

ARNOLDO MONDADORI EDITORE S.p.A.

Share Capital Euro 64,079,168.40

Legal Offices in Milan

Administrative Offices in Segrate (Milan)

**Interim Report on Operations
at 31 March 2014**

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Directors' Report on Operations

- Directors' Report on Operations for the first quarter of 2014

No signs of improvement were registered in the first months of 2014 in the economic situation in Italy and France, the countries of reference for the Mondadori Group.

Specifically, the values of the markets in which the Group operates show a downturn against the same period of last year.

- In Italy:
 - Trade Books posted a decrease both in terms of copies and value (6.8% and 5.3% respectively);
 - Magazines reflected an additional drop in advertising investments (-14.7%) in the January-February period, while both circulation and add-on were down, 12.8% and 19.3%, respectively.
- In France:
 - Circulation in newsstands was down 8.1%;
 - also Advertising decreased (estimated -10%, since official data is not reliable).

Consolidated sales were down 8.3%, amounting to euro 268.3 million. On a like-for-like basis, considering the transfer as of 1 January 2014 of the advertising sales business unit to Mediamond, which was consolidated at equity, the reduction would be equal to 6.5%.

Despite the difficult economic context, all Mondadori activities posted better results than those registered in the same period last year, with the sole exception of books, which are expected to feature a more important editorial programme in the second part of the year.

The activities carried out in the period on products and the results obtained through the implementation of the cost control policy resulted in **a consolidated EBITDA up euro 10.2 million** against the same period of last year (positive for euro 5.6 million in 2014 against euro -4.6 million in 2013), **despite a drop of euro 24.4 million in sales.**

Also net of non-recurring elements, EBITDA grew from euro 0.1 million to euro 5.0 million; this value is also above budget estimates.

The results obtained after the implementation of the "Changing pace" programme, addressing operating costs and, specifically, cost of personnel, industrial, logistic and publishing costs, envisage the possibility of reaching the saving targets indicated in the business plan (euro 100 million at end of 2015). In particular, personnel was reduced by 166 units in the quarter (-4.8%) and is down 356 units against 31 March 2013 (-9.8%).

In the **Book** segment, ebooks continued to grow (+57% against the first quarter of 2013), while hard copy books reflected the particularly negative performance of paperbacks in the large retail channel, also due to the reduced number of promotions and a not particularly strong publishing offering.

As to **Magazines**, both in Italy and France, circulation is considerably above the average for the markets of reference. This is true also for advertising sales in Italy (France is steady), testifying to the effectiveness of the actions implemented on the product portfolio.

In Italy, the combined effect of magazine restyling activities and the launch of *Il mio Papa* and the new *Panorama*, the shutting down of specialised automotive magazines and the transfer of *Ciak* and *PC Professionale*, as well as the re-organisation of the advertising sales activities resulted in a considerable increase in EBITDA.

In France, Closer posted an excellent performance, circulation improved considerably also for *Pleine Vie*, *Top Santé* and *750g*, *Slam* and *Histoire & Jeux* were launched.

As to advertising sales, activities were transferred to Mediamond and important benefits were secured in cost containment. This resulted in a performance for the period above the market average. Advertising sales in Mondadori magazines were down 5.1% in total: -7.4% on paper products, against a -14.7% market average at end of February and +24% for websites against -6.3% for the market at end of February.

In **Digital Innovation** the team was further strengthened with new resources dedicated to CRM and digital marketing services. The acquisition of Anobii was included in the consolidation perimeter and new websites were developed both in Italy and in France, registering sharp increases both in audience and revenues from advertising sales.

In **Retail**, despite the still difficult consumer spending scenario, the network was subject to revision and proprietary stores were involved in a process of re-definition of the format and product offering. The re-organisation process also continued and the Brescia logistics activities have been entirely concentrated in the Verona headquarters.

Here below are the financial highlights as at 31 March 2014:

Net consolidated revenues amounted to euro 268.3 million, down 8.3% against euro 292.7 million of 2013. Net of the effects of the transfer of the advertising sales business unit, advertising sales were down 6.5%.

Consolidated EBITDA, net of non-recurring items, totalled euro 5.0 million against euro 0.1 million in 2013.

Consolidated EBITDA is equal to euro 5.6 million against a negative value recorded in the previous year equal to euro 4.6 million.

Consolidated profit before taxes totalled euro -5.8 million (euro -15.6 million in 2013) with amortisation and depreciation equal to euro 5.5 million (euro 6.0 million in 2013) and financial costs at euro 5.9 million (euro 5.0 million in 2013).

Consolidated net profit was negative for euro 6.4 million against euro -15.3 million in 2013.

The **Group's net financial position** is negative for euro 396.5 million against euro -363.2 million at 31 December 2013, showing a difference that is in any case lower than the amount registered in the same period of 2013. In the period, restructuring activities and investments made in the educational segment had a significant impact.

Financial and non-financial indicators

The table below provides economic data for the period.

It should be noted that, following the transfer of the business unit from Mondadori Pubblicità S.p.A. to Mediamond S.p.A., completed on 1 January 2014, data is not consistent.

In particular, revenues, which are down 8.3%, would be reduced by -6.5% on a like-for-like basis.

Consolidated income statement	-	-	Var. %
(euro/million)	31 March 2014	31 March 2013	
Revenues from sales and services (*)	268.3	292.7	(8.3%)
Cost of personnel (**)	59.3	71.2	(16.7%)
Cost of sales and operating costs (***)	201.7	225.2	(10.4%)
Revenues (costs) from investments valued at equity	(1.7)	(0.9)	88.9%
Adjustments for non-recurring items: (positive)/negative	(0.6)	4.7	
EBITDA net of non-recurring items	5.0	0.1	n.s.
EBITDA	5.6	(4.6)	n.s.
<i>EBITDA incidence on revenues</i>	<i>2.1%</i>	<i>(1.6%)</i>	
Depreciation of properties, plant and machinery	2.3	2.8	(17.9%)
Total amortisation of intangible assets	3.2	3.2	-
EBIT	0.1	(10.6)	n.s.
<i>EBIT incidence on revenues</i>	<i>-</i>	<i>(3.6%)</i>	
Net financial revenues (costs)	(5.9)	(5.0)	18.0%
Revenues (costs) from other investments	-	-	-
Profit before taxes for the period	(5.8)	(15.6)	(62.8%)
Income tax	0.2	(0.6)	n.s.
Third party profit	(0.4)	(0.3)	33.3%
Net result	(6.4)	(15.3)	(58.2%)

(*) Considering the transfer of the business unit from Mondadori Pubblicità S.p.A. to Mediamond S.p.A. revenues dropped by 6.5%.

(**) Considering the transfer of the business unit from Mondadori Pubblicità S.p.A. to Mediamond S.p.A. and net of restructuring costs, cost of personnel decreased by 11%.

(***) This item includes the following sub-items: decrease (increase) in inventory; costs for raw, ancillary, consumption materials and goods; costs for services; other costs (revenues).

The new configuration of the business areas, including Books, Magazines and the additional separation between Magazines Italy, Advertising and Magazines France, Retail, Radio and Corporate and Other business, present in the third quarter 2013, envisages the classification of Direct Marketing, previously included in the Retail segment, under Corporate and Other business.

Therefore, data referring to the first quarter of 2013 was reclassified.

Consolidated revenues, equal to euro 268.3 million, are broken down by business area as follows:

Sales by sector of activity (euro/million)	-	-	
	31 March 2014	31 March 2013	Var. %
Books	56.8	63.2	(10.1%)
Magazines Italy	81.3	88.8	(8.4%)
Magazines France	81.7	83.0	(1.6%)
Advertising services	3.9	29.9	n.s.
Retail	47.2	50.7	(6.9%)
Radio	2.6	2.6	-
Corporate and other business	7.5	9.9	(24.2%)
Total aggregate revenues	281.0	328.1	(14.4%)
Intercompany revenues	(12.7)	(35.4)	n.s.
Total consolidated revenues	268.3	292.7	(8.3%)

Consolidated revenues by geographic area are broken down in the table below.

Sales by geographic area (euro/million)	-	-	
	31 March 2014	31 March 2013	Var. %
Italy	182.1	204.8	(11.1%)
France	77.3	77.9	(0.8%)
Other EU countries	7.6	7.8	(2.6%)
USA	0.2	0.1	100%
Other countries	1.1	2.1	(47.6%)
Total consolidated revenues	268.3	292.7	(8.3%)

Books

The Book area includes data relative to the Trade Book market, comprising Edizioni Mondadori, Giulio Einaudi editore, Edizioni Piemme and Sperling & Kupfer, with all their brands and series, and the Educational Book segment with publications and services.

Market performance

In the first quarter of 2014, the Trade Book market decreased by 6.8% and 5.3%, respectively (Source: Nielsen) both in terms of copies and value against the same period in the previous year.

Mondadori Group kept its market share, confirming its leadership in the market.

Following the removal of the freeze on the adoption of new textbooks, the school textbook market is expected to register an uptrend. For the time being it is not possible to make any projection on the success rate of the adoption of new books by the schools.

Market trend

The table below shows the financial highlights of the Books area for the first quarter of 2014, compared with the values for the same period in 2013.

(euro/million)	31 March 2014	31 March 2013
Revenues from books	55.1	61.8
Other revenues	1.7	1.4
Revenues	56.8	63.2
Operating costs	(55.1)	(59.5)
EBITDA	1.7	3.7
Amortisation and impairment	(0.6)	(0.4)
EBIT	1.1	3.3

Revenues

Below is a detailed analysis of revenues by publisher.

Books (euro/million)	31 March 2014	31 March 2013	Var. %
Edizioni Mondadori	18.2	20.1	(9.5%)
Giulio Einaudi editore	9.8	12.2	(19.7%)
Edizioni Piemme	7.7	7.9	(2.5%)
Sperling & Kupfer	5.6	5.5	1.8%
Trade Books	41.3	45.7	(9.6%)
Mondadori Electa	5.7	6.6	(13.6%)
Mondadori Education	1.4	2.1	(33.3%)
Educational Books	7.1	8.7	(18.4%)
Book distribution	6.8	6.7	1.5%
Other revenues	1.6	2.1	(23.8%)
Total consolidated revenues	56.8	63.2	(10.1%)

- **Trade Books:** the performance in the first quarter reflects the difficulties of some sales channels, specifically, large retail, and of the paperback segment, in addition to a not particularly impressive publishing offering in the period. The ranking of the first 2,500 best selling books for the quarter, representing approximately 42% of the market in terms of copies, sees the Mondadori Group with over one third of the publications, thanks to the positive performance posted both in book stores and at large retail points. The top 10 best seller list for the period includes 4 titles published by Mondadori Group.

Among the most important titles are new books for the quarter and 2013 gift-books: *Doctor Sleep* by Stephen King (Sperling), *La strada verso casa* by Fabio Volo (Mondadori),

Splendore by Margaret Mazzantini (Mondadori), *E l'eco rispose* by Khaled Hosseini (Piemme), *Polvere* by Patricia Cornwell (Mondadori), *Sei per la Sardegna* (Einaudi), *Nuovo dizionario delle cose perdute* by Francesco Guccini (Mondadori) and *English da zero* by John Peter Sloan (Mondadori).

- **Educational Books:** the first quarter of 2014 was characterised by the seasonality of the school textbook segment. Therefore, revenues in the period are not significant. Compared to the previous year, art books and the organisation of exhibitions reflected the lack of a blockbuster title like *Le tre minestre* by Andrea Vitali and of the great success of the Costantino 313 d.C. exhibition, which closed in March 2013. Steve McCurry's photo book and *Mappe*, a children's book, which reached its fifth reprint, proved very successful. In the second part of the year more titles are expected to be published.
- **E-books:** revenues from e-book downloads are constantly rising (+57% on a year on year basis).
- **Distribution and logistics:** increased revenues from third publisher distribution are mainly due to the distribution and logistics services provided to De Agostini publisher as of 1 January 2014.

The performance of the market of reference and the consequent revenue trend resulted in a decreased **EBITDA** against the first quarter of 2013.

It was, however, possible to mitigate the downtrend thanks to the implementation of cost containment policies in different areas, which specifically involved production and logistics. The figures for the first quarter also include the significant impact of the investments made to expand the Mondadori Education catalogue, which increased the number of new titles produced in the period from 166 to 247.

Worth mentioning in the Trade Book area is the launch, made in the first days of May, of the first ten Flipback ® books. These are books that are read vertically and thumbed over with one hand: they represent one of the year's most important novelties.

In the Educational segment the extension of the digital offering is now accompanying the entire production, in line with the requirements set by the Italian Ministry of Education and Research. The extension of the drop point mode programme continues, with the distribution of school textbooks.

Magazines

Mondadori is Italy's leading publisher in the sector by market share and number of magazines and one of the most important in Europe. It has consolidated its presence in the sector over time, covering different segments of activity.

In addition to the publication of weekly and monthly magazines sold at newsstands and by subscription, the Group also focuses on the sector of combined sales and designed websites and portals that enabled it to reach a larger number of Mondadori readers by exploiting the relevant brands.

Through subsidiary Press-Di Distribuzione Stampa and Multimedia, the Group distributes its own magazines and third party magazines at the national level.

Mondadori is also active abroad through its subsidiary Mondadori France, one of the leading publishers of magazines in France, the affiliated company Attica Publications, a leader in the magazines sector in the South-Eastern European markets, and two 50% joint ventures for the publication of magazines in the Russian and Chinese markets.

Lastly, the Group has stipulated licensing agreements with international publishers for the publication of Italian magazines in foreign markets.

Magazines Italy

Market performance

The first quarter of 2014 was characterised by uncertainty and generally shrinking markets. According to Nielsen data at February, the drop in advertising sales showed a downturn against the same period of last year: -4.3% against -16.5% in the first two months of 2013, with advertising sales in magazines registering -14.7% against -21.6% at February 2013. The web was also down from +5% in the first two months of 2013 to -6.3%.

In line with last year's trend, sales of magazines in the newsstand channel were down 12.8% (internal source: Press Di) and adds-on were down 19.3% (internal source: PressDi).

Market trend

The table below shows the financial highlights of the Magazines area for the first quarter of 2014, compared with the values for the same period in 2013.

(euro/million)	31 March 2014	31 March 2013
Revenues from magazines	72.7	80.5
Other revenues	8.6	8.3
Revenues	81.3	88.8
Operating costs	(73.8)	(86.2)
EBITDA	7.5	2.6
Amortisation and impairment	(0.1)	(0.1)
EBIT	7.4	2.5

Revenues

The Magazines Italy Area posted a reduction in revenues equal to 8.4%. The single revenue items are detailed below.

- **Mondadori magazines** reflected the general negative trend and, though showing a performance exceeding market average, they posted a reduction both in terms of revenues from circulation (-5.6% including magazines shut down and transferred) and revenues from gross advertising sales (-7.4% on a like-for-like basis). Taking into account also the performance of websites (+24%), advertising sales for Mondadori brands were down 5.1%.

In the first months of the year actions undertaken to improve the quality of products continued. In January *CasaFacile* was entirely re-styled in terms of content, graphics and target, becoming the new "window on interior design". On 5 March the new magazine, *Il mio Papa*, was launched, the world's first weekly magazine dedicated to Pope Francesco, his words and actions. The launch proved very successful, with approximately 260,000 copies on average sold in March with the first four issues. Data at April confirmed a continuing positive performance.

The restyling of *Panorama* was completed at the end of March. *Panorama* was entirely restyled in terms of publishing mix and graphics, with the addition of "Panorama d'Italia", a tour of 10 Italian cities including 150 local events to establish a dialogue between 300 speakers and three million people and develop a link with made-in-Italy products.

- **Add-on sales:** Despite being up against the excellent performance posted in 2013 by the Beatles music CDs and the Cake Decor collectibles, Mondadori limited the downturn in revenues to 14.4%, thanks to the good performance of the home videos (worth mentioning are the movies and the animation series sold in combination with *TV Sorrisi e Canzoni* at newsstands), music (including the great success of the Biagio Antonacci CD series) and gadgets (in particular, Barbie's clothing items). The reduction in revenue derives also from the Group's decision to concentrate on selected activities, so as to minimize the economic risks and maximize margins.
- **International:** Mondadori International Business closed the first quarter of 2014 with revenues in line with the previous year. The slight decline in royalties linked to the licensing activity was compensated by higher commissions on advertising sales made on behalf of foreign partners on the Italian market (total advertising sales were up 9% in the quarter against the same period in 2013). Among the editions launched in the past year, the excellent performance of the first edition of *Icon* is worth mentioning, distributed since last November in Spain in partnership with the Prisa Group. As to advertising sales, Mondadori International Business increased the number of foreign publishers for whom it sells advertising space.
- **Investments**

In the first quarter of 2014 Attica Publications, leader in the Greek market of magazines and radio stations, benefited from growing advertising sales against 2013 (+5% for magazines and +4% for radio stations).

Mondadori Seec Advertising Co. In the first quarter of 2014 Mondadori Seec Advertising Co. Ltd, publisher of *Grazia* in China, registered revenues up 12% against the same period of 2013 and since April the magazine is published weekly instead of monthly.

Mondadori Independent Media, a joint venture publishing *Grazia* in Russia, posted revenues in the first three months of 2014 in line with the previous year, despite the difficult political situation in the country.
- **Properties:** advertising sales on the websites linked to the main Mondadori magazines were up 24% in the first quarter of 2014 against the same period of 2013, thanks to the excellent performance of www.donnamoderna.com (+23.8%), www.grazia.it (+43.5%) and www.panoramauto.it (+5.2%). Also in

terms of traffic, figures are up, topped by *Donna Moderna* network which, with 14 million single users and nearly 150 million page hits (source: ShinyStat at March), in the first months of 2014 was leading the rankings of women's websites by page hits and was second by single browsers (source: Audiweb view at February).

In the first months of 2014 the effects of the product portfolio rationalisation and aggregation became visible, as well as the effects of the cost containment actions undertaken in the past years and, in particular, in 2013.

No cost item was neglected: industrial costs, publishing and photographic costs, and also the cost of personnel were subject to targeted actions, also structural.

These are the reasons, combined with the positive effects deriving from the restyling and fine-tuning of publishing products, why EBITDA improved (up from euro 2.6 million in the first quarter of 2013 to euro 7.5 million at 31 March 2014) despite dropping revenues.

Also, in the first months of 2014 cost containment has remained a priority, which will continue to be pursued with great determination throughout the year. Moreover, the rationalisation process for the Group's magazines was continued, with the transfer of *PC Professionale* and *Ciak* and the termination of the publication of the specialised automotive magazines published by the joint venture ACI-Mondadori, put in liquidation last February.

In the first quarter of 2014 the www.ilmiopapa.it website was launched concurrently with the publication in March of the new weekly magazine, and the www.casafacile.it, website was launched in January. Activities in the first quarter were also concentrated on the development of Mondadori's first Food portal www.salepepe.it and of the www.graziacasa.it, website, both online since the first weeks of April.

Magazines France

Market performance

In a persistently difficult market scenario, advertising sales dropped 10%, while sales in the newsstand channel were down 8.1% at 31 March 2014 (source: Mondadori France Diffusion).

Market trend

The table below details the financial highlights relative to the two quarters indicated for comparison.

(euro/million)	31 March 2014	31 March 2013
Revenues from magazines	78.7	80.6
Other revenues	3.0	2.4
Revenues	81.7	83.0
Operating costs	(76.5)	(78.5)
EBITDA	5.2	4.5
Amortisation and impairment	(2.8)	(2.9)
EBIT	2.4	1.6

Revenues

The Magazines France Area posted a reduction in revenues equal to 1.6%. Taking discontinued operations into account, including the transfer of *Le Film Français* in December 2103 and an additional issue in 2014, compared to the previous year, of *Télé-Star*, *Télé-Poche* and *Auto-Plus*, revenues would have dropped 2.2%.

Here below is a detailed breakdown of revenues:

- Circulation:** revenues from circulation, representing approximately 73% of total revenues in the period, were steady (-0.1% on a like-for-like basis).
Revenues from the newsstand channel in the first quarter dropped 1.4% on a like-for-like basis, an excellent result compared to the market average. Noteworthy is the sales performance of the weekly *Closer* (+25% in volume also thanks to the scoop unveiling the Hollande-Gayet love affair) and of the monthly magazines *Pleine Vie* (+24%) and *Top Santé* (+25%). Also the recent launch of new magazines, like *750g*, *Slam* and *Histoire & Jeux* posted positive performances.
Revenues from subscriptions were steady (-0.8% on a like-for-like basis), thanks to an increasing number of subscribers compared to 2013 for different magazines, including *Science & Vie Junior*, *Les Cahiers de Science & Vie*, *Pleine Vie*, *Top Santé* and *Grazia*.
- Advertising:** in the difficult scenario characterising the advertising market, sales dropped compared to the previous year (-10.5% on a like-for-like basis), confirming the negative trend of 2013.
- Digital:** In the first quarter of 2014 Mondadori France concentrated efforts in developing digital sales (+41.3% against 2013). The growth refers to

the digital activities regarding properties (+40.6%), but also to the NaturaBuy pure player (+46%). Also, in terms of traffic the number of single users increased considerably, to 7.8 million, in part thanks to the *Closer* scoop. Since January 2014 advertising sales on the websites are insourced and revenues in the first quarter were up 39%, now representing 9% of the total revenues from advertising sales of the Mondadori France Group. Revenues from the sale of digital issues in the first quarter of 2014 were up 80%, thanks specifically to the significant progress of *Auto-Plus* and *Closer*.

Several actions undertaken in the past years have now enabled the Group to obtain significant economies of scale, in particular with reference to general costs, industrial costs and subscription management costs, resulting in an improved **EBITDA** despite dropping revenues.

L'Auto-journal Évasion, *Diapason*, *Modes & Travaux*, *Science & Vie* and *Top Santé* were subject to restyling and were published in their new format last March and April, confirming the Group's continuing focus on improving the quality of its publications.

As to digital activities, *Biba* and *Télé-Star* launched their websites and applications for tablets and smartphones of the main magazines were developed, including *Grazia*, *Closer*, *Top Santé* and *Auto-Plus*.

As to cost containment, the project to pursue new efficiencies was continued. In particular, in the first months of 2014, a voluntary headcount reduction plan was implemented (target 10%-15% reduction in 3 years) as well as the concentration of the entire workforce in a single building (target: completion by December 2014).

Advertising services

Consolidated data regarding advertising services is not consistent, following the transfer of advertising services as of 1 January 2014 from Mondadori Pubblicità S.p.A., a subsidiary of Arnoldo Mondadori Editore S.p.A., to Mediamond S.p.A., a joint venture established in 2009 and controlled by Mondadori Pubblicità S.p.A. and Publitalia '80 S.p.A.

Mondadori views this transaction as part of a broader plan targeting business model innovation, contributing to further consolidating the Group's leadership thanks to a new approach that is supported by significant synergies and offerings more suitable to the market.

Market performance

Advertising sales at February were down -4.3% against 2013, confirming the difficulties of past years.

The web also posted a negative performance (-6.3%), while TV and Radio registered 0.2% and +7.5%, respectively, reversing the trend compared to the same period of last year (-16.1% for the TV channel and -17.3% for the Radio channel).

Magazines dropped again, but at a slower pace: from -21.6% to -14.7%.

Advertising market	First two months of 2014	First two months of 2013	Var. %
(euro/million)			
Television	580	579	0.2%
Magazines	54	64	(14.7%)
Dailies	112	134	(16.3%)
Radio	49	46	7.5%
Internet	64	68	(6.3%)
Other	81	92	n.s.
Total advertising market	940	983	(4.3%)

Source: Nielsen Media Research

Market trend

The table below details the financial highlights relative to the two quarters indicated for comparison.

(euro/million)	31 March 2014	31 March 2013
Revenues from advertising	3.5	29.4
Other revenues	0.4	0.5
Revenues	3.9	29.9
Operating costs	(4.5)	(32.7)
EBITDA	(0.6)	(2.8)
Amortisation and impairment	-	-
EBIT	(0.6)	(2.8)

Revenues

Revenues from the activities left with Mondadori Pubblicità amounted to euro 3.9 million. On a like-for-like basis, net of the activities transferred to Mediamond, revenues would be slightly up.

EBITDA, comprising Mediamond pro-quota result, was sharply up against the first quarter of 2013, reflecting the positive effects of the transaction above mentioned.

In particular, first quarter revenues generated in 2014 by Mediamond, a company consolidated at equity, were up 12.3% against advertising sales generated by Mondadori Pubblicità in the first quarter of 2013.

The Magazines and Radio segment (business unit transferred by Mondadori Pubblicità) posted increased revenues by 8.5%, -7.4% for Magazines and more than doubled for Radio, while web advertising sales grew by 24%.

The Radio performance also reflected the different scenario compared to the previous year, as a result of the acquisition of new radio stations, including Radio Italia since April 2013, Radio Norba and Subasio since end of 2013 and Radio Sportiva since the beginning of 2014.

As to **Arnoldo Mondadori Editore brands** (magazines and web), taking into account a few differences resulting from the shutting down of *Casaviva*, *Panorama Travel*, *Men's Health* and *Ville&Giardini* and the transfer to third publishers of *Ciak* and *PC Professionale*, the first quarter of 2014 closed with a 5.1% reduction compared to 2013.

In particular:

- advertising sales in the magazines closed the first quarter of 2014 with a reduction equal to 7.4% on a like-for-like basis, while the market of reference posted a -14.7% average reduction (source: Nielsen at February);
- web advertising sales were up 24% against an overall market drop of 6.3% (source: Nielsen at February). Worth noting is the positive performance of www.donnamoderna.it (+23.8%) and of www.grazia.it (+43.5%).

According to the timing established, in the first quarter of 2014 Mediamond continued the process of integration of the activities and structures relating to advertising sales. The positive results in the period enabled the Group to post a performance for the Mondadori brands exceeding the market average, which is expected to show a 10.2% downturn on Magazines and a 0.4% growth on the Radio (source: Nielsen) also for the entire year.

Retail

The Mondadori Group carries out retail activities through a national network of sale points, which as at 31 March 2014, includes 19 proprietary stores, 315 franchised stores, 186 newsstands, 8 multicenters and 21 book clubs. E-commerce activities are carried out through the InMondadori website.

Market performance

The market of reference for the Retail Area is the book market, which, at the beginning of the year showed reduction rates of approximately 3%, thus improving on the trend posted in 2013, but then came to a brusque halt in March with a reduction of more than 9%.

This decrease in March can certainly be attributed to the fact that the Easter holidays came later than they did last year.

Overall, the quarter closed at -5.3%, more or less in line with the trend of the previous year.

The best performing channel still is that of chains, constantly posting positive performances with increasing market share, to the detriment of independent book stores and large retailers, whose sales dropped more than the market average.

The second market of reference - Consumer Electronics - posted different performances based on the relevant level of technological development of the various categories. In particular: Digital cameras and notebooks performed negatively, while other categories registered a general downturn. The only exception relates to e-readers, which posted a double-digit growth, though still limited in absolute value.

Market trend

The table below details the main financial highlights of the first quarter of 2014 compared with data referring to the same period of 2013.

(euro/million)	31 March 2014	31 March 2013
Revenues	46.2	49.3
Other revenues	1.0	1.4
Revenues	47.2	50.7
Operating costs	(50.9)	(54.7)
EBITDA	(3.7)	(4.0)
Amortisation and impairment	(1.2)	(1.4)
EBIT	(4.9)	(5.4)

Revenues

In the first quarter of 2014 the Company posted revenues for euro 47.2million, down 6.9% against the same period of 2013.

Revenues broken down by categories reveal that books accounted for the lion's share, 77% of the total, increasing even more in this quarter as a result of the performance of books in general exceeded the market average and, also, of consumer electronics, which suffered more than the market average.

The market share of the Book Retail Area increased from 13.7% in 2013 to 14.3% in 2014, thanks also to the renewed communication and promotion activities, which are better detailed below.

The negative trend of book clubs, which has continued over past few years, was extended with revenues dropping by nearly 20%. Lastly, also sales through the *InMondadori* website were also down 4.7%.

As to EBITDA, the franchising channel posted a positive margin compared to last year and the proprietary store channel (bookshops and multicenters) considerably recovered margins, thanks also to the shutting down of a few proprietary stores which were registering losses. In the book club channel, the effects of the rationalisation of the store network and the recruitment activities enabled the Group to target margins in line with the previous year. The e-commerce channel also benefited from the cost containment policy implemented in the first quarter of 2014.

Several actions were implemented to face the general recessive market scenario, targeting the recovery of market share and improved profitability. In particular:

- progressive revision of the network and format: during the year the shutting down or disposal of some critical units are scheduled (both proprietary and franchised), but, above all, the rationalisation of departments in proprietary stores is planned as well as a restyling of the format and the analysis of possible changes to apply to the offering (in particular for consumer electronics);

- continuation of promotions accompanied by an increased activity of communication and advertising, aimed at supporting sales and gaining market share, particularly for books;
- continuation of the rationalisation process for Book Club recruitment activities (-13%);
- strict cost control policy for the stores and re-negotiation of the lease contracts;
- continuation of the re-organisation plan: implementation of the personnel redundancy procedure (20% against 10% in 2013) in the Milan headquarters and in Rimini and termination of the activities performed directly by the logistics company for the book club and online channels, transferred to the Parent Company;
- store profitability improvement plans through a process of benchmarking designed to seize opportunities to increase revenues, margins and costs. A similar project was devised to optimise profitability in relations with suppliers and franchisees.

Radio

The Mondadori Group operates in the national radio market through *R 101*, targeting adult listeners, with a view to completing the already developed array of publishing products and services.

Market performance

After a deep fall in 2013, revenues from advertising sales in Italy were still weak at February (source: Nielsen), down 4.3% with all media channels negative except for Radio, up 7.5%.

Market trend

Here below are the main financial highlights for the quarters considered in the comparison:

(euro/million)	31 March 2014	31 March 2013
	-	-
Revenues	2.6	2.6
Other revenues	-	-
Revenues	2.6	2.6
Operating costs	(3.8)	(4.2)
EBITDA	(1.2)	(1.6)
Amortisation and impairment	(0.3)	(0.4)
EBIT	(1.5)	(2.0)

Revenues

In this context *R 101* revenues from advertising sales were in line with those registered in the same period of last year.

Thanks to a series of revision and optimisation actions of the structures and a different timing for the promotion and communication activities, **EBITDA**, though still negative, showed signs of improvement.

At end of March, confirming the leading role played by the radio station within the Group, the restyled *R 101* was launched, the result of the combined efforts of Mondadori and Mario Volanti and Marco Pontini, founder and President and Marketing and Sales Director, respectively, of Radio Italia, to whom Mondadori entrusted the broadcasting and marketing management.

The launch on 25 March was characterised by a totally renewed format, a new logo and a new payoff - "the Music" - and a series of new projects targeting listeners.

Promotions to support the new format were very strong and included partnerships with TV programmes and enhanced interconnections with Italian and international music, thanks also to the sponsorship of tours of artists and music bands of international stature.

Corporate and other business

Other business

Other business includes the results from the digital area and the equity investment in Società Europea di Edizione S.p.A., publisher of the *Il Giornale* daily newspaper.

Digital Innovation: During 2013 the Digital Innovation Area was set up with the objective of increasing presence in the digital market, organising innovation processes and identifying new opportunities for the development of the business. The new structure is committed to developing Marketing Service and e-commerce activities as well as supporting the activities carried out by Cemit Interactive Media S.p.A.

In the first months of 2014, according to plan, the different teams were reinforced through the acquisition of new resources dedicated to CRM, the distribution of the Group's Loyalty Card, including the attached loyalty programmes, marketing services and the technological developments underlying the new projects to directly support the existing digital activities within the books, magazines and retail segments.

In the Digital Innovation Area, Cemit, the service company for offline and online relational marketing, again registered weak revenues from advertising sales in the first quarter of 2014 (-4.3%, source: Nielsen at February). In particular, the direct mail segment, which is the market of reference for numerous activities performed by Cemit, posted revenues down by 9.6% against the previous year.

In this context, the Company posted overall revenues in the quarter of reference of euro 3.1 million from both traditional activities, including production, printing of promotional materials, custom materials and fulfilments, and marketing services and digital solutions.

In March the Company launched a new organisational structure, which introduced new resources oriented to further enhancing the offering system through the analysis and development of digital solutions, which will be ready to be marketed shortly.

Società Europea di Edizioni: the publisher of the *Il Giornale* daily closed the first quarter of 2014 with a negative performance amounting to euro 0.5 million for the part relative to Mondadori, in line with the amount registered in the same period of 2013.

Corporate

The Corporate segment includes – besides organisations managing the Group's financial assets – Parent Company functions providing services to Group companies and the different business areas.

These services are mainly associated with activities regarding ITC, administration, management control and planning, treasury and finance, human resources, legal and corporate affairs and public relations.

Revenues are mainly referred to amounts billed to subsidiaries and associated companies as well as other entities using the services described above.

Financial position

The Group's financial position at 31 March 2014 showed a reduction against the end of 2013 which was more limited than the one registered in the first quarter of 2013 and also reflected the impact of the restructuring actions implemented in the previous year as well as the significant investments made in the educational segment.

The table below details net debt.

Net financial position (euro/million)	31 March 2014	31 December 2013	31 March 2013
Cash and cash equivalents	19.4	65.7	109.7
Financial assets at fair value	-	-	-
Held-for-sale financial assets	-	-	0.8
Assets and liabilities resulting from derivative instruments	(0.5)	0.2	(12.8)
Other financial liabilities:	(40.4)	0.5	12.0
Loans (short and medium/long term)	(375.0)	(429.6)	(420.3)
Net financial position	(396.5)	(363.2)	(310.6)

Interest and exchange rate trends

The global economy continued to grow even if with some risk items linked to contingent factors, including the Ukrainian crisis and the Chinese private sector debt.

In the Euro area, premiums were reduced as a result of the bond risks resulting, on the one hand, from the process of public finance stabilisation and, on the other, the strong outflow of capital from emerging countries.

The inflation rate at a record low (-0.5% in March in the Euro area) led the ECB to approve the eventual use of non-conventional tools in order to counter deflation risk.

In this context, the Euribor was slightly above the 2013 levels, with an average value for the first quarter of 2014 equal to 0.295%; the average cost of Mondadori Group debt in the same period was equal to 4.22%.

The average euro/dollar exchange rate for 2014 was 1.3704, with a high of 1.349 at the end of January and showing a progressive weakening in the quarter which resulted in the US dollar plunging to a record low of 1.393 around mid-March.

The Sterling hovered around the average value of 0.828, but was highly volatile.

The overall credit lines available to the Group at 31 March 2014 amounted to euro 798.4 million, of which euro 570.0 committed.

The Group's short-term loans, totalling euro 228.8 million, used for euro 57.9 million at 31 March 2014, included overdraft credit lines on current accounts, advances subject to collection and "hot money" flows.

The main medium-long term loans at 31 March 2014 are:

- euro 270.0 million for a float rate bank loan, granted by a pool of leading banks with international standing; the loan specifically includes a term loan amortizing for euro 180.0 million with equal repayment instalments coming due in December 2016 and December 2017, and a Revolving Facility for euro 90.0 million with expiry in December 2018, used for euro 5.0 million at 31 March; some Interest Rate Swap contracts have been attached to the first instalment of the term loan for the purpose of transforming the float rate into fixed;
- a float rate bullet loan for euro 200.0 million, granted by Intesa Sanpaolo, with expiry in December 2016, broken down into a term loan for euro 50.0 million and a revolving facility for euro 150.0 million, used for a total of euro 75.0 million at 31 March;
- a float rate bullet loan for euro 100.0 million, granted by Mediobanca, with expiry in December 2017, including a term loan for euro 50.0 million and a revolving facility of equal amount, used for euro 20.0 million at 31 March; an Interest Rate Swap contract was attached to the term loan for the purpose of transforming the float rate into fixed.

Personnel

Human resources

A headcount of employees with a fixed-term or permanent labour contract employed by the Group companies at 31 March 2014 totalled 3,270 people, and the cost of personnel amounted to euro 59.3 million.

Personnel, broken down on a like-for-like basis, considering the business unit transfer transaction regarding the integration of advertising sales in Publitalia, implying the transfer of 45 Mediamond employees, was reduced by 8.7% (equal to 311 units); the cost of personnel, net of restructuring effects, was down 11% (equal to euro 7.7 million).

The reduction in the cost of personnel was the result of various re-organisation and restructuring actions started in 2012 and 2013, whose effects are becoming progressively visible.

First of all, the early retirement scheme for graphic designers, launched mid-2012, resulted, so far, in a total of approximately 120 employees leaving Arnoldo Mondadori Editore, Press-Di Distribuzione Stampa e Multimedia and Mondadori Pubblicità. The latter company was also a party to the transaction described above.

Arnoldo Mondadori Editore also outsourced a portion of its IT activities to IBM, transferring the corresponding business unit with 24 employees.

In addition to this, there is the normal and ongoing work for the revision of the structures and processes, begun in all Group companies, which is contributing to significantly reducing fixed costs.

Also Mondadori France also reduced its headcount by approximately 80 units at 31 March 2013 (-8%).

Lastly, two transactions should be noted which, fine-tuned in the month of March, will produce effects in the coming months: the transfer of *Ciak* and *PC Professionale* magazines to Visibilia and the shutting down of the Mondadori Direct logistics centre in Brescia, with the consequent aggregation of the activities in Arnoldo Mondadori Editore headquarters in Verona.

The following table provides a detailed breakdown of Group personnel at 31 March 2014:

Personnel	31 March 2014	31 December 2013	31 March 2013
Arnoldo Mondadori Editore SpA			
- Managers, journalists, office staff	995	1,051	1,110
- Blue collar workers	82	82	85
	1,077	1,133	1,195
Italian subsidiaries:			
- Managers, journalists, office staff	1,225	1,308	1,376
- Blue collar workers	48	52	53
	1,273	1,360	1,429
Foreign subsidiaries:			
- Managers, journalists, office staff	920	943	1,002
- Blue collar workers	-	-	-
	920	943	1,002
Total	3,270	3,436	3,626

Capital expenditures

Capital expenditures in the first quarter of 2014 amounted to a total of euro 0.8 million and mainly referred to furniture, furnishings and office equipment.

Other information

The interim report at 31 March 2014 was drafted pursuant to the IAS/IFRS accounting principles and the valuation criteria adopted are in line with those used at 31 December 2013.

The document provides the information and disclosures required by Article 154 ter, par. 5 of Italian Legislative Decree 58/1998.

For the purpose of comparing the accounting data contained in this document with those supplied in previous reports and providing consistent disclosures to the market, this interim report regarding the first quarter of 2014 is drawn up according to the same principles and criteria as those utilised for the previous quarterly reports.

Therefore, International accounting principle No. 34, regarding interim financial reporting, was not applied.

Adhesion to the legislative simplification process adopted by Consob resolution No. 18079 of January 20, 2012. Disclosure pursuant to Article 70, par. 8, and Article 71, par. 1-bis of Consob Regulation No. 11971/99 and subsequent amendments.

On and with effect from 13 November 2012, the Board of Directors of Arnoldo Mondadori Editore S.p.A., pursuant to Article 3 of Consob Resolution No. 18079 of January 20, 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-offs and capital increases through contribution of assets in nature, acquisitions and transfers.

Foreseeable evolution

In a market scenario which does not yet show signs of improvement, the positive results achieved in the first quarter after the implementation of the actions targeting products, re-organisation and cost containment make it possible to estimate EBITDA in 2014 above the 2012 level, confirming the indications already provided in the annual report at 31 December 2013.

For the Board of Directors
The Chairman
Marina Berlusconi

The Reporting Officer - Carlo Maria Vismara – hereby declares, pursuant to Art. 154 bis, par. 2, of the Finance Consolidation Act, that the accounting documentation contained in this Interim Report corresponds to the Company's accounting entries, books and results.

The Reporting Officer
Carlo Maria Vismara

Consolidated balance sheet

*Consolidated income statement and consolidated
comprehensive income statement*

Consolidated balance sheet

Assets (euro/000)	31 March 2014	31 December 2013
Intangible assets	619,103	617,464
Property investments	3,155	3,181
Land and buildings	8,384	8,542
Plant and machinery	10,845	11,729
Other tangible assets	19,486	20,489
Property, plant and equipment	38,715	40,760
Investments booked at equity	37,486	38,187
Other investments	442	442
Total investments	37,928	38,629
Non-current financial assets	2,487	2,717
Advanced tax assets	52,676	58,444
Other non-current assets	29,069	22,250
Total non-current assets	783,133	783,445
Tax receivables	67,200	68,478
Other current assets	99,379	89,289
Inventory	122,635	124,009
Trade receivables	265,987	312,366
Stocks and other current financial assets	20,501	13,858
Cash and cash equivalents	19,366	65,683
Total current assets	595,068	673,683
Assets held for sale or transferred	-	-
Total assets	1,378,201	1,457,128

Consolidated balance sheet

Liabilities (euro/000)	31 March 2014	31 December 2013
Shareholders' equity	64,079	64,079
Share premium reserve	170,625	170,625
Treasury shares	(73,497)	(73,497)
Other reserves and results carried forward	66,040	250,943
Profit (loss) for the period	(6,434)	(185,415)
Group's Shareholders' equity	220,813	226,735
Minority shareholders' equity and reserves	32,398	31,954
Total Shareholders' equity	253,211	258,689
Provisions	73,304	83,928
Post-employment benefits	46,771	50,409
Non-current financial liabilities	374,251	398,836
Deferred tax liabilities	77,441	76,950
Other non-current liabilities	-	-
Total non-current liabilities	571,767	610,123
Income tax payables	1,598	293
Other current liabilities	214,655	220,093
Trade payables	272,395	321,307
Payables due to banks and other financial liabilities	64,575	46,623
Total current liabilities	553,223	588,316
Liabilities held for sale or transferred	-	-
Total liabilities	1,378,201	1,457,128

Consolidated income statement

(euro/000)	31 March 2014	31 March 2013
Revenues from sales and services	268,338	292,717
Decrease (increase) of inventory	(585)	2,543
Cost of raw, ancillary, consumption materials and goods	45,538	40,728
Cost of services	160,566	176,284
Cost of personnel	59,285	71,182
Other (income) cost	(3,827)	5,702
Revenues (costs) from investments valued at equity	(1,722)	(879)
EBITDA	5,639	(4,601)
Depreciation and impairment loss on property, plant and equipment	2,353	2,795
Amortisation and impairment loss on intangible assets	3,206	3,212
Impairment loss on investments valued at equity and other enterprises	-	-
EBIT	80	(10,608)
Financial revenues (costs)	(5,933)	(5,027)
Revenues (costs) from other investments	-	-
Profit before taxes for the period	(5,853)	(15,635)
Income tax	137	(564)
Profit from operations	(5,990)	(15,071)
Income (cost) from assets/liabilities held for sale or transferred	-	-
Net result	(5,990)	(15,071)
Attributable to:		
- Minority shareholders	444	259
- Parent Company's shareholders	(6,434)	(15,330)
Net earnings per share (in euro units)	(0.028)	(0.066)
Diluted net earnings per share (in euro units)	(0.028)	(0.066)

Consolidated comprehensive income statement

(euro/000)	31 March 2014	31 March 2013
Net result	(5,990)	(15,071)
<i>Items reclassifiable to income statement</i>		
Other profit (loss) from companies valued at equity	(85)	53
Effective part of profit (loss) on cash flow hedge instruments (cash flow hedge)	(759)	1,866
Income (loss) deriving from held-for-sale assets(fair value)	-	453
Tax impact on other income (loss) reclassifiable to income statement	218	(157)
<i>Items reclassifiable to income statement</i>		
Profit (loss) on cash flow hedge instruments	-	-
Income (loss) deriving from held-for-sale assets(fair value)	-	-
Tax impact on other income (loss) reclassifiable to income statement	-	-
<i>Items not reclassifiable to income statement</i>		
Actuarial income/ (losses)	56	(175)
Tax impact on other income (loss) reclassifiable to income statement	(14)	51
Total other profit (loss) net of tax effect	(584)	2.091
Comprehensive income for the period	(6,574)	(12,980)
Attributable to:		
- Parent Company's shareholders	(7,018)	(13,239)
- Minority shareholders	444	259

For the Board of Directors
 The Chairman
 Marina Berlusconi