(loss) carried forward".

For the Board of Directors
The Chairman
Marina Berlusconi





Annexes to the Financial Statements

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ANNEX A: STATEMENT OF INVESTMENTS

Description (Euro/thousands)	Registered office	Share capital	Equity
Subsidiaries:			
Adkaora S.r.l.	Milan	15	1,147
Mondadori Retail S.p.A.	Milan	2,700	3,852
Mondadori International Business S.r.l.	Milan	200	1,917
Mondadori Libri S.p.A.	Milan	30,050	254,788
Direct Channel - former Press-di Abbonamenti S.p.A.	Milan	3,120	3,224
Mondadori Scienza S.p.A.	Milan	2,600	4,229
Press-di Distribuzione Stampa e Multimedia S.r.l.	Milan	1,095	2,919
Total			
ASSOCIATES: ⁽¹⁾			
Monradio S.r.l.	Milan	3,030	40,809
Società Europea di Edizioni S.p.A.	Milan	2,529	7,277
Attica Publications S.A.	Athens	4,590	3,844
Total			
Other companies: ⁽¹⁾			
Confidimpresa			
Consorzio Edicola Italiana	Milan	60	-
Consuledit S.c.ar.l. (in liquidation)	Milan	20	40
Immobiliare Editori Giornali S.r.l.	Rome	830	5,890
Total			
Total direct equity investments			

⁽¹⁾ Figures at 31/12/2017

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) 2018	Total equity	% of interest	Share of equity	Balance sheet values
986	2,133	100.00%	2,133	7,299
(3,259)	593	100.00%	593	(5,214)
425	2,342	100.00%	2,342	2,343
28,529	283,317	100.00%	283,317	355,010
2,152	5,376	100.00%	5,376	9,208
1,051	5,280	100.00%	5,280	8,988
(1,127)	1,792	100.00%	1,792	1,788
			300,833	379,422
(8,266)	32,543	20.00%	6,509	6,023
(6,551)	726	36.90%	268	4,424
723	4,567	41.98%	1,917	9,587
			8,694	20,034
				5
-	-	16.67%	-	11
-	40	9.56%	4	1
-	5,890	7.88%	464	51
			468	68
			309,995	399,524

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ANNEX B1: MAIN INDIRECT SUBSIDIARIES AND ASSOCIATES AT 31 DECEMBER 2018

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 Education 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	US\$	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	3,844
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 31.12.2017

Profit (loss) 2018	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%		
723	4,567	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

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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)	Eur 15,000	100%	direct
Aranova Freedom S.c.ar.l. (Italy)	Eur 19,200	16.67%	indirect
Campania Arte S.c.ar.l. in liquidation (Italy)	Eur 100,000	23.41%	indirect
Club Dab Italy Società consortile per azioni (Italy)	Eur 240,000	12.50%	indirect
Edizioni EL S.r.l. (Italy)	Eur 620,000	50%	indirect
Giulio Einaudi editore S.p.A. (Italy)	Eur 23,920,000	100%	indirect
Inthera S.p.A. (Italy)	Eur 3,835,000	100%	direct
Mondadori Scienza S.p.A. (Italy)	Eur 2,600,000	100%	direct
Mach 2 Libri S.p.A. (Italy)	Eur 646,250	44.91%	indirect
GD Media Service S.r.l. (Italy)	Eur 789,474	38.00%	indirect
Gold 5 S.r.l. - in liquidation (Italy)	Eur 250,000	20%	indirect
MDM Milan Distribuzione Media S.r.l. (Italy)	Eur 611,765	17%	indirect
Mediamond S.p.A. (Italy)	Eur 2,400,000	50%	indirect
Mondadori Retail S.p.A. (Italy)	Eur 2,700,000	100%	direct
Mondadori Education S.p.A. (Italy)	Eur 10,608,000	100%	indirect
Mondadori Electa S.p.A. (Italy)	Eur 1,593,735	100%	indirect
Mondadori International Business S.r.l. (Italy)	Eur 200,000	100%	direct
Mondadori Libri S.p.A. (Italy)	Eur 30,050,000	100%	direct
Monradio S.r.l. (Italy)	Eur 3,030,000	20%	direct
Direct Channel S.p.A. former Press-di Abbonamenti S.p.A. (Italy)	Eur 3,120,000	100%	direct
Press-di Distribuzione Stampa e Multimedia S.r.l. (Italy)	Eur 1,095,000	100%	direct
Rizzoli Education S.p.A. (Italy)	Eur 42,405,000	99.99%	indirect
Società Europea di Edizioni S.p.A. (Italy)	Eur 2,528,875	36.90%	direct
Venice Accademia Società per i servizi museali S.c.ar.l. (Italy)	Eur 10,000	25%	indirect
Venice Musei Società per i servizi museali S.c.ar.l. (in liquidation)	Eur 10,000	34%	indirect
Attica Publications S.A. (Greece)	Eur 4,590,000	41.99%	direct
Editions Mondadori Axel Springer S.n.c. (France)	Eur 152,500	50%	indirect
EMAS Digital S.a.s. (France)	Eur 27,275,400	50%	indirect
Mondadori France S.a.s. (France)	Eur 50,000,000	100%	direct
Mondadori Magazines France S.a.s. (France)	Eur 60,557,458	100%	indirect
Mondadori Seec (Beijing) Advertising Co. Ltd (China)	Cny 40,000,000	50%	indirect
Mondadori UK Limited (United Kingdom)	Gbp 15,000	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 2018

Holder	% owned	Registered office	Tax code	Date of incorporation
Arnoldo Mondadori Editore S.p.A.	100%	Milan - via Bianca di Savoia 12	08105480969	16/01/2013
Monradio S.r.l.	16.67%	Bologna - via Guinizzelli 3	02532501208	24/01/2005
Mondadori Electa S.p.A.	23.41%	Roma - 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%	Turin - via U. Biancamano 2	08367150151	03/06/1986
Arnoldo Mondadori Editore S.p.A.	100%	Turin - 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.	24%	Peschiera Borromeo (MI) - via Galileo Galilei 1	07014150960	27/04/2010
Mach 2 Libri S.p.A.	14%			
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
Direct Channel 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	1/10/2001
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	2/12/2014
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 - Athens - Maroussi, 40 Kifissias Avenue		01/08/1994
Mondadori France S.a.s.	50%	France - Montrouge Cedex - 8, rue François Ory		9/12/1999
Mondadori France S.a.s.	50%	France - Montrouge Cedex - 8, rue François Ory		13/9/2011
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		30/3/2004
Direct Channel 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%	UK - London 10 Salisbury Square - St. Bride's House		18/03/2010
Rizzoli Education S.p.A.	100%	New York - 300 Park Avenue South		
Rizzoli International Publications Inc.	100%	New York - 11133 Broadway		

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RELATED PARTIES

ANNEX C1: RECEIVABLES FROM SUBSIDIARIES AND ASSOCIATES AT 31 DECEMBER 2018

Current account transactions and financial receivables (Euro/thousands)	31/12/2018	31/12/2017
Subsidiaries:		
Adkaora S.r.l.	-	-
Giulio Einaudi editore S.p.A.	-	-
Mondadori France S.a.s.	-	177,397
Mondadori International Business S.r.l.	193	1,217
Mondadori Retail S.p.A.	33,579	29,975
Mondadori Libri S.p.A.	21,468	44,276
Direct Channel S.p.A. former Press-di Abbonamenti S.p.A.	1,250	1,250
Press-di Distribuzione Stampa e Multimedia S.r.l.	-	-
Associates:		
Attica Publications S.A.	500	500
Other companies for amounts lower than 52 thousand euro ⁽¹⁾	-	-
Total	56,990	254,615
Percentage on item	89.8%	99.8%

⁽¹⁾ Prior-year amounts year include receivables from companies transferred in 2018

Trade transactions	31/12/2018	31/12/2017	
Subsidiaries:			
Adkaora S.r.l.	62	2	
Banzai Media S.r.l.	-	-	
Edizioni Piemme S.p.A.	-	-	
Giulio Einaudi editore S.p.A.	321	271	
Inthera S.p.A.	-	464	
Mondadori Education S.p.A.	1,337	1,208	
Mondadori Electa S.p.A.	622	508	
Mondadori France S.a.s.	52	221	
Mondadori International Business S.r.l.	246	314	
Mondadori Libri S.p.A.	3,451	2,951	
Mondadori Magazines France S.a.s.	119	116	
Mondadori Retail S.p.A.	1,957	1,743	
Mondadori Scienza S.p.A.	668	680	
Press-di Distribuzione Stampa e Multimedia S.r.l.	654	950	
Direct Channel S.p.A. former Press-di Abbonamenti S.p.A.	582	463	
Rizzoli Education S.p.A.	788	1,842	
Associates:			
Attica Media Serbia Ltd	-	-	
Attica Publications S.A.	24	24	
Edizioni EL S.r.l.	4	4	
Mediamond S.p.A.	29,803	31,743	
Monradio S.r.l.	16	10	
Società Europea di Edizioni S.p.A.	-	5	373
Parent company:			
Fininvest S.p.A.	-	-	
Affiliates:			
Fininvest Gestione Servizi S.p.A.	-	2	
RTI S.p.A.	879	351	
Radiomediasset S.p.A.	-	13	
Media Shopping S.p.A.	-	-	
Publieurope Ltd	-	-	
Other companies for amounts lower than 52 thousand euro ^(*)	-	-	
Total	41,585	43,885	
Percentage on item	91.8%	86.8%	
Tax receivables	31/12/2018	31/12/2017	
Parent company:			
Fininvest S.p.A.	8,692	7,497	
Total	8,692	7,497	

(*) Prior-year amounts year include receivables from companies transferred in 2018

RELATED PARTIES

ANNEX C2 - INTERCOMPANY TRANSACTIONS IN 2018

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.	-	-	-	986	986
Giulio Einaudi editore S.p.A.	822	3	-	-	825
Inthera S.p.A.	302	5	-	-	307
Mondadori Education S.p.A.	3,290	33	-	-	3,323
Mondadori Electa S.p.A.	2,069	11	-	-	2,080
Mondadori International Business S.r.l.	860	18	11	424	1,313
Mondadori Libri S.p.A.	12,035	475	540	42,677	55,727
Mondadori Magazines France S.a.s.	512	-	-	-	512
Mondadori Retail S.p.A.	7,156	85	580	-	7,821
Mondadori Scienza S.p.A.	969	13	-	1,239	2,221
Direct Channel S.p.A. former Press-di Abbonamenti S.p.A.	12,675	30	-	2,545	15,250
Press-di Distribuzione Stampa e Multimedia S.r.l.	139,320	49	-	-	139,369
Total	180,010	722	1,131	47,871	229,734

* Income from investments in indirect subsidiaries is shown in direct subsidiaries

Related parties (Euro/thousands)	Revenue from sales and services	Other income	Financial income	Income from investments*	Total
Associates:					
Attica Publications S.A.	-	-	24	158	182
Edizioni EL S.r.l.	3	-	-	-	3
Mediamond S.p.A.	70,868	456	-	-	71,324
Monradio S.r.l.	-	19	-	-	19
Società Europea di Edizioni S.p.A.	-	-	-	-	-
Total	70,871	475	24	158	71,528
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.	-	-	-	-	-
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.	-	-	-	-	-
Radiomediasset S.p.A.	-	-	-	-	-
RTI Reti Televisive Italiane S.p.A.	532	180	-	-	712
Taodue S.r.l.	-	-	-	-	-
Videotime S.p.A.	-	-	-	-	-
Sub-total	532	180	-	-	712
Total	251,413	1,377	1,155	48,029	301,974
Percentage on item	97.97%	11.66%	88.30%	100.00%	95.27%

* 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 2018

Current account transactions and financial payables (Euro/thousands)	31/12/2018	31/12/2017
Subsidiaries:		
Adkaora S.r.l.	1,511	537
Edizioni Piemme S.p.A.	-	-
Giulio Einaudi editore S.p.A.	31,490	32,115
Inthera S.p.A.	-	3,723
Mondadori Education S.p.A.	58,371	55,990
Mondadori Electa S.p.A.	29,218	28,811
Mondadori France S.a.s.	-	-
Mondadori Scienza S.p.A.	10,960	10,017
Press-di Distribuzione Stampa e Multimedia S.r.l.	7,475	10,674
Direct Channel S.p.A. former Press-di Abbonamenti S.p.A.	9,577	7,304
Rizzoli Education S.p.A.	121,124	124,772
Sperling & Kupfer Editori S.p.A.	-	-
Associates:		
Società Europea di Edizioni S.p.A.	738	-
Other companies for amounts lower than 52 thousand euro ⁽¹⁾	-	-
Total	270,464	273,943
Percentage on item	53.4%	52.2%

⁽¹⁾ Prior-year amounts include payables to companies transferred in 2018

Trade transactions	31/12/2018	31/12/2017
Subsidiaries:		
Giulio Einaudi editore S.p.A.	35	-
Inthera S.p.A.	-	37
Mondadori Education S.p.A.	9	26
Mondadori Electa S.p.A.	24	148
Mondadori International Business S.r.l.	65	45
Mondadori Libri S.p.A.	71	304
Mondadori Magazines France S.a.s.	-	1
Direct Channel S.p.A. former Press-di Abbonamenti S.p.A.	686	764
Mondadori Retail S.p.A.	6	105
Mondadori Scienza S.p.A.	120	6
Press-di Distribuzione Stampa e Multimedia S.r.l.	1,856	2,117
Rizzoli Education S.p.A.	-	29
Sperling & Kupfer Editori S.p.A.	-	-
Associates:		
Edizioni EL S.r.l.	25	93
Mediamond S.p.A.	4,459	4,070
Monradio S.r.l.	-	5
Società Europea di Edizioni S.p.A.	146	11
Parent company:		
Fininvest S.p.A.	-	51
Affiliates:		
Alba Servizi Aerotrasporti S.p.A.	-	-
Digitalia 08 S.r.l.	7	-
Fininvest Real Estate & Services S.p.A. (former Fin. Gest. Servizi)	12	12
RTI S.p.A.	825	325
Publitalia '80 S.p.A.	565	1,596
Mediaset S.p.A.	-	7
Other companies for amounts lower than 52 thousand euro ^(*)	-	-
Total	8,911	9,752
Percentage on item	12.2%	13.0%
Income tax payables	31/12/2018	31/12/2017
Parent company:		
Fininvest S.p.A.	-	-
Total	0	0

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^(*) Prior-year amounts include payables to companies transferred in 2018

RELATED PARTIES

ANNEX D2 - INTERCOMPANY TRANSACTIONS

IN 2018

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.	-	14	-	-	-	14
Subsidiaries:						
Giulio Einaudi editore S.p.A.	-	35	-	-	-	35
Inthera S.p.A.	-	109	-	-	2,872	2,981
Mondadori Electa S.p.A.	-	(1)	260	-	-	259
Mondadori Education S.p.A.	-	4	-	-	-	4
Mondadori France S.a.s.	-	-	-	-	-	-
Mondadori International Business S.r.l.	-	195	-	-	-	195
Mondadori Magazines France S.a.s.	-	(1)	-	-	-	(1)
Mondadori Libri S.p.A.	4	152	-	-	-	156
Mondadori Retail S.p.A.	(1)	67	-	-	3,618	3,684
Mondadori Scienza S.p.A.	(1,684)	83	-	-	-	(1,601)
Direct Channel S.p.A. former Press-di Abbonamenti S.p.A.	-	3,109	419	-	-	3,528
Press-di Distribuzione Stampa e Multimedia S.r.l.	-	41,235	-	-	1,134	42,369
Total	(1,681)	44,987	679	-	7,624	51,609

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.	-	-	-	-	2,800	2,800
Edizioni EL S.r.l.	-	73	-	-	-	73
Mediamond S.p.A.	-	2,057	521	-	-	2,578
Monradio S.r.l.	-	-	-	-	1,615	1,615
Società Europea di Edizioni S.p.A.	-	15	-	-	5,548	5,563
Total	-	2,145	521	-	9,963	12,629
Fininvest Group Companies						
Alba Servizi Aerotrasporti S.p.A.	-	-	-	-	-	-
Consorzio Campus Multimedia	-	-	-	-	-	-
Digitalia 08 S.r.l.	-	-	-	-	-	-
Il Teatro Manzoni S.p.A.	-	-	-	-	-	-
Fininvest Gestione Servizi S.p.A.	-	-	-	-	-	-
Mediaset S.p.A.	-	-	-	-	-	-
Mediamond S.p.A.	-	-	-	-	-	-
Medusa Film S.p.A.	-	-	-	-	-	-
Medusa Video S.r.l.	-	-	-	-	-	-
Milan Entertainment S.r.l.	-	-	-	-	-	-
Publitalia '80 S.p.A.	-	-	-	-	-	-
Radiomediaset S.p.A.	-	-	-	-	-	-
Radio e Reti S.r.l.	-	-	-	-	-	-
RTI Reti Televisive Italiane S.p.A.	-	295	480	-	-	775
Taodue S.r.l.	-	-	-	-	-	-
The Space Cinema 1 S.p.A.	-	-	-	-	-	-
Total	-	295	480	-	-	775
Other related parties:						
Sin&rgetica	-	-	-	-	-	-
Sineris	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-
Total	(1,681)	47,441	1,680	-	17,587	65,027
Percentage on item	(7.62%)	28.30%	64.67%	0.00%	100.00%	32.19%

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ANNEX E: FINANCIAL HIGHLIGHTS OF SUBSIDIARIES PREPARED ACCORDING TO IAS INTERNATIONAL ACCOUNTING STANDARDS

(Euro/thousands)		Direct Channel	Press-di Distrib. Stampa e Multimedia	Mondadori Retail
Financial year at		31/12/2018	31/12/2018	31/12/2018
Balance sheet				
Assets				
Intangible assets	567	24	394	
Investment property	-	-	-	
Property, plant and equipment	30	14	10,729	
Investments	4,140	343	-	
Non-current financial assets	-	-	-	
Pre-paid tax assets	753	752	3,833	
Other non-current assets	-	-	27	
Total non-current assets	5,490	1,133	14,983	
Tax receivables	191	750	2,762	
Other current assets	11,758	1,164	2,398	
Inventory	-	-	57,423	
Trade receivables	7,228	22,975	29,171	
Securities and other current financial assets	9,577	7,475	-	
Cash and cash equivalents	209	8	1,329	
Total current assets	28,963	32,372	93,083	
Assets held for sale or transferred	-	-	-	
Total assets	34,453	33,505	108,066	
Liabilities				
Share capital	3,120	1,095	2,700	
Reserves	104	1,824	1,151	
Profit (loss) for the year	2,152	(1,126)	(3,259)	
Total equity	5,376	1,793	592	
Provisions	1,096	765	1,044	
Post-employment benefits	989	704	3,699	
Non-current financial liabilities	100	-	-	
Deferred tax liabilities	1	-	37	
Other non-current liabilities	-	-	-	
Total non-current liabilities	2,186	1,469	4,780	
Income tax payables	(1,067)	-	-	
Other current liabilities	20,082	1,169	9,730	
Trade payables	6,523	29,072	59,385	
Payables to banks and other financial liabilities	1,353	2	33,579	
Total current liabilities	26,891	30,243	102,694	
Assets of discontinued operation or transferred	-	-	-	
Total liabilities	34,453	33,505	108,066	

Mondadori International Business	Mondadori Scienza	Mondadori Libri	Adkaora	
31/12/2018	31/12/2018	31/12/2018	31/12/2018	
520	67	21,891	5	
-	-	-	-	
3	16	254	54	
-	-	220,905	-	
-	-	-	-	
176	148	17,662	9	
-	-	14	19	
699	231	260,726	87	
1,300	135	1,339	-	
23	267	49,151	11	
-	413	29,662	-	381
4,385	2,366	101,115	3,589	
-	10,960	-	1,517	
150	-	11	-	
5,858	14,141	181,278	5,117	
-	-	-	-	
6,557	14,372	442,004	5,204	
200	2,600	30,050	15	
1,717	1,629	224,738	1,132	
425	1,051	28,529	986	
2,342	5,280	283,317	2,133	
450	525	15,608	-	
116	690	5,574	103	
-	-	-	-	
88	-	295	-	
-	-	-	-	
654	1,215	21,477	103	
92	37	13,291	349	
739	4,426	33,676	619	
2,536	3,414	66,481	2,000	
194	-	23,762	-	
3,561	7,877	137,210	2,968	
-	-	-	-	
6,557	14,372	442,004	5,204	

ANNEX E: FINANCIAL HIGHLIGHTS OF SUBSIDIARIES PREPARED ACCORDING TO IAS INTERNATIONAL ACCOUNTING STANDARDS

(Euro/thousands)	Direct Channel	Press-di Distrib. Stampa e Multimedia	Mondadori Retail
Financial year	31/12/2018	31/12/2018	31/12/2018
Income statement			
Revenue from sales and services	11,834	40,720	191,767
Decrease (increase) in inventory	-	-	(1,352)
Purchase of raw and ancillary materials, consumables and goods	54	1,974	123,191
Purchase of services	8,332	34,042	51,005
Cost of personnel	2,273	3,469	16,878
Other (income) expense	(1,830)	2,612	2,080
Result from investments valued at equity	-	-	-
EBITDA	3,005	(1,377)	(35)
Depreciation of property, plant and equipment	10	7	3,362
Amortization of intangible assets	129	3	-
EBIT	2,866	(1,387)	(3,397)
Financial income (expense)	3	(10)	(589)
Income (expense) from investments	-	31	-
Result before tax for the year	2,869	(1,366)	(3,986)
Income tax	717	(240)	(727)
Net result	2,152	(1,126)	(3,259)

Mondadori International Business	Mondadori Scienza	Mondadori Libri	Adkaora
31/12/2018	31/12/2018	31/12/2018	31/12/2018
5,163	19,393	167,125	6,079
-	123	(1,850)	-
5	1,747	12,619	13
2,607	12,560	127,790	3,664
1,925	4,266	18,234	1,046
128	(79)	(2,098)	(35)
-	-	-	-
498	776	12,430	1,391
3	52	143	14
1	2	742	7
494	722	11,545	1,370
(16)	(6)	(739)	(1)
8	-	19,672	-
486	716	30,478	1,369
61	(335)	1,949	383
425	1,051	28,529	986

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ANNEX F: FINANCIAL HIGHLIGHTS OF THE MAIN INDIRECT SUBSIDIARIES

(Euro/thousands)	Mondadori Electa	Mondadori Education	Giulio Einaudi editore	Rizzoli Education
Financial year at	31/12/2018	31/12/2018	31/12/2018	31/12/2018
Balance sheet				
Assets				
Intangible assets	24	31,530	21	17,758
Investment property	-	-	-	-
Property, plant and equipment	294	67	106	71
Investments	59	-	1,332	22,836
Non-current financial assets	-	-	-	-
Pre-paid tax assets	4,962	2,385	4,961	12,493
Other non-current assets	1	9	-	-
Total non-current assets	5,340	33,991	6,420	53,158
Tax receivables	681	387	-	1,318
Other current assets	3,144	527	11,609	1,627
Inventory	4,486	7,192	4,259	11,055
Trade receivables	7,246	6,799	14,668	9,490
Securities and other current financial assets	30,596	58,371	32,227	121,126
Cash and cash equivalents	9	17	122	96
Total current assets	46,162	73,293	62,885	144,712
Assets of discontinued operation or transferred	-	-	-	-
Total assets	51,502	107,284	69,305	197,870
Liabilities				
Share capital	1,594	10,608	23,920	42,405
Reserves	5,670	37,229	11,289	104,365
Profit (loss) for the year	6,461	12,987	9,864	9,557
Total equity	13,725	60,824	45,073	156,327
Provisions	11,779	6,310	1,295	4,643
Post-employment benefits	436	4,763	1,867	3,599
Non-current financial liabilities	-	-	-	-
Deferred tax liabilities	7	6,238	(5)	2,881
Other non-current liabilities	-	-	-	-
Total non-current liabilities	12,222	17,311	3,157	11,123
Income tax payables	3,320	4,155	2,867	
Other current liabilities	5,811	14,047	12,622	13,431
Trade payables	14,769	10,674	5,584	16,617
Payables to banks and other financial liabilities	1,655	273	2	372
Total current liabilities	25,555	29,149	21,075	30,420
Assets of discontinued operation or transferred	-	-	-	-
Total liabilities	51,502	107,284	69,305	197,870

(Euro/thousands)	Mondadori Electa	Mondadori Education	Giulio Einaudi editore	Rizzoli Education
Financial year at	31/12/2018	31/12/2018	31/12/2018	31/12/2018
Income statement				
Revenue from sales and services	52,630	76,709	46,205	83,075
Decrease (increase) in inventory	346	(31)	(355)	2,164
Purchase of raw and ancillary materials, consumables and goods	5,552	7,492	2,968	20,674
Purchase of services	33,378	38,927	25,355	38,227
Cost of personnel	4,569	7,039	5,583	5,485
Other (income) expense	(490)	(31)	95	(957)
EBITDA	9,275	23,313	12,559	17,482
Depreciation of property, plant and equipment	291	41	47	23
Amortization of intangible assets	12	5,231	10	4,690
EBIT	8,972	18,041	12,502	12,769
Financial income (expense)	8	(15)	(4)	(17)
Income (expense) from investments	-	-	589	-
Result before tax for the year	8,980	18,026	13,087	12,752
Income tax	2,519	5,039	3,223	3,195
Net result	6,461	12,987	9,864	9,557

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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	31/12/2018	31/12/2017	31/12/2017	31/12/2017
Balance sheet				
Assets				
Intangible assets radio frequencies	-	-	-	-
Other intangible assets	2,170	41,210	3,900	9,970
Property, plant and equipment	61	3,401	529	327
Investments	-	23	647	4
Non-current financial assets	-	-	-	18
Pre-paid tax assets	670	143	92	3,590
Other non-current assets	-	116	-	164
Total non-current assets	2,901	44,893	5,168	14,073
Tax receivables	4,668	-	71	-
Other current assets	190	1,913	885	3,836
Inventory	-	-	354	1,281
Trade receivables	107,811	8,821	16,962	9,881
Securities and other current financial assets	4,330	-	-	-
Cash and cash equivalents	-	1	41	5,368
Total current assets	116,999	10,735	18,313	20,366
Assets of discontinued operation or transferred	-	-	-	-
Total assets	119,900	55,628	23,481	34,439
Liabilities				
Share capital	2,400	3,030	2,529	4,590
Reserves	1,477	37,779	4,748	(746)
Profit (loss) for the year	219	(8,266)	(6,551)	723
Total equity	4,096	32,543	726	4,567
Provisions	983	324	1,050	-
Post-employment benefits	3,300	557	2,972	1,291
Non-current financial liabilities	-	-	-	6,860
Deferred tax liabilities	84	8,396	-	-
Other non-current liabilities	-	-	-	-
Total non-current liabilities	4,367	9,277	4,022	8,151
Income tax payables	531	-	599	203
Other current liabilities	7,974	1,032	1,634	3,461
Trade payables	102,705	8,167	4,054	7,989
Payables to banks and other financial liabilities	227	4,609	12,446	10,068
Total current liabilities	111,437	13,808	18,733	21,721
Assets of discontinued operation or transferred	-	-	-	-
Total liabilities	119,900	55,628	23,481	34,439

* Financial statements prepared according to Italian accounting standards

(Euro/thousands)

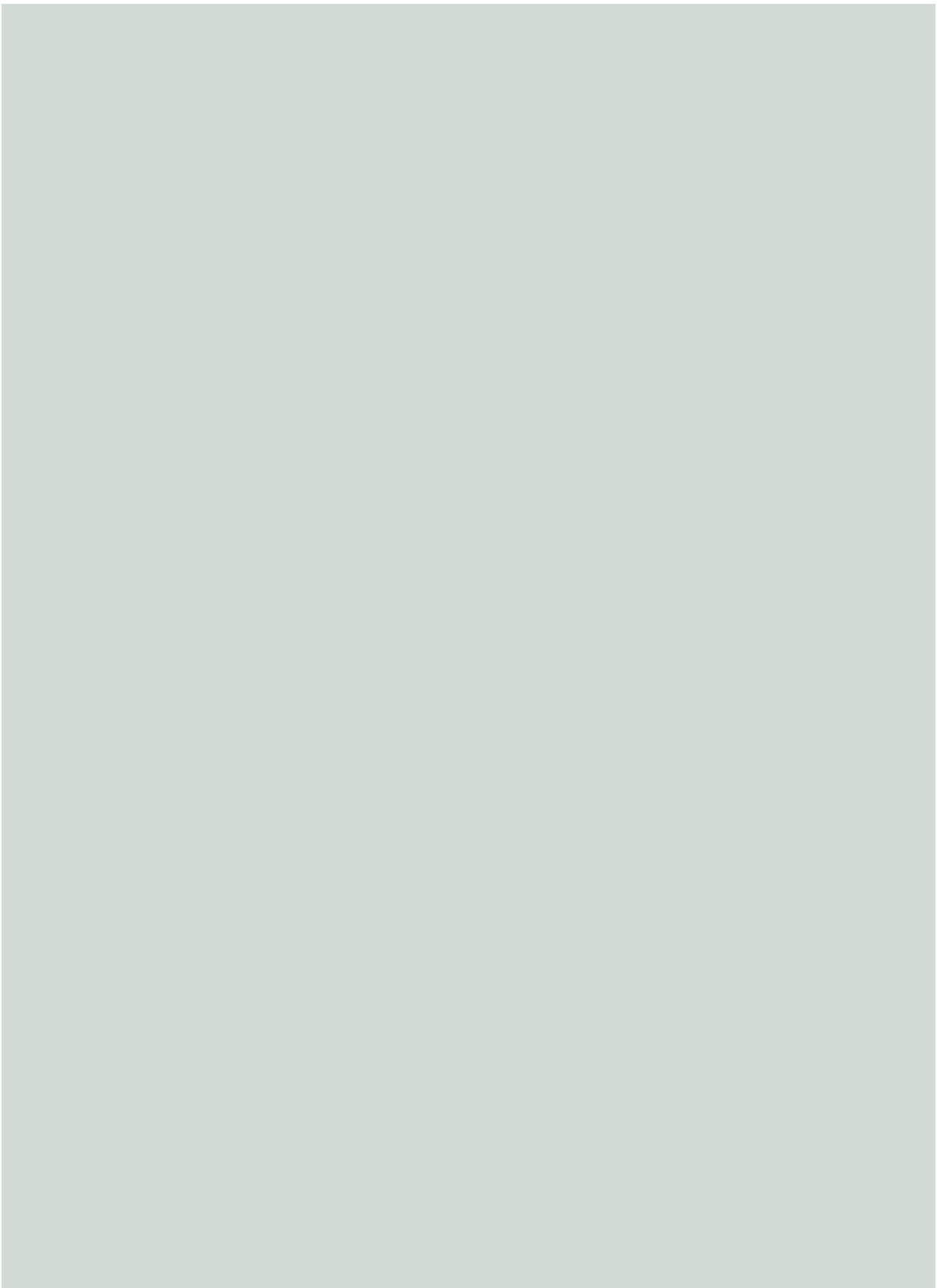
	Mediamond	Monradio	Società Europea di Edizioni *	Attica Publications
Financial year at	31/12/2018	31/12/2017	31/12/2017	31/12/2017
Income statement				
Revenue from sales and services	231,978	13,930	32,838	37,688
Decrease (increase) in inventory	-	-	59	-
Purchase of raw and ancillary materials, consumables and goods	-	-	3,437	17,487
Purchase of services	224,092	15,506	16,839	18,390
Cost of personnel	12,945	1,885	15,290	-
Other (income) expense	(5,645)	165	2,134	(408)
EBITDA	586	(3,626)	(4,921)	2,219
Depreciation of property, plant and equipment	55	2,551	208	-
Amortization of intangible assets	-	-	953	-
EBIT	531	(6,177)	(6,082)	2,219
Financial income (expense)	7	(77)	(469)	(1,011)
Income (expense) from investments	-	1	-	(1)
Result before tax for the year	538	(6,253)	(6,551)	1,207
Income tax	319	2,013	-	484
Net result	219	(8,266)	(6,551)	723

* Financial statements prepared according to Italian accounting standards

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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	-	500	-	-	-	-	500
Pre-paid tax assets	6,515	-	-	-	-	-	6,515
Other non-current assets	296	-	-	-	-	-	296
Current assets:							
Tax receivables	29,485	-	-	-	-	-	29,485
Other current assets	4,891	11	2	-	-	-	4,904
Trade receivables	44,466	567	48	7	1	203	45,292
Securities and other current financial assets	61,576	5,289	-	-	-	-	66,865
Cash and cash equivalents	76,837	-	-	-	-	-	76,837
Total receivables	224,066	6,367	50	7	1	203	230,694
Payables:							
Non-current liabilities:							
Non-current financial liabilities	210,082	-	-	-	-	-	210,082
Deferred tax liabilities	28,324	-	-	-	-	-	28,324
Other non-current liabilities	-	-	-	-	-	-	0
Current liabilities:							
Income tax payables	-	-	-	-	-	-	0
Other current liabilities	36,745	326	164	43	7	45	37,330
Trade payables	67,823	5,177	44	8	-	46	73,098
Payables to banks and other financial liabilities	296,695	-	-	-	-	-	296,695
Total payables	639,669	5,503	208	51	7	91	645,529



**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 Company's characteristics and
- the effective application

of the administrative and accounting procedures for the drafting of the Company's financial statements in 2018.

2. The valuation of the adequacy of the administrative and accounting procedures for the drafting of the Company's financial statements at 31 December 2018 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:

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3.1 the financial statements at 31 December 2018:

- 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.

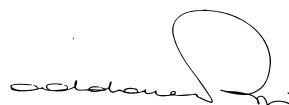
3.2 the Report on Operations includes a reliable analysis of performance and results, of the situation of the Company and of the businesses included in the consolidation scope, along with the description of the main risks and uncertainties they are exposed to.

14 March 2019

The CEO
(Ernesto Mauri)



The Financial Reporting Manager
(Oddone Pozzi)





C'è vita in un libro. La tua.

#condividiunlibro

MONDADORI STORE

#condividiunlibro

The Group's employees and associates, too, played the lead actors in Mondadori Retail's institutional campaign, talking about their favourite book, captured by the lens of Mr. SaveTheWall. The project, named Bookshot by the artist, translates the campaign claim *C'è vita in un libro. La tua.* into pictures and videos, collecting the experiences of all the readers who took part in the initiative on the website condividiunlibro.it.

Board of Statutory Auditors' Report

**BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS'
MEETING CALLED FOR THE APPROVAL OF THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2018 PURSUANT TO ART. 153 OF LEGISLATIVE DECREE
NO. 58/1998**

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

Dear Shareholders,

the Board of Statutory Auditors of Arnoldo Mondadori Editore S.p.A. (hereinafter also referred to as "the Company") presents its Report, pursuant to art. 153 of Legislative Decree 58/1998 (T.U.F.), to refer on the activities carried out.

This Board of Statutory Auditors was appointed by the Shareholders' Meeting of 24 April 2018 and its term of office expires with the Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2020.

The newly appointed Board of Statutory Auditors also took into account the minutes recorded in 2018 by the previous Board of Statutory Auditors up to the abovementioned Shareholders' Meeting, and the presentation made by Standing Auditor Flavia Daunia Minutillo at her second term of office.

Pursuant to Legislative Decree 58/1998 and Legislative Decree 39/2010, Deloitte & Touche S.p.A. (hereinafter referred to as the "Independent Auditors") were appointed as Independent Auditors by the Shareholders' Meeting of 27 April 2010 for the 2010-2018 period.

In view of the expiry of the assignment of the Independent Auditors with the Shareholders' Meeting called to approve the 2018 financial statements, in 2018, the Board of Statutory Auditors, in its capacity as "*Internal Control and Audit Committee*" (pursuant to art. 19, par. 1, letter f), Legislative Decree 39/2010 and art. 16, paragraphs 2 and 3, of EU Regulation no. 537/2014), in collaboration with the relevant departments, began the procedure for the appointment of the new Independent Auditors. On 8 February 2019, the Board of Statutory Auditors prepared its Recommendation to the Shareholders' Meeting for the appointment of the Independent Auditors for the 2019-2027 nine-year period.

During the year ended 31 December 2018, the Board of Statutory Auditors carried out the controls and other supervisory activities in compliance with the relevant laws and regulations in force, as well as with the Corporate Governance Code for Listed Companies, the Rules of Conduct for the Board of Statutory Auditors of listed companies issued by the Italian Association of Public Accountants and Accounting Professionals, and the Communications issued by Consob on corporate control and the activities of the Board of Statutory Auditors. This report is drawn up in accordance with the guidelines provided by Consob in its Communication DAC/RM/97001574 of 20 February 1997 and Communication DEM/1025564 of 6 April 2001, as amended and supplemented by Communications DEM/3021582 of 4 April 2003 and DEM/6031329 of 7 April 2006.

The Board of Statutory Auditors met regularly in 2018, recording its supervisory activities.

The Board of Statutory Auditors also carried out a self-assessment of the independence of its members, confirming that the requirements of law and of the above Corporate Governance Code for Listed Companies had been met. It is acknowledged that no Statutory Auditor has had any interest, on their own behalf or of third parties, in any transaction of the Company during the financial year, and that the members of the Board of Statutory Auditors have met the requirements regarding the holding of multiple positions set out in art. 144-terdecies of the Issuer Regulations.

With this Report, also in compliance with the indications provided by Consob with Communication DEM/1025564 of April 6, 2001, as subsequently amended and supplemented, the Board of Statutory Auditors reports on the activities carried out in 2018 for each matter that is subject to supervision as set out in the regulations governing its tasks.

Supervision of the compliance with laws, regulations and bylaws

In 2018, the Board of Statutory Auditors met 20 times in total, 15 of which after the Shareholders' Meeting that renewed its composition, again with the participation of the majority of its members. The Board of Statutory Auditors, both in its previous and current composition, attended all the meetings of the Board of Directors in its entirety, with the exception of one meeting attended by the majority of its members.

In 2018, the Board of Statutory Auditors attended all the meetings of the Control and Risk Committee and of the Remuneration and Appointments Committee, either in its entirety or through the Chairman or his delegates. The Board of Statutory Auditors also periodically interacted with the Supervisory Board, including through the Chairman of the Board of Statutory Auditors, acting also as Chairman of the Supervisory Board, and the Head of Internal Audit, who is a member of the Supervisory Board.

In this context, the Board of Statutory Auditors:

- supervised the compliance with the law and the bylaws;
- carried out verifications and gathered information from the heads of the various departments, meeting periodically with senior management to exchange information on the progress of operations carried out by the Company, acquiring the information required to supervise, pursuant to art. 149 of Legislative Decree 58/1998, the compliance with the law and the bylaws, compliance with the principles of correct administration and the adequacy of the organizational structure, the internal control system, the administrative-accounting system, as well as the implementation of corporate governance rules set out in the codes of conduct, and the adequacy of the instructions given to subsidiaries, with no observations to make. In this regard, it acknowledges that the relations with Company staff were built on mutual cooperation, respecting the respective roles and areas of responsibility, and that each body or department fulfilled the information obligations required by applicable legislation;
- supervised the procedures on the effective implementation of the Corporate Governance Code for Listed Companies adopted by the Company, and verified correct application of the assessment criteria and procedures adopted by the Board to assess the independence of Directors. The Board of Statutory Auditors also rendered a positive assessment of the criteria adopted by the Board of Directors to ascertain the continued satisfaction of the independence requirements for non-executive Directors qualified as independent, pursuant to the Corporate Governance Code and of those set forth in the TUF; it should be noted that for a director, the Board of Directors confirmed, as for the prior year, its assessment of independence even in the absence of one of the requirements set out in the Code, i.e. the duration of office not exceeding nine years in the last 12 years, justified by the professional qualities and independent judgement shown in carrying out activities within the Board, and given also the satisfaction of all the additional requirements of independence for such director set out in the Code;
- assessed that the Report on Corporate Governance and Ownership Structure contains all the information required by art. 123 bis TUF, as well as other information provided in compliance with the regulations governing issuers listed on regulated markets;
- rendered its opinion in all the cases provided for by law, in particular regard to the remuneration of directors holding particular responsibilities;
- acknowledges that, in accordance with the recommendations of the joint Bank of Italy-Consob-ISVAP document no. 4 of 3 March 2010, the Impairment Test procedure governed by IAS 36 received the favourable opinion of the Control and Risk Committee on 28 January 2019 and was approved by the Board of Directors on 14 February 2019; in this regard, the Board of Statutory Auditors supervised the substantial and formal legitimacy of the impairment process;
- rendered a favourable opinion on the resolution passed by the Board of Directors on the appointment of the Financial Reporting Manager, pursuant to art. 24 of the bylaws and to art. 154-bis, par. 1, of Legislative Decree 58/1998, on the proposal put forward by the Chief Executive Officer, in agreement with the Chairman of the Board of Directors, confirming the holder of the previous position.

Supervision of the compliance with the principles of correct administration and of the relations with subsidiaries or other related parties

In order to supervise the compliance with the principles of correct administration, in addition to having attended, as mentioned above, all meetings of the Board of Directors and the Control and Risk Committee and the Remuneration and Appointments Committee, the Board of Statutory Auditors:

- took part in the ordinary Shareholders' Meeting;
- obtained from the Directors, with the frequency set out in art. 20 of the bylaws, the due information on the activities carried out and on transactions having a significant impact on the balance sheet, income statement and cash flows approved and carried out during the year by the Company and its subsidiaries; this information is fully presented in the Directors' Report on Operations, to which reference should be made. Based on the information made available to the Board of Statutory Auditors, the latter may reasonably deem that the above transactions comply with the law and bylaws, and are not openly incautious, risky, or in conflict with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the Company's assets;
- in compliance with the recommendations of Consob Resolution DEM/1025564 of 6 April 2001, did not identify any critical issues regarding the transactions having a significant impact on the balance sheet, income statement and cash flows carried out during the year in question, including through subsidiaries, which are summarized in the draft financial statements to which it refers;
- did not identify atypical or unusual transactions with Group companies, third parties or other related parties which, due to their significance or relevance, nature of the counterparts, object of the transaction, transfer pricing method and timing of the event, may give rise to doubts as to the accuracy/completeness of the information in the financial statements, conflicts of interest, safeguarding of company assets or protection of non-controlling interests. During the year, the Company purchased 426,703 treasury shares;
- supervised corporate documents and market disclosures, and specifically:
 - gave its positive assessment of the compliance of the Procedures for Transactions with Related Parties adopted by the Board of Directors on 25 November 2010 with the principles indicated in Consob Regulation adopted with resolution no. 17221 of 12 March 2010 as subsequently amended. No significant transactions with related parties took place in 2018;
 - supervised market disclosures, monitoring the compliance of the relating procedures; in this regard, in several meetings with the Board committees and the Board of Directors, the Board of Statutory Auditors monitored the project to comply with internal procedures and the organizational structure in charge of these activities, in accordance with the new rules governing *Market Abuse Regulation*, and verified the control systems together with the Control and Risk Committee.

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Supervision of the adequacy of the organizational structure

The Board of Statutory Auditors acquired knowledge of and supervised, within the scope of its duties, the adequacy of the Company's organizational structure and the adequacy of the instructions given by the Company to its subsidiaries pursuant to art. 114, par. 2, of Legislative Decree 58/1998, through:

- the acquisition of information from the heads of the relevant departments;
- the acquisition of information on changes in the organizational structure, supervising the existence, updating and effective dissemination of company directives and procedures;
- meetings and exchange of information with the Boards of Statutory Auditors of the main subsidiaries relevant to the mutual exchange of data and information, with particular regard to the operation of corporate activities, the reliability of the internal control system and of corporate organization, significant litigation - as required by art. 151 of the TUF - and compliance with the internal procedures issued by the Parent Company. The purpose of the verifications was to obtain information and assessments on the administration and control systems of the subsidiaries: the Boards of Statutory Auditors of the companies of the Group did not report any critical points worthy of mention in this regard. All the Boards of Statutory Auditors involved also expressed a positive opinion on the adequacy of the organizational, administrative and accounting system of the respective companies; there was no report of any violations of procedures qualifying as relevant or significant, nor

shortfalls or inadequacies in the internal control systems; for the directly controlled foreign companies, the supervisory activity of the Board of Statutory Auditors was developed in association with Internal Audit;

- meetings with the Independent Auditors and the outcome of specific audits carried out, including on foreign subsidiaries;
- active participation in the meetings organized by the Company or by the independent directors as part of the “*Induction*” programme proposed to the new members of the corporate bodies, in compliance with the Code of Conduct, in order to increase the skills and knowledge of the Company’s areas of operation and to gain insights into the changes in legislation and regulations having a direct impact on the supervisory role assigned to the Board of Statutory Auditors.

As part of its supervisory activities, the Board of Statutory Auditors also reviewed and obtained information on the organizational and procedural activities carried out pursuant to Legislative Decree no. 231/2001 as subsequently amended and supplemented, and on the administrative liability of entities for the offences envisaged by such regulations; these activities are presented in the Report on corporate governance and ownership structure, to which reference should be made. The Board of Statutory Auditors in particular:

- was informed, during the meetings of the Control and Risk Committee and of the Board of Directors, of the updating of the Organization, Management and Control Model pursuant to Legislative Decree no. 231/2001, carried out in consideration of certain internal organizational changes and new regulations that took place;
- supervised the activities carried out in this area in 2018, without reporting any facts or situations to be highlighted in this Report;
- recommended that the Company consider the convenience of introducing multi-member Supervisory Bodies at least in significant subsidiaries with regard to the requirements of Legislative Decree 231/2001.

Supervision of the internal control and risk management system and the administrative and accounting system

The Board of Statutory Auditors supervised the adequacy of the internal control and risk management system and of the administrative-accounting system, as well as the latter’s suitability to correctly represent operations, through:

- review of the positive assessment expressed by the Board of Directors on the adequacy and effective operation of the internal control and risk management system rendered on 14 March 2019;
- periodic meetings with the Financial Reporting Manager and review of his half-year and annual reports on the administrative and accounting structure;
- periodic meetings with the Head of Internal Audit and review of the relating Reports to the Board of Directors on the internal control and risk management system;
- review of the Internal Audit reports, as well as information on the outcomes of the monitoring activity on implementation of the remedial actions identified as a result of the audits;
- review of the Reports prepared as part of the Risk Management activities, aimed at representing the main risks of the Group and the related mitigation actions;
- periodic updates on the main disputes of the Company and the Group, monitoring their progress during the year;
- information received from the heads of the relevant departments;
- periodic meetings with the representatives of the Independent Auditors, who informed the Board of the audit strategy, the focus areas, the audits carried out and the relating results, as well as the main issues identified in performing the activity, also in relation to the provisions of art. 19 of Legislative Decree no. 39/2010 and art. 11 of EU Regulation no. 537/2014 as indicated in the section “*Supervision of the statutory audit process and the independence of the Independent Auditors*” of this Report;
- information reports with the Boards of Statutory Auditors of the main subsidiaries pursuant to art. 151, paragraphs 1 and 2, of Legislative Decree 58/1998;
- attendance in the proceedings of the Control and Risk Committee and, whenever the topics discussed so required, joint discussion with the Committee. The collaboration and discussion with the Control and Risk Committee, also through the organization of joint meetings on issues of common interest, was fruitful and

effective and, among other things, allowed the Board of Statutory Auditors to complete the process of analysis on risk control and management, acquiring information additional to the information obtained independently through ongoing interaction with the Head of Internal Audit and the Risk Manager of the Company. The Board of Statutory Auditors, in particular, acknowledges that during the meetings of the Control and Risk Committee, the relevant verifications were made, in accordance with the provisions of the Corporate Governance Code for Listed Companies and the Committee's Regulations, which were regularly presented to the Board of Statutory Auditors in its capacity as Internal Control and Audit Committee. Specifically, the Board of Statutory Auditors supervised the adequacy and effectiveness of the internal control and risk management system, in relation to the characteristics of the company and the risk profile assumed, the work plan prepared by the Head of Internal Audit, the adequacy of the resources assigned, as well as its organizational effectiveness and efficiency. Additionally, the Board of Statutory Auditors acknowledged that on 14 March 2019 the Control and Risk Committee issued a favourable opinion on the annual assessment of the adequacy of the Internal Control and Risk Management System;

- assessment of the full compliance with the obligations on regulated, inside or requested information by the Supervisory Authorities.

Supervision of the statutory audit process and the independence of the Independent Auditors

The Independent Auditors issued the reports pursuant to art. 14 of Legislative Decree no. 39/2010, and to articles 10 and 11 of EU Regulation no. 537/2014: these reports do not contain any issues of note or explanatory comments, nor statements made pursuant to letters e) and f) of art. 14, second paragraph, of Legislative Decree no. 39/2010. The Independent Auditors identify as key points of the audit:

- a) the impairment test on intangible assets with indefinite useful life, goodwill and investments;
- b) assets held for sale;
- c) recognition of revenue from advertising services.

More specifically, the Board of Statutory Auditors examined the Report of the Independent Auditors on the Financial Statements for the year ended 31 December 2018 issued, pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of EU Regulation 537/2014, on 27 March 2019, by which the Independent Auditors certified that:

- the Company's financial statements and the Group's consolidated financial statements at 31 December 2018 provide a true and fair view of the financial position and results of operations at 31 December 2018 and of cash flows for the year, in accordance with the International Financial Reporting Standards adopted by the European Union and the provisions issued in implementation of art. 9 of Legislative Decree no. 38/2005;
- the Directors' Report on Operations and certain specific information contained in the Report on Corporate Governance and Ownership Structure indicated in art. 123-bis, par. 4, of Legislative Decree no. 58/1998, are consistent with the Company's financial statements and the Group's consolidated financial statements, and have been prepared in accordance with the law;
- the opinion on the separate and consolidated financial statements expressed in the above Reports is in line with the indications in the Additional Report prepared pursuant to art. 11 of EU Regulation 537/2014.

The Board also reviewed the content of the Additional Report pursuant to art. 11 of EU Regulation 537/2014, to be sent to the Administrative Body, which contained no aspects to be highlighted in this report.

The Board of Statutory Auditors held regular meetings with the Independent Auditors' managers, also pursuant to art. 150, par. 3, of Legislative Decree 58/1998, art. 19, par. 1, of Legislative Decree 39/2010, during which no facts or situations arose to be highlighted in this Report.

The Board of Statutory Auditors:

- verified, in a limited supervisory role on the underlying issues and processes, compliance with the obligations set out in Legislative Decree no. 254/2016 (supplemented by the 2019 Budget Law) and in particular, that the Company has drawn up the consolidated non-financial statement - prepared and approved by the Administrative Body - in accordance with the provisions of articles 3 and 4 of the Decree;
- assessed that the above Statement was accompanied by the report of the Independent Auditors pursuant to art. 3, par. 10 of Legislative Decree no. 254/2016, which certified that the directors had prepared the non-financial statement, included in the Directors' Report on Operations as a specific section.

Under a specific assignment, on 27 March 2019 the Independent Auditors also issued a “*Limited Assurance*” certification, with no observations to make, on the conformity of the information provided in the consolidated non-financial statement with the requirements of the above Decree and with the principles, methods and procedures of preparation, as well as with art. 5 of Consob Regulation adopted by resolution no. 20267 of 18 January 2018.

The Board of Statutory Auditors, pursuant to art. 19 of Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016, exchanged information on an ongoing basis with the Independent Auditors, in particular:

- supervised the adoption and monitored compliance with the Company’s procedure on the granting of assignments to the Group’s Independent Auditors, which envisages specific information and authorization flows and procedures on the granting of such assignments to enable the Board of Statutory Auditors to adequately carry out its supervisory activities. The overall flow of information, which the Board of Statutory Auditors deems adequate, did not identify any critical issues or anomalies that could affect the opinions expressed on the separate and consolidated financial statements of the Company;
- declares that the fees for services other than statutory audit indicated, pursuant to art. 149-*duodecies* of the Issuer Regulation, appear in an annex to the 2018 Annual Report.

The Independent Auditors have not been assigned tasks that are not permitted under the regulations applicable to Arnoldo Mondadori Editore S.p.A.

Taking into account the statements of independence issued by Deloitte & Touche S.p.A. and its transparency report pursuant to art. 18 of Legislative Decree 39/2010, published on its website, as well as the assignments granted to the Independent Auditors and to companies belonging to its network by Arnoldo Mondadori Editore S.p.A. and companies of the Mondadori Group, the Board of Statutory Auditors deems there are no critical aspects regarding the independence of Deloitte & Touche S.p.A.

Lastly, the Board of Statutory Auditors, in its capacity as Internal Control and Audit Committee, pursuant to art. 19 of Legislative Decree 39/2010, approved the procedure on the selection of the Independent Auditors, monitored the selection criteria defined and the evaluation process, following which it submitted a reasoned recommendation to the Board of Directors for the appointment of the Independent Auditors, pursuant to art. 16 of European Regulation 537/2014. This recommendation, together with the relevant report, is an integral part of the proposal on the agenda of this Shareholders’ Meeting.

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Complaints pursuant to art. 2408 of the Italian Civil Code

From the date of the previous Report of the Board of Statutory Auditors up to the date of this Report, the Board of Statutory Auditors identified no omissions or reprehensible events, and confirms that no complaints were received from Shareholders pursuant to art. 2408 of the Italian Civil Code.

During the supervisory activity carried out by the Board of Statutory Auditors in the manner described above, based on the information and data acquired, there were no facts that could imply non-compliance with the law and the bylaws or such as to justify reports to the Supervisory Authority or mention in this report.

In conclusion, in light of the above, and within the scope of its duties, based on the supervisory activities carried out during the year, the Board of Statutory Auditors, pursuant to art. 153, par. 2, of the TUF, has not found any impediment that may prevent the approval of the financial statements for the year ended 31 December 2018, which closes with a loss of € 177,130,510, or of the proposed resolutions put forward by the Board of Directors.

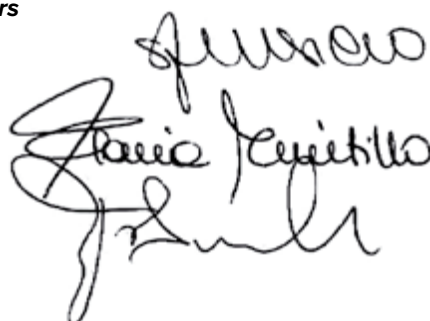
Milan, 27 March 2019

The Board of Statutory Auditors

Sara Fornasiero (Chairman)

Flavia Daunia Minutillo

Ezio Simonelli

The image shows three handwritten signatures in black ink. The top signature is for Sara Fornasiero, the middle one for Flavia Daunia Minutillo, and the bottom one for Ezio Simonelli. The signatures are written in a cursive, flowing style.

INDEPENDENT AUDITOR'S REPORTS

**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, 2018, 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 accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, 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 of intangible assets with indefinite lives, goodwill and investments

**Description of the
key audit matter**

The Group's consolidated financial statements as at December 31, 2018 include intangible assets with indefinite useful lives that include magazines, for Euro 85 million, trademarks and book series for Euro 47 million and goodwill for Euro 50 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 32 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).

Since the 2019-2021 Group three-year plan is currently being finalized, following the redefinition of the strategic priorities of the group still in progress, in order to determine the recoverable amounts of intangible assets, goodwill and investments the Group made reference to the cash flows deriving from the forecasted data included in the 2019 budgets of each entity that own the assets, and aggregated in the Group budget approved by the Board of Directors, as well as to the projections of the results for the next two years, determined taking into account the three-year plan 2018-2020, which represents the most recent approved business plan, and the expected evolution of the reference sectors.

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 or negative for the majority of the CGUs.

Based on the impairment tests conducted, the Group recognized impairment of investments in associates and joint ventures for a total amount of Euro 5 million.

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 6.7 and 7 of the explanatory notes to the consolidated financial statements 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 performed

As part of our audit, we have, among others, carried out the following procedures, also with the support of experts:

- analysis of procedures and understanding of the relevant controls implemented by the Group over the impairment test process;

- analysis of the methodologies used by Management in determining value in use and, where applicable, the fair value;
- assessment of the compliance with applicable accounting standards of the procedures implemented by Management for the impairment tests;
- 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 and development of independent sensitivity analysis;
- assessment of the adequacy and compliance of the disclosure provided by the Group on the impairment test based on IAS 36 disclosure requirements.

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Assets and Liabilities of Discontinued Operations

Description of the key audit matter

The Group's financial statements as at December 31, 2018 include assets and liabilities of discontinued operations - attributable to Mondadori France S.A.S., through which the Mondadori Group operates in the French magazine market - for a total value of, respectively, Euro 230 million and Euro 137 Million, which represents respectively 21% and 15% of consolidated assets and liabilities, and a loss from discontinued operation of Euro 192 million, mainly determined by the adjustment to fair value of these assets and liabilities.

As part of the repositioning strategy aimed to consolidate its leadership in the book market, during 2018, the Group has put in place a process of negotiation for the sale of Mondadori France S.A.S., such process lead, on February 2019, to the subscription of a put option for the sale of the subsidiary to a third-party operator.

For the purposes of the financial statements, the Directors have deemed the requirements of IFRS 5 for the recognition of Mondadori France S.A.S. assets and liabilities as discontinued operations as met, and therefore they have measured these assets and liabilities at the lower of the carrying amount and fair value, determined on the basis of the consideration defined in the above described put option, less costs to sell.

We concluded that the above mentioned matter and the related disclosure provided by the Management represent a key audit matter for the Group's financial statements, given the relevance of the transaction, the significance of the involved amounts and the nature and extent of the audit procedures needed to analyze the topic.

Notes 6.24 and 11 of the explanatory notes to the consolidated financial statements include, respectively, the valuation criteria for the asset and liabilities of discontinued operations, a description of the transaction and the references adopted for the valuation of the discontinued operations in accordance to IFRS 5, together with the details of the assets, the liabilities and the economic results of discontinued operations.

Audit procedures performed

As part of our audit, we have, among others, carried out the following procedures:

- analysis of the procedures and understanding of the relevant controls implemented by the Group applicable to the above mentioned transaction;
- analysis of the transaction based on the contractual and corporate documentation available in order to verify, among others, the existence of the requirement of IFRS 5 for the qualification of discontinued operations;
- reading and analysis of the agreement in order to identify the relevant elements for the purposes of determining the impacts of the transaction on the Group's financial statements;
- assessment of the appropriateness of the principles and methods used by the Group for determining the impacts of the transaction and for its disclosure, according to the reference accounting standards;
- assessment of the adequacy of the disclosure provided by the Directors in the explanatory notes and of its compliance with the reference accounting standards.

Revenue recognition for book sales – expected returns estimate

Description of the key audit matter

Revenues from book sales of the Group amounted to Euro 450 million, equal to approximately 51% of total revenues, and are accounted for net of actual and expected returns, which in total, amounted to Euro 115 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 32 of the explanatory notes reports information on revenues for the year.

Audit procedures performed

As part of our audit, we have, among others, carried out the following procedures:

- analysis of the procedures and understanding of the relevant controls implemented by the Group over the estimation process of expected returns and over the identification of actual returns;
- assessment of compliance of the principles and methods used by the Group to recognize adjustments to sales revenues with IFRS 15;
- 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 Group on the revenues based on applicable accounting standards disclosure requirements.

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Revenues recognition – advertising services

Description of the key audit matter

The Group's consolidated income statement for the year ended December 31, 2018 includes revenues from advertising services of Euro 84 million, equal to approximately 9% 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, with specific reference to their accuracy, 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, linked to the articulated underlying contractual agreements between the Group and the advertising agency.

Note 6.19 of the explanatory notes includes a description of revenue recognition criteria and Note 32 of the explanatory notes reports information on revenues for the year.

Audit procedures performed

As part of our audit, we have, among others, carried out the following procedures:

- analysis of the procedures and understanding of the relevant controls carried out by the Group on advertising revenues recognition, performed with the support of IT specialist;

- assessment of compliance of the recognition criteria adopted by Management for advertising revenues with IFRS 15;
- analysis of contractual agreements between the Group 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 Group 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 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 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, 2018, 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 Mondadori Group as at December 31, 2018 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 Mondadori Group as at December 31, 2018 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 27, 2019

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

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 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, 2018, 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 accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, 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 of intangible assets with indefinite lives, goodwill and investments

Description of the key audit matter

The Company's financial statements as at December 31, 2018 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 million, and goodwill, for Euro 19 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 400 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).

Since the 2019-2021 Group three-year plan is currently being finalized, following the redefinition of the strategic priorities of the group still in progress, in order to determine the recoverable amounts of intangible assets, goodwill and investments the Company made reference to the cash flows deriving from the forecasted data included in the 2019 budgets of each subsidiary that own the assets, and aggregated in the Group budget approved by the Board of Directors, as well as to the projections of the results for the next two years, determined taking into account the three-year plan 2018-2020, which represents the most recent approved business plan, and the expected evolution of the reference sectors.

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 or negative for the majority of the CGUs.

Based on the impairment tests conducted, the Company recognized impairment of investments in associates and joint ventures for a total amount of Euro 5 million.

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 performed

As part of our audit, we have, among others, carried out the following procedures, also with the support of experts:

- analysis of procedures and understanding of the relevant controls implemented by the Company over the impairment test process;
- analysis of the methodologies used by Management in determining value in use and, where applicable, the fair value;
- assessment of the compliance with applicable accounting standards over the procedures implemented by Management for the impairment tests;
- 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 and development of 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.

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Assets of Discontinued Operations

Description of the key audit matter

The Company's financial statements as at December 31, 2018 include assets of discontinued operations - attributable to the total of shares of the subsidiary Mondadori France S.A.S., through which Arnoldo Mondadori Editore S.p.A. operates in the French magazine market - for a total value of Euro 64 million, which represents about 8% of total assets, and a loss from discontinued operation of Euro 194 million, mainly determined by the adjustment to the fair value of these assets.

As part of the repositioning strategy aimed to consolidate its leadership in the book market, during 2018, the Company has put in place a process of negotiation for the sale of Mondadori France S.A.S., such process lead, on February 2019, to the subscription of a put option for the sale of the subsidiary to a third-party operator.

For the purposes of the financial statements, the Directors have deemed the requirements of IFRS 5 for the recognition of Mondadori France S.A.S. as discontinued operations as met, and therefore they have measured these assets at the lower of the carrying amount and its fair value, determined on the basis of the consideration defined in the above described put option, less costs to sell.

We concluded that the above mentioned matter and the related disclosure provided by the Management represent a key audit matter for the Company's financial statements, given the relevance of the transaction, the significance of the involved amounts and the nature and extent of the audit procedures needed to analyze the topic.

Notes 3.25 and 7 of the introductory part of the explanatory notes to the financial statements include, respectively, the valuation criteria for the asset of discontinued operations and a description of the transaction, together with the references adopted for the valuation of the discontinued operations in accordance to IFRS 5. Notes 13 and 29 of the explanatory notes, commenting on financial statements captions report information, respectively, on the details of the assets and on the economic results of discontinued operations.

Audit procedures performed

As part of our audit, we have, among others, carried out the following procedures:

- analysis of the procedures and understanding of the relevant controls implemented by the Company applicable to the above mentioned transaction;
- analysis of the transaction based on the contractual and corporate documentation available in order to verify, among others, the existence of the requirement of IFRS 5 for the qualification of discontinued operations;
- reading and analysis of the agreement in order to identify the relevant elements for the purposes of determining the impacts of the transaction on the Company's financial statements;
- assessment of the appropriateness of the principles and methods used by the Company for determining the impacts of the transaction and for its disclosure, according to the reference accounting standards;
- assessment of the adequacy of the disclosure provided by the Directors in the explanatory notes and of its compliance with the reference accounting standards.

Revenues recognition – advertising services

Description of the key audit matter

The Company's income statement for the year ended December 31, 2018 includes revenues from advertising services of Euro 72 million, equal to approximately 28% 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, with specific reference to their accuracy, 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, linked to the articulated underlying contractual agreements between the Company and the advertising agency.

Note 3.20 of the introductory part of the explanatory notes includes a description of revenue recognition criteria and Note 21 of the explanatory notes, commenting on financial statements captions, reports information on revenues for the year.

Audit procedures performed

As part of our audit, we have, among others, carried out the following procedures:

- analysis of the procedures and understanding of the relevant controls carried out by the Company on advertising revenues recognition, performed with the support of IT specialist;
- assessment of compliance of the recognition criteria adopted by Management for advertising revenues with IFRS 15;
- 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.

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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, 2018, 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 Arnoldo Mondadori Editore S.p.A. as at December 31, 2018 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 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, 2018 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 27, 2019

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

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