



**CORPORATE GOVERNANCE REPORT AND  
SHAREHOLDERS' STRUCTURE  
in 2010**



**21 March 2011**

**[www.mondadori.it](http://www.mondadori.it)**

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## **Arnoldo Mondadori Editore SpA**

**Via Bianca di Savoia 12**

**Share capital 67,451,756.32**

**Registered as a company in Milan 07012130584**

**www.mondadori.it**

# **Corporate Governance Report and Shareholders' Structure in 2010**

### ***INTRODUCTION***

This report, pursuant to art. 123 *bis*, paras. 1 and 2, of Legislative Decree n. 58/1998 and art. 89 *bis* of Consob regulation 11971/1999 and subsequent modifications (hereinafter also "Issuers Regulations") contains information, for 2010, regarding:

- the system of corporate governance adopted by Arnoldo Mondadori Editore SpA (hereinafter also "the Company") and its compliance with the Code of Conduct for listed companies laid out by Borsa Italiana SpA (hereinafter "the Code");
- the main characteristics of the existing system for the management of risk and internal control with regard to financial disclosures;
- Company's shareholders' structure in compliance with the provisions set out in the aforementioned art. 123 *bis* of Italian Legislative Decree n. 58/1998.

This report consists of four sections: a description of the corporate governance system adopted by the company and its compliance with the Code; information regarding risk management and internal control in relation to financial disclosures; information about the Company's shareholders' structure and summary tables.

## **SECTION I DESCRIPTION OF CORPORATE GOVERNANCE SYSTEM OF AND INFORMATION REGARDING COMPLIANCE WITH THE CODE OF CONDUCT**

### ***FOREWORD***

Arnoldo Mondadori Editore SpA recognises, on principle, the model outlined in the Code of Conduct for listed companies for the definition of organisational structures and the operational practice of Corporate Governance.

Many features of corporate organisational structures were already essentially in line with the Code before its publication, while other features have been gradually introduced consistently with the specific characteristics of Mondadori existing structures.

The following is a description of the corporate governance system adopted by the Company, including indications about measures undertaken or planned to comply with the provisions set out in the Code. It should first and foremost be noted that the Company has adopted a traditional model of administration and control.

This report was drafted making reference to the version of the Code of Conduct published in March 2006, which is available for public consultation on the web site of Borsa Italiana ([www.borsaitaliana.it](http://www.borsaitaliana.it)).

### **COMPOSITION AND ROLE OF THE BOARD OF DIRECTORS**

The board of directors was appointed by the Shareholders' Meeting of 29 April 2009 – which determined that the board would comprise a total of eleven directors – to remain in office until the Shareholders' Meeting called for the approval of the Company's financial statements as at 31 December 2011.

During the year, and specifically, on 11 November, prior to the increase in the number of directors, as stated in the articles of association, the Shareholders nominated three new directors: two non-executive directors, classified as independent, and an executive director. The increase in the number of independent directors is consistent with the gradual reinforcement of the role and function of independent directors as defined by the specific Consob ruling regarding transactions with related parties. This operation has allowed further consolidation and additional support for the functions and activities of the internal committees set up by the board of directors as part of the Company's corporate governance system.

The current board of directors comprises fourteen members, broken down as follows:

4 executive directors:

**Marina Berlusconi**, Chairman.

The chairman is qualified as an executive director in that, although not having any specific managerial responsibilities, is engaged, along with the chief executive officer, in the definition of the Company's strategies to be submitted to the board for approval.

**Maurizio Costa**, Deputy chairman and chief executive officer.

**Carlo Maria Vismara**, Chief financial officer.

**Roberto Briglia**, Group chief editor.

10 non-executive directors, without specific managerial roles or responsibilities within the Company (or in Group companies with strategic significance):

**Piersilvio Berlusconi**

**Pasquale Cannatelli**

**Bruno Ermolli**

**Martina Mondadori**

**Roberto Poli**

**Angelo Renoldi**

**Mario Resca**

**Carlo Sangalli**

**Marco Spadacini**

**Umberto Veronesi**

Information on the personal and professional profiles of each board member is available on the Company's web site [www.mondadori.it](http://www.mondadori.it) - Governance section.

## **APPOINTMENT PROCEDURE**

Below are the regulations, as set out in Art 17 of the Articles of Association, regarding the procedures for the appointment of directors by means of the "voting list". In particular, it should be noted that:

- during 2010, by Shareholders' resolution of 11 November, Art. 17 of the Articles of Association was modified in line with the new provisions of Italian Legislative Decree No. 27/2010 implementing the EU Directive 2007/36 on the exercise of specific rights of shareholders in listed companies. In particular they have been adapted to the new rules concerning the terms for the deposit with the Company and are made available to the public (25 and 21 days prior to the Shareholders' Meeting, and 15 days earlier than before) with the lists of candidates for the Board of Directors; at the same time, the term was modified in relation to the dates to file lists with the company and determine the ownership of the minimum stake required for the submission of such lists;
- on 11 November 2010, the extraordinary Shareholders' Meeting also resolved, considering that the statutory provision concerning the minimum number of board



members is not adequate to the needs of the composition and functioning of the Board and its committees, pursuant to the provision established in the relevant corporate governance, to increase from three to seven the statutory minimum number of members;

- regarding the stake required for the purpose of submitting the lists, the Articles of Association, as specified below, refers to the percentage that, according to the Issuers Regulation, is annually established by Consob on the basis of the average market capitalisation of companies in the final quarter of each year. As an indication, it should be noted that at present, due to Consob Resolution No. 17633 of 26 January 2011, the stake required to submit lists that applies to Arnoldo Mondadori Editore is set at 2.5% of the share capital. The same stake of 2.5% was applicable for the appointment of the board of directors approved by the shareholders on 29 April 2009;
- it should be noted that the Company is not subject to further rules concerning the composition of the board other than those provided by Italian Legislative Decree No. 58/1998 and referred to in art. 17 of the Articles of Association here below.

*Article 17 of the Articles of Association*

*1. The company is governed by a Board of Directors composed of from seven to fifteen members, who must be in possession of the requisites laid down in the primary and secondary legislation in force from time to time. They may be re-elected.*

*2. Before proceeding to appoint the Board, the Shareholders' Meeting decides the number of its members and their term of office in compliance with the statutory time limits.*

*3. The Board of Directors is elected by the Shareholders' Meeting from lists containing the names of not more than fifteen candidates, each matched to a serial number.*

*Candidates may not appear in more than one list, on pain of not being electable.*

*Entitled to submit lists are those shareholders with voting rights that, alone or with other shareholders, represent at least the percentage of share capital, subscribed at the time the lists are submitted, laid down and published by Consob under the Regulations adopted by virtue of Resolution 11971 of 14 May 1999, as subsequently amended and supplemented (hereafter also referred to as the "Issuer Regulations").*

*Ownership of the percentage of share capital is determined by referring to the shares that are recorded in the name of shareholders on the day that the list is filed with the Company, with reference to the share capital subscribed on that same date.*

*The pertinent attestation or certification may be communicated or produced even after the list is filed provided that it reaches the Company by the deadline provided for publication of the list by the Company.*

*The percentage shareholding required in order to present lists of candidates for election as members of the Board of Directors is specified in the notice of the Shareholders' Meeting that is called to resolve upon the appointment of the Board.*

*Shareholders may neither present nor vote for more than one list, even through a third party or a trust company. Shareholders belonging to the same group - this being construed as the parent company, the subsidiaries and the companies under joint control - and shareholders that are parties to a shareholders' agreement in accordance with Article 122 of Italian Legislative Decree 58/1998 regarding the issuer's shares may neither present nor vote for more than one list, even through a third party or a trust company.*

*Each list consisting of not more than seven candidates must contain the names of at least one candidate that meets the requirements for independent directors of listed companies laid down in Italian Legislative Decree 58/1998 (hereafter also referred to as "Independent Directors in accordance with Italian Legislative Decree 58/1998" or "Independent Director in accordance with Italian Legislative Decree 58/1998").*

*Each list consisting of more than seven candidates must contain the names of at least two candidates that meet the requirements for Independent Directors in accordance with Italian Legislative Decree 58/1998.*

*Lists are deposited at the Company by the twenty-fifth day prior to the date of the Meeting called by first or only call in order to resolve upon the appointment of the members of the Board of Directors. They are made available to the public at the registered office, on the website and through other means provided for by the applicable regulatory provisions at least twenty-one days prior to the date of the Meeting.*

*The lists contain:*

- a) information regarding the identity of the shareholders presenting the lists, specifying the total percentage of equity they possess and an attestation or certification showing their title to their holding;*
- (b) a declaration from the shareholders presenting the lists other than those that possess, even jointly, a controlling shareholding or a relative majority shareholding, stating the absence or the presence of any relations with the latter, as required in Article 144 quinquies, paragraph 1, of the Issuer Regulations;*
- (c) full information regarding the personal and professional characteristics of the candidates and declarations from the candidates themselves to the effect that they are in possession of the statutory requirements, that they agree to their candidature; they should also state whether they satisfy the independence requirements laid down in Article 148, paragraph 3, of Italian Legislative Decree 58/1998.*

*Lists presented that do not comply with the above provisions will not be voted.*

*Before opening the voting, the Chairman of the Shareholders' Meeting reports any declarations that have been made in accordance with paragraph (b) above and asks the participants attending the Meeting that have not deposited or joined in the filing of lists to state any relations as defined above.*

*If a person that is related to one or more major shareholders has voted for a minority list, the existence of such a relationship is only relevant if the vote was final in the election of a Director.*

*Lists that have not obtained a percentage of votes corresponding to at least half of the percentage required for their presentation are not taken into account for the purposes of the allocation of votes to the Directors to be elected.*

*At the end of voting, the votes obtained by the lists are divided by whole progressive numbers from one to the number of Directors to be elected. The quotients thus obtained are attributed to the candidates in each list, according to the ranking set out therein. Then the quotients allocated to the candidates in the various lists are arranged in a single diminishing ranking. Those who have obtained the highest quotients are elected until the number of Directors established by the Shareholders' Meeting has been reached; nevertheless, the candidate in the first place in the list that has obtained the second highest number of votes must in any event be elected as a Director, provided he is not related in any way, even indirectly, to the shareholders that presented the list that obtained the highest number of votes. Therefore, if this candidate has not reached the quotient necessary for election, the candidate that obtained the lowest quotient from the list that obtained the highest number of votes will not be elected, and the Board will be completed by the appointment of the first-placed candidate of the list that obtained the second highest number of votes.*

*The candidate in the first place in the list that obtains the highest number of votes has the position of Chairman of the Board of Directors.*

*If there is more than one candidate with the same quotient when the number of Directors is to be completed, the position will be given to the candidate in the list from which no Director has been elected, or from which the lowest number of Directors has been elected. If no Directors have been elected from any of the lists, or if the same number of Directors have been elected from the lists, the candidate that has obtained the highest number of votes among the lists will be elected. In the event in which the votes for the lists are even, with the quotients also even as specified above, the Shareholders' Meeting will vote again, electing the candidate that obtains a simple majority.*

*After the above processes, should there be a potential Board of Directors composed respectively of up to seven or more than seven members, and should, respectively, at least one or two Directors not have been elected that possess the requirements for independent directors of listed companies as set out in Italian Legislative Decree 58/1998, the following procedure will be adopted:*

- (a) for a Board of Directors composed of up to seven members, the candidate that would have been the last elected on the basis of the progressive quotient system, taken from the list that obtains the highest number of votes, is replaced by the candidate that satisfies the above requirements with the next lowest quotient from the same list;*



*(b) for a Board of Directors composed of more than seven members, the two candidates that would have been the last elected on the basis of the progressive quotient system, taken from the list that obtains the highest number of votes, are replaced by the first two candidates that satisfy the above requirements with the next lowest quotients from the same list;*

*(c) for a Board of Directors composed of more than seven members with only one person possessing said requirements, the procedure to adopt for the election of the second candidate is that set out in section (a) above.*

*4. If only one list is presented, the Shareholders' Meeting expresses its vote on the list and, if it obtains the majority required in accordance with Article 2368 ff. of the Italian Civil Code, the candidates progressively numbered in the list are elected until the number of Directors set by the Shareholders' Meeting is reached.*

*The candidate in the first place in the list has the position of Chairman of the Board of Directors.*

*After the above process, should there be a potential Board of Directors composed respectively of up to seven or more than seven members, and should, respectively, at least one or two Directors not have been elected that possess the requirements for independent directors of listed companies as laid down in Italian Legislative Decree 58/1998, the candidate or two candidates that would have been the last elected on the basis of the progressive order in the list, taken from the only list presented, is or are, respectively, replaced by the candidate or first two candidates that satisfy the said requirements in the next lowest place or places.*

*5. If there are no lists, or if the number of candidates elected by means of the list mechanism is lower than the number of Directors set by the Shareholders' Meeting, the Board of Directors is, respectively, either appointed or completed by the Shareholders' Meeting by the statutory majorities.*

*6. If one or more Directors leave office for any reason, those still serving replace them by co-option in accordance with and to the effects of Article 2386 of the Italian Civil Code, it remains the need to comply with the minimum number of Independent Directors in accordance with Italian Legislative Decree 58/1998. When the Shareholders' Meeting appoints Directors to replace others that have left office, even after they have been co-opted, it does so by statutory majorities, observing the obligation to comply with the minimum number of Independent Directors as laid down in Italian Legislative Decree 58/1998.*

Given that no alternative lists were presented to the aforementioned Shareholders' Meeting of 29 April, the current board does not include any director appointed by minority shareholders.

## **NON-EXECUTIVE DIRECTORS**

Thanks to their authoritativeness and competence, non-executive directors make their important contribution to the work and resolutions of the board of directors.

## **INDEPENDENT DIRECTORS**

On the basis of information provided by the parties concerned or available to the company, and checked according to the criteria defined by the board itself, during the year an evaluation was made to ensure fulfilment of the appropriate requisites of independence by the following directors:

Martina Mondadori

Angelo Renoldi

Mario Resca

Carlo Sangalli

Marco Spadacini  
Umberto Veronesi

The evaluation of such requisites makes reference to all of the criteria outlined in the Code, which defines as independent directors those who have not now, nor recently had, neither direct nor indirect, relations with Arnoldo Mondadori Editore SpA (hereinafter "the issuer") or entities linked to the issuer, such as might influence their judgement. For example, independent directors:

- a) must neither control nor be in a position to significantly influence the issuer, nor be part of a shareholders' agreement through which one or more entities may exercise control or significant influence, either directly or indirectly, on the issuer also through subsidiaries, trustees or nominees;
- b) must not be, or have been in the last three years, a significant player of the issuer, or a subsidiary of strategic relevance or any company subject to the same control as the issuer, or any company or body that, also with others in a shareholders' agreement, control the issuer or be in a position to exercise significant influence over it;
- c) must not have, now or in the last year have had, a significant commercial, financial or professional relationship, either direct or indirect (e.g. through subsidiary companies or companies in which they play a significant role, either as a partner of a professional firm or consulting company):
  - with the issuer, any subsidiary or any relevant entity;
  - any entity that, also with others in a shareholders' agreement, or, in the case of a company or other body – with other relevant entities;
  - or, that they are not, nor have been in the last three years, employees of any of the aforementioned entities;
- d) must not receive, nor have received in the last three years, from the issuer or a subsidiary any significant remuneration in addition to the non-executive directors' "fixed" emolument, including participation in incentive schemes related to company performance, also share-based;
- e) have not been a director of the issuer in more than nine of the last twelve years;
- f) do not hold a position as executive director in any company where an executive director of the issuer is a director;
- g) are neither a partner nor director of a company or other body belonging to the network of the company charged with auditing the issuer's accounts;
- h) are not closely related to anyone in any of the situations outlined above.

A "relevant entity" in a company or other body means: the chairman, the legal representative, the chairman of the board of directors, executive directors and senior managers with strategic responsibilities for the company or body under consideration.

With regard to Mario Resca, during the year, the board of directors confirmed the evaluation of independence despite the lack, from 2010, of one of the requisites of the Code,

specifically the rule that states that directors should not have held office for more than nine out of the last twelve years. Confirmation of the evaluation of independence of Mario Resca was based on the recognition of his professional skills and independence of judgement demonstrated in activities carried out on behalf of the board and in the internal control committee, as well as in consideration of his overall standing with regard to the requisites foreseen by the Code.

During the year, the independent directors met, in the absence of other directors, to:

- examine the implementation of guidelines for the internal control system, with special reference to the activities related to Risks Assessment;
- examine the criteria and implementation of "Procedures for Transactions with Related Parties" approved by the board during the year in compliance with Consob rulings based on Resolution n. 17221 of 12 March 2010 and subsequent amendments.

The following table provides a list of the positions of directors or statutory auditors in other listed companies or relevant financial, banking or insurance companies, held by current directors of Arnoldo Mondadori Editore SpA:

<b>Board of Directors</b>	<b>Positions held by directors in other listed companies or relevant financial, banking or insurance companies</b>
Berlusconi Marina	Chairman of Fininvest SpA, Director of Mediaset SpA, Mediobanca SpA and Mondadori France SAS
Costa Maurizio	Director of Amplifon SpA, Deputy chairman of Mondadori France SAS
Berlusconi Piersilvio	Deputy chairman of Mediaset SpA, Chairman and chief executive of R.T.I. SpA and Med Due Srl, Director of Fininvest SpA, Medusa Film SpA, Publitalia 80 SpA and Gestelevision Telecinco SA
Briglia Roberto	Director of Mondadori France SAS
Cannatelli Pasquale	Chief executive of Fininvest SpA, Director of Mediaset SpA, Mediolanum SpA and AC Milan SpA
Ermolli Bruno	Director of Fininvest SpA, Mediaset SpA, Mediolanum SpA, Mondadori France SAS, Fondazione Cariplo and Senior Advisor and Member of the European Advisory Council of JP Morgan, Deputy chairman of the Fondazione Teatro alla Scala
Mondadori Martina	
Poli Roberto	Chairman of ENI SpA, FIMITA SpA and Poli e Associati SpA, Director of Fininvest SpA, Maire Tecnimont SpA, Perennius Capital Partners SGR SpA and Coesia S.p.A
Renoldi Angelo	Director of Mediolanum SpA, Banca Mediolanum SpA, Mediolanum Gestione Fondi SGR SpA
Resca Mario	Director of ENI SpA
Sangalli Carlo	
Spadacini Marco	Chairman of the board of statutory auditors of Atlantia SpA, Sorin SpA, F21 S.G.R. SpA, Apple SpA, Apple Srl and Delmi SpA, Acting statutory auditor of Fondiaria-SAI SpA, AXA Assicurazioni S.p.A, AXA Partecipazioni SpA, Expo 2015 SpA and Transalpina di Energia Srl, Member of the Supervisory Board of Intesa Sanpaolo SpA

Veronesi Umberto	
Vismara Carlo Maria	Chairman of Mondadori International SpA and Director of Mondadori France SAS

There are no specific guidelines on the maximum number of positions of director or statutory auditor that can be held by board members in companies included in the above categories, given that such an evaluation is left to individual directors when deciding to accept office.

This position is also made with reference to the criteria of the Code on the role of the board, which recommends that directors accept office only when they believe they can dedicate the time necessary to diligently perform their duties, also considering the number of positions of directors or statutory auditors held in other listed companies or relevant financial, banking or insurance companies.

### **BOARD OF DIRECTORS FUNCTIONS AND ACTIVITIES**

The system of attribution of powers is structured in order to maintain, within the corporate organisation, the central role of the board that is also entitled, by statute, to use the broadest powers for the ordinary and extraordinary management of the company, with the exception of those reserved by law to the Shareholders', and which are part of the functions and responsibilities for determining the Company and the Group's strategic direction and orientation.

In particular, the board of directors:

- establishes the general management policies and approves the company's strategic, industrial and financial plans presented by the chief executive officer;
- establishes and approves the corporate governance system and rules for the company and its units;
- establishes, based on recommendations of the internal control committee, the guidelines of the internal control system and controls the effectiveness and operation of the system;
- checks, with particular reference to the system for internal control, the suitability of the organisational, administrative and accounting structure of the company and its subsidiaries with strategic relevance and with special reference to these with regard to consolidation as per the criteria outlined in Art. 165 of Italian Legislative Decree n. 58/1998;
- gives and revokes the powers attributed to the chief executive officer and defines the limits of power held by the position and determines, based on the proposal from the remuneration committee that has consulted with the board of statutory auditors, the remuneration of the CEO and other directors who are given special appointments;
- evaluates, based on the information provided at least quarterly by the CEO, the company's results and compares the results against budget;

- preventively approves particularly important economic and financial transactions that the company will undertake.

The board of directors has the exclusive authority to examine and approve the following transactions:

- acquisitions and disposals of equity investments;
- acquisitions and disposals of companies or business units;
- acquisitions and disposals of real estate properties;
- joint ventures;
- the granting of personal and real guarantees to third parties by Arnoldo Mondadori Editore SpA, in the interest of the company or its subsidiaries, worth more than 20 million euros;
- taking out of loans for more than 30 million euros;
- important investments in equipment that has a strategic impact on the company, and, in any case, any equipment that costs more than 5 million euros.

The board also examines and pre-emptively approves particularly important activities of the company's subsidiaries. These include:

- acquisitions and disposals of equity investments;
- acquisitions and disposals of companies or business units;
- acquisitions and disposals of real estate properties;
- joint ventures;
- investments in relevant equipment for the Group;
- taking out of loans, granting of personal or real guarantees;

When, either individually or jointly, such criteria are met:

- a. when the transactions have a significant effect on the price of the shares they must consequently be disclosed to the market;
- b. when the transactions have a significant effect on the company's balance sheet or income statement.
- c. transactions are considered significant for the balance sheet or income statement if they are worth at least €15 million.

In 2010, the Board held nine meetings, regularly attended also by Statutory Auditors.

An indication of the relevant attendance percentage in the meetings by each director is attached to this report.

With regard to the meetings of the Board for 2011, as of the date of preparation of this report, 2 Board meetings had already been held and, in line with the corporate calendar announced to the market, the following additional meetings are planned:



- 9 May 2011 (approval of the interim report on the first quarter of 2011)
- 27 July 2011 (approval of the interim report as of 30 June 2011)
- 10 November 2011 (approval of the report on the third quarter 2011).

It should be noted that the Articles of Association do not provide for a minimum number of meetings of the Board.

The directors have also been involved in specific initiatives in particular meetings, at some board meetings with parties outside the board, in particular with the management in charge of the individual business divisions of the Group, with a view to increasing awareness of the directors of the Company's situation and dynamics.

### **APPOINTMENTS COMMITTEE**

The board did not consider advisable to establish an "Appointments Committee" given, as indicated by the Code, the stable presence in the ownership structure of the Company of a major shareholder.

### **CHAIRMAN**

The Board Chairman, holding executive powers, is, by statute, the Company's legal representative towards third parties and before the court. As previously stated, the Chairman takes part, in concert with the chief executive, in the development of strategies to be approved by the board.

The Chairman is also responsible for calling and chairing board meetings. In order to ensure informed participation at all meetings, documentation on the topics submitted for discussion and approval is usually circulated to all directors and statutory auditors in advance and in appropriate terms, except in cases of necessity and urgency.

### **CHIEF EXECUTIVE OFFICER**

The chief executive officer has full operational management powers, with the exception of those that are the exclusive prerogative of the Board, as set out and listed in the previous section " Board of Directors functions and activities."

The chief executive officer periodically reports, at least quarterly, to the board of directors and Statutory Auditors, pursuant to art. 2381 of the Italian Civil Code, on the main activities, with particular reference to any atypical or unusual transactions with related parties, the approval of which is not reserved to the board.

## **EXECUTIVE COMMITTEE**

The Company currently does not have an Executive Committee.

## **EVALUATION OF THE BOARD OF DIRECTORS**

The Board has implemented a process of self-assessment and for the assessment of the committees appointed by the Directors.

In particular, the self-assessment process was implemented following a prior analysis shared with the Audit Committee, filling in special individual "self-assessment questionnaires" collected by the Corporate and Legal Affairs Department and presented to the Board in aggregate form.

In general, self-assessment, which is conducted annually, is aimed, in accordance with the recommendations of the Code, at the adequacy of the scale, composition and operating procedures of the Board, the Audit Committee and of the Remuneration Committee, including the expression of any professional profiles, whose presence on the board is considered appropriate.

Specifically, the assessment of adequacy is focused on: (i) the individual characteristics of the directors in terms of requirements and professional experience, (ii) the structural characteristics of the board of directors (the size, in particular the characteristics of the Group and the possibility of adequately composing the committees of the Board, in particular in terms of creating a balance between executive and non-executive directors and the number of independent directors), (iii) the organisational characteristics of the board in terms of processes and operating procedures (the flow of information through the prior provision of adequate documentation to the directors in relation to the items on the agenda, the frequency and scheduling of meetings with the frequency of directors' attendance at meetings and documents supporting the minutes).

Similar considerations, where applicable, were also adopted with reference to the Board Committees.

The outcome of the process revealed a general level of adequacy of the items included in the self-assessment process described above, also with reference to the component of independent directors.

## **DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES**

Pursuant to art. 2391 *bis* of the Italian Civil Code and in accordance with the general principles of the "Regulations on Transactions with Related Parties" issued by Consob by resolution no. 17221 of 12 March 2010, and subsequent amendments ("Consob Regulations"), the Board approved, as of 25 November 2010, with the prior approval of a committee consisting solely of independent directors Angelo Renoldi, Carlo Sangalli and Marco Spadacini, the "Procedures for Related Party Transactions (the "Procedures ").

These Procedures, which replace the previous rules adopted by the Board in this matter, outline the rules, roles, responsibilities and activities implemented in order to ensure the transparency and fairness of transactions with related parties carried out by the Company directly or through its subsidiaries.

In particular, the procedures adopted by the Board of Directors:

- identify and qualify related parties, with reference to the definitions set out in Annex 1 of the Consob Regulations and the International Accounting Standard IAS 24;
- qualify the criteria for the identification of major transactions – to be approved by the Board in accordance with a committee consisting solely of independent directors - and transactions of minor relevance;
- identify the bodies and entities involved in the application of the Regulating Procedures, the relevant roles, information flows and documentation;
- identify the types of transactions exempt from the application of the Procedures.

In order to further consolidate the requirements for the transparency and fairness of transactions with related parties in accordance with the guiding principles of the relevant legislation, parts of the Procedures are more rigorous than the options expected of companies pursuant to Article 4, paragraph 1, letter f) of Consob Regulations.

Under these terms, the Procedures foresee:

- a reduction - for specific types of transactions – of market share thresholds set out in the Regulations for the identification of significant transactions;
- the exclusion of the "whitewash" meeting mechanism where negative opinions are expressed by the committee of independent directors.

In line with the criteria for the identification of related parties listed above, the Procedures are specifically applied in cases where the ratio of correlation concerns a director of the Company and may therefore constitute an interest by the director in the transaction under consideration.

In general, in the case of transactions with companies in which a director has an interest, in his own right or on behalf of third parties, the director concerned, as well as providing, in advance, the Board and the Statutory Auditors with the information referred to in art. 2391 of the Italian Civil Code, will not take part, unless otherwise instructed by the Board, in view of the characteristics of the transaction, in the relevant discussion and vote in the

boardroom.

The "Procedures Governing Related party transactions" are available at [www.mondadori.it](http://www.mondadori.it) - in the Governance section, the system of governance, regulations and procedures.

## **COMPENSATION TO DIRECTORS AND EXECUTIVES**

### **STOCK OPTION PLANS**

With regard to the opportunity of defining a system of variable remuneration linked to performance for senior management and strategic resources operating in the Company, while concurrently encouraging loyalty and creating value for shareholders, and following the expiry of the Plan for the previous three years 2006/2007/2008, the Shareholders' Meeting of 29 April 2009 approved a Stock Option Plan, based on Company shares for the 2009/2010/2011 period (the "Plan").

The Plan is aimed at individuals, to be selected by the Board on the basis of proposals by the Remuneration Committee, including: executives of the company and its subsidiaries who cover strategic positions for the attainment of the Group's objectives, Company directors directors of its subsidiaries, journalists employed by the Company and its subsidiaries with the position of editor or co-editor, managers of the Parent company with the position of director who carry out their functions in the interest of the Company.

It should be noted that non-executive directors are eligible to participate in the Stock Option Plan.

The reasons that motivated the establishment of the Plan are related to the aim of the Company and its subsidiaries to provide a tool for retention and motivation of management, as well as allowing management to share Company's results.

For every year of the Plan, the regulation provides for the allocation of option rights to beneficiaries, personal and not transferable, for the purchase of Mondadori ordinary shares directly held in the portfolio or through subsidiaries. The options may be exercised, in the ratio of one share for every option exercised, at a strike price not lower than the arithmetic average of the reference price for Mondadori shares during the period from the vesting date of options approved by the Board of Directors to same day of the previous calendar month.

Exercise of the options is only permitted in a single transaction, at the end of a vesting period of 36 months following the date of option allocation.

The regulation also envisages that the Board determines the conditions for the exercise of options allocated to the beneficiaries with reference to the performance parameters of economic and/or financial performance on an annual basis.

The attainment of the conditions shall be verified by the Board for each year of the Plan, within the first half of the year following option allocation.

In applying the regulations approved for the year 2010, the Board of Directors meeting of 21 July 2010 approved the allocation of a total of 1,800,000 stock options to 19 beneficiaries in the categories identified in the shareholders' resolution establishing the Plan. The allocated shares as a percentage of the share capital amounted to 0.693%.

The Board also identified as a condition for the exercise of options, the attainment of performance targets related to ROE and free cash-flow.

Details of the stock option plan have been provided by the Company pursuant to Article 84 bis of the Issuers Regulations and are also reported in the annual report and in the notes to the 2010 consolidated financial statements.

## **REMUNERATION COMMITTEE**

The Remuneration Committee comprises three non-executive directors, the majority of which independent, specifically:

- Bruno Ermolli - Chairman – non-executive director
- Marco Spadacini - non-executive and independent director
- Carlo Sangalli - non-executive and independent director

The members of the Remuneration Committee shall be in office until the expiry of the mandate of the board of directors, therefore until the approval of the Annual Report as of 31 December 2011.

In 2010 the Committee held 3 meetings, duly minuted, also attended by the Chief Statutory Auditors, upon invitation of the Committee.

Attendance to meetings by each member was 100%.

The meetings were intended to:

- analyse and draft proposals on incentive/retention measures for executives and strategic profiles, including an alternative to the Stock Option Plan;
- define proposals, submitted to the Board regarding the allocation of options for 2010 relating to the 2009-2011 Stock Option Plan, the identification of beneficiaries and the definition of performance targets based on the Plan conditions;
- update and analyse major regulatory changes, being introduced in the field of "Compensation Policies" and the resulting impact.

In addition to making proposals for the implementation of the Stock Option Plan established by the shareholders and described above, the Board of Directors has charged the Remuneration Committee with:

- making proposals to the Board concerning remuneration (fixed, variable, bonuses, etc..) for Directors appointed to particular positions (e.g. chairman, chief executive officer, executive directors and Board committee members);
- responsibility for submitting to the Board the action undertaken by the Committee to define corporate guidelines in terms of management loyalty and incentives;



- providing advice and recommendations on policy for the remuneration of directors and key executives, in accordance with the provisions of legislative decree implementing the 2009 EU regulation relating to directors' remuneration in listed companies and the guidelines of the Code applicable since 2011.

In carrying out its functions, the Remuneration Committee has access to all necessary information and functions for the performance of its duties.

It should be noted that, as recommended by the Code, the Committee shall act in relation to the functions assigned by the Board, in the absence of directly interested parties.

In particular, the directors shall not participate in Committee meetings where proposals are submitted to the Board concerning their remuneration.

## **VARIABLE REMUNERATION OF EXECUTIVE DIRECTORS AND KEY MANAGEMENT PERSONNEL**

The total remuneration of the chief executive officer, chief financial officer, group chief editor and other key management personnel is also based on a variable component linked to the business results achieved by the Company at consolidated Group level (MBO).

These same managers are also beneficiaries - in the manner outlined in the table prepared in accordance with Issuer Regulations and included in the Annual Report – of the Stock Option Plan described above, the implementation of which, as noted above, however, is conditional upon the achievement of specific annual performance objectives.

Concerning the particular details about the salaries and remuneration of the members of the board of directors and key executives, reference should be made to the table included in the Annual Report prepared pursuant to art. 78 of the Issuers Regulation.

It should be noted that the remuneration of non-executive directors, which consists only of the emoluments shown in the table referred to above, is not linked to the results achieved by the Company, and that non-executive directors are not beneficiaries of the Stock Option Plan.

## **DESCRIPTION OF THE INTERNAL CONTROL SYSTEM**

### **MAIN CHARACTERISTICS OF THE SYSTEM FOR THE MANAGEMENT OF RISKS AND INTERNAL CONTROL**

#### ***FOREWORD***

The following describes the essential elements of the internal control system, in other words the rules, procedures and organisational structures to allow, through an appropriate process of identification, measurement, management and monitoring of major risks, a correct

management of the business that is consistent with its objectives.

The guidelines and focus of the internal control system have been defined, with the support of the Audit Committee, by the board of directors so that the risks facing the parent company and subsidiaries are correctly identified, measured, managed and monitored.

For this purpose, in line with the Code of Conduct for Listed Companies and Italian Legislative Decree No. 195/2007 on Transparency, the Mondadori Group in 2008, updating the guidelines of its internal control system, established a Risk Management function and implemented a risk management process designed to identify and manage the main risks and uncertainties the various activities of the Group are exposed to.

In defining its model for the classification, identification, assessment, management and mitigation of risks faced by the Mondadori Group, reference was made to the Enterprise Risk Management (ERM), which incorporates the principles adopted by the international standard developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO Report), one of the most authoritative and widely-adopted approaches, both nationally and internationally.

#### **DESCRIPTION OF THE PRINCIPAL CHARACTERISTICS OF RISK MANAGEMENT**

In the process of risk management the Risk Management function plays a role in supervising and coordinating the activities of those involved.

The risks, classified by a model divided into categories and subcategories, are assessed according to two parameters: the probability of occurrence of the event and the impact on economic/financial items, market share, competitive advantage and reputation issues.

This assessment is carried out at both the inherent, in the absence of mitigation of the risks and any activities carried out by management to reduce the probability of occurrence of the risk and/or their related impacts, and the residual level, (i.e. taking these actions into account).

The deputy chairman and chief executive officer define the Group's strategic objectives, that translate into first-line management objectives for the relevant departments.

Through a process of self assessment, the business unit managers or heads of function identify the risks that relate to their areas of competence and assess them, firstly at an inherent level and subsequently at the residual level, after having identified possible mitigation measures.

Risk Management collects and processes the assessments, and presents a framework of the relevant risks facing the relevant department to first line management for validation.

Once the risks faced by all departments are validated, Risk Management groups risks in homogeneous categories and makes a consolidation, assigning a weight to each risk that is proportionate to the relevance of the Group department.

The results of the risk management process are communicated in the first instance to the chief executive officer by the Internal Control Officer, then to the Audit Committee and the Statutory Auditors, and subsequently to the board of directors by the chief executive officer,

and form the basis for further study of the structures and bodies put in place for the purpose.

The Internal Audit function is responsible for ascertaining the existence and effectiveness of mitigation measures implemented by the different areas.

The risk management process provides for an annual review of the risk situation, to be conducted as above described.

With reference to the activities during 2010 and the first months of 2011, the following is worth noting:

- the update and monitoring of the Risk Assessment system with regard to the parent company and subsidiaries, which began in September 2010 and was completed in March 2011;
- 7 Risk Management Audits to ascertain the existence and effectiveness of mitigation measures implemented by companies in order to reduce the risks that impact the business;
- 2 Risk Response checks, for the Direct area; the Risk Response process is implemented through a series of activities that management, in cooperation with Risk Management, implements in order to align the residual risk with the level of risk appetite (desired level of residual risk) of the company on issues raised by the risk assessment.

The main risks and uncertainties regarding the parent company and subsidiaries are included in a specific section of the 2010 Annual Report.

#### **INTERNAL CONTROL COMMITTEE**

The board of directors has established a Committee for Internal Control that consists of three directors with, inter alia, the experience in accounting and finance deemed appropriate by the board.

The members of the Committee for Internal Control, who will remain in office until the expiry of the mandate of the directors, in other words until the approval of the 2011 Annual Report, are:

- Marco Spadacini - non-executive and independent director, chairman.
- Angelo Renoldi - non-executive and independent director.
- Mario Resca - non-executive and independent director.

The Internal Control Committee has an advisory role and makes proposals to the board and provides assistance and support through the monitoring of the adequacy of the aforementioned internal control system and the definition of the system guidelines.

The Committee coordinates its activities, within the terms of their relevant competence, with the Statutory Auditors, the independent auditors, the internal control officer and the

executive responsible for overseeing the functioning of the internal control system and the manager responsible for financial and corporate reporting.

In particular, in accordance with the Code, the Committee is expected to:

(i) evaluate the work plan prepared by the head of internal control and receive periodic reports, (ii) evaluate, together with the manager responsible for preparing the financial statements and the auditors, the correct application of the accounting principles used and their appropriateness for the preparation of the consolidated financial statements, (iii) evaluate the proposals made by the external auditors to obtain the contract, as well as the work plan for the audit and the results presented in the report and any suggestions deriving, and to monitor the effectiveness of the audit process, (iv) report regularly to the board, and at least every six months for approval of the results and the interim report, as well as ensuring the adequacy of internal control system, (v) perform any other duties assigned by the board of directors, (iv) provide, at the request of the executive in charge, advice on specific issues relating to the identification of corporate risks and the design, implementation and management of the internal control system.

In carrying out its duties, the Internal Control Committee has the right to access all information and functions necessary for the performance of its duties.

The Internal Control Committee held four meetings in 2010 and two meetings in the first three months of 2011, duly minuted, with the participation at different times of Statutory Auditors, the deputy chairman and chief executive, the director of internal control and the supervisory and control body, as well as the auditing firm Deloitte & Touche SpA and the heads of some business functions.

Attendance at meetings by each Committee member was 100%.

With reference to 2010 activities, in particular, the Internal Control Committee:

- approved the annual plan of activities for 2010 for the internal audit of the company and its subsidiaries, prepared by the director responsible for internal control and reviewed its implementation.

The 2010 plan was structured along four main lines of action in order to verify:

- the application of various procedures by the Parent Company and Group companies;
  - the application of law no. 262/02;
  - the application of procedures arising from Legislative Decree No. 231/2001;
  - the risk management auditing activities for the assessment of the implementation and effectiveness of mitigation actions identified by Risk Assessment;
- evaluated the Board proposal for the appointment of the firm for the auditing of the company's consolidated financial statements, the interim report and periodic reports, as per Italian Legislative Decree No. 58/1998, for the years 2010-2018. The Chief Statutory Auditor presented the assessments that considered that the competence and specific experience in the industry, the adequacy of the technical structure, independence and autonomy of opinion with respect to the Group, and the adequacy of

the fees requested in relation to timing and levels of professionalism involved. Following the analysis carried out with the approval of the Committee for Internal Control, the Statutory Auditors submitted a reasoned proposal to the Board, on 23 March 2010, regarding the appointment of Deloitte & Touche SpA to conduct the audit;

- examined a series of documents relating to Group Financial Policy, such as:
  - the monitoring of quarterly reconciliations of balances of financial assets of Mondadori International with financial institutions;
  - the verification by the Internal Audit unit of the application of "general policies for financial risk management;
  - the annual report of the Risk Management Committee;

An examination of this documentation revealed no unusual events.

- noted the outcome of the Risk Assessment published by the executive in charge of overseeing the functioning of the internal control system, Mr. Maurizio Costa, and the report prepared by the same. Activities in 2010 involved the parent company and the French and Italian subsidiaries;
- reviewed the implementation of Risk Response activities as the last component to be analysed as part of the three levels of the COSO ERM;
- noted the report of Audit Manager Mr. Paolo De Benedetti on the assessment of the Mondadori Group's Internal Control System for 2009;
- noted the report of the activities of the Supervisory and Control body during 2009;
- examined the activities of the Internal Audit unit in 2010, sharing suggestions and making its own;
- noted the updating of the company's Organisational, Management and Control model;
- met with the leaders of the auditing firm Deloitte & Touche to examine the main elements of the audit of the interim report as of 30 June 2010.

With regard to activities in the first months of 2011, it should be noted in particular that the Committee for Internal Control:

- approved the annual plan of activities for 2011 of the Internal Audit unit for the company and its subsidiaries, prepared by the Internal Control Manager and verified implementation during the year;
- noted the report of the Internal Control Manager on the assessment of the Mondadori Group's Internal Control System for 2010;
- noted the report of the activities of the Supervisory and Control body during 2010.

The activities of the Committee were subject to regular reports submitted to the board of directors.

From all of the verifications carried out during the year there were no lacks in terms of organisation and/or procedures of particular relevance. Consequently, on the basis of the work carried out, action taken and organization of activities, the system of internal control was deemed to be appropriate for the purpose.



## **EXECUTIVE DIRECTOR IN CHARGE OF OVERSEEING THE INTERNAL CONTROL SYSTEM**

The Board of Directors, following the proposal of the internal control committee, assigned the role of executive director to the chief executive officer in charge of overseeing the functioning of the internal control system. This involves the following functions:

- a) identification of the principal risks facing the company and periodically presenting them to the Board;
- b) implementing the Board of Directors' guidelines for ensuring the internal control system is properly planned, set up and managed, and for regularly checking on its overall appropriateness, efficiency and efficacy, and adjusting it to changes in operating conditions and in the legislative and regulatory environment;
- c) proposing to the board the appointment, revocation and remuneration of one or more people in charge of the internal control.

In order to implement the guidelines laid down by the board of directors, the executive director in charge of overseeing the functioning of the internal control system set up and coordinated the Risk Assessment project.

## **INTERNAL CONTROL MANAGER**

The internal control officer, appointed by the board on 29 April 2009 in the person of Paolo De Benedetti, head of Internal Audit, is responsible for verifying that the system of internal control is adequate, and fully operational.

The appointment was made on the recommendation of the executive in charge of overseeing the system of internal control, in consultation with the Committee for Internal Control.

In particular, the board of directors has asked the function to establish and manage the activities of control and internal auditing of the Company and its subsidiaries and to ensure compliance of corporate activities with existing regulations, directives and procedures adopted to guarantee efficient management and to identify, prevent and manage, where possible, business risks and fraud.

The internal control officer is not responsible for any operational area and does not report to any of the heads but directly to the executive in charge of overseeing the functioning of the internal control system, the internal control committee and the board of statutory auditors.

The internal control officer has access to all information necessary to perform the function, in coordination with the specific Internal Audit function, which will have the specific task of verifying the adequacy and implementation of internal management procedures.

During 2010, the activities of the internal control officer focused on coordinating the internal audit function, including compliance with Law 262/05 and providing support for the manager

in charge of preparing corporate accounting documents, as well as areas related to Risk Management.

### **ORGANISATIONAL, MANAGEMENT AND CONTROL MODEL (*EX ITALIAN LEGISLATIVE DECREE N. 231/2001*)**

On 11 December 2003, the board of directors adopted an organisational, management and control model, in compliance with Italian legislative decree n. 231/2001, which introduced the principle of administrative criminal responsibility for companies for specific illegal acts committed by directors, executives or employees in the interest or to the advantage of the company.

On 12 November 2006, 30 July 2008 and, finally, 29 July 2010, the board of directors adopted updated and integrated versions of the organisational, management and control model following changes in the regulatory framework of reference and with a view to anticipating juridical guidelines and experience gained over the first years of application of the model.

The model, which has been developed in compliance with the guidelines set out by category associations is an additional qualifying element in the company's and group's system of internal control, and features:

- a general part, including, among others, specific information regarding the qualifying content of legislative decree n. 231/2001 and subsequent supplements, the aims and the operations of the model, the attributions of the body charged with controlling the application and operation of the model, information flows and the system of sanctions foreseen for violations of the model's provisions;
- a special part, comprising a series of specific protocols for the different types of crimes foreseen by Italian legislative decree n. 231/2001.

The organisational, management and control model is available on the web site [www.mondadori.it](http://www.mondadori.it) - in the Governance section.

### **SUPERVISORY AND CONTROL BODY**

The current supervisory and control body for the organisational, management and control model, appointed by the board of directors on 11 November 2010, which will remain in office until the end of the mandate of the board of directors, is composed as follows:

Angelo Renoldi – independent non-executive director;

Ferdinando Superti Furga – chief statutory auditor;

Paolo De Benedetti – head of the Group Internal Audit.

In compliance with the terms of Italian legislative decree n. 231/2001 and subsequent modifications and integrations, the board of directors has given the supervisory and control

body full powers in order to guarantee the precise and effective control of the operations and respect of the model itself, authorising total access for the body to all company functions regarding information and data deemed necessary to fulfil its mandate.

In particular, and by way of example, the supervisory and control body has the following tasks and responsibilities, to carry out, where necessary with the support of other company functions and external consultants and with full economic autonomy, also through the definition of specific budget items:

- (i) monitor compliance with the provisions of the model by the parties concerned, pointing out any shortcomings and areas which may be at greater risk, given the violations recorded;
- (ii) monitor the effectiveness of the model and its real capacity to prevent the crimes outlined in Italian legislative decree N. 231/2001 and subsequent amendments, in respect of individual corporate structures and the concrete activities carried out;
- (iii) ensure maintenance over time of the soundness and functionality of the model;
- (iv) monitor the appropriateness of proceeding with model updating, in response to changing regulatory conditions or business circumstances;
- (v) obtain documents and information from various corporate functions and carry out regular checks and inspections on high risk activities;
- (vi) promote information campaigns and training on the principles, values and rules of conduct outlined by the model.

The supervisory and control body regularly reports to the board of directors, the internal control committee and the statutory auditors on the activities carried out, the operation of the model or any specific situations.

## **MANAGER RESPONSIBLE FOR FINANCIAL REPORTING**

On 29 April 2009, the board of directors confirmed chief financial officer, pursuant to art.154-*bis* of Italian legislative decree N. 58/1998, Mr. Carlo Maria Vismara, who will remain in office until the end of the mandate of the board, i.e. until the meeting for the approval of the Annual Report for the year ended 31 December 2011. Carlo Maria Vismara also held this position for the period from his appointment on 12 September 2007 until the Shareholders' Meeting approval of the company's financial statements as at 31 December 2008.

The board also gave the chief financial officer the powers and means to fulfil his tasks, in line with the provisions of the aforementioned article 154-*bis* of Italian legislative decree N. 58/1998, also with regard to the management and coordination of business functions involved in monitoring administrative and accounting procedures.

With regard to professional qualifications and terms of appointment by the board of directors of the chief financial officer, reference should be made to art. 24 of the Articles of

Association, available on the company website: [www.mondadori.it](http://www.mondadori.it) - in the Governance section.

The chief financial officer, in executing the powers granted to him, coordinated and carried out a series of organisational and operational measures designed to satisfy regulatory issues. This led to the identification of a standard operating model inspired by the Internal Control Framework of the Treadway Commission's Committee of Sponsoring Organisations, the most common international standard for internal control systems.

The model specifically aims to ensure reliable reporting data by specifying a series of control activities to be applied to the administrative and accounting procedures when drawing up the annual report, the consolidated financial statements, the half-yearly financial statements and generally any financial disclosure.

The operational model also regulates how the suitability of the administrative and accounting procedures is monitored and the ways of verifying the actual application of the procedures.

The board of directors, with the support of the Internal Control Committee, tracks the suitability of the powers and means given to chief financial officer as well as whether the administrative and accounting procedures are complied with.

In particular, the board:

- made the rules regulating the operation of the chief financial officer official; these regulate:
  - the role and function of the chief financial officer that are carried out in relation to the activities and responsibilities laid down by law. In particular, they spell out the powers that are given to the manager when he or she is appointed by the board of directors, both in terms of spending and in terms of use of internal staff and corporate functions, with particular reference to "Administrative Processes" and "Administration and Group Financial Reporting" as regards the definition, implementation and monitoring activities and with reference to "Internal Audit" for checking the correct application of the procedures;
  - the main communications and forms of coordination between the chief financial officer, the company's administrative and supervisory bodies and its corporate functions
- checked the parts of the operating model that relates to how administrative and accounting procedures are monitored for their suitability and verified that these procedures are actually applied.

Details regarding the definition and implementation of the operational model described above are provided in Section II of this report.

## BOARD OF STATUTORY AUDITORS

The board of statutory auditors, made up in line with the Articles of Association of the regular statutory auditors and two alternate statutory auditors, was appointed by the Shareholders' Meeting of 29 April 2009 and will remain in office until the Shareholders' Meeting called for the approval of the company's Annual Report as of 31 December 2011.

The current board of statutory auditors is made up by:

**Ferdinando Superti Furga**, Chief Statutory Auditor  
**Francesco Antonio Giampaolo**, regular statutory auditor  
**Franco Carlo Papa**, regular statutory auditor  
**Ezio Simonelli**, alternate statutory auditor  
**Francesco Vittadini**, alternate statutory auditor

The following table shows the offices held by the current members of Arnoldo Mondadori Editore SpA board of statutory auditors in other listed companies:

Board of Statutory Auditors	Offices held in other listed companies
Superti Furga Ferdinando	Standing statutory auditor of Telecom Italia SpA, Chairman of the board of statutory auditors of Saras SpA and director of Parmalat SpA
Giampaolo Francesco Antonio	—
Papa Franco Carlo	Director of Gefran SpA and DMT SpA

The mandate for statutory auditors is three years, and may be renewed.

Information about the personal and professional characteristics of each of the members of the board of statutory auditors is available in the company website [www.mondadori.it](http://www.mondadori.it) - in the Governance section.

Under the present statutory provisions all statutory auditors must be listed on the official register of statutory auditors and auditing firms and must have carried out statutory audits for a period of not less than three years.

Statutory auditors must also meet the requirements of the provisions of current law and regulations.

Among other things, during 2010, the board of statutory auditors:

- ensured the correct application of the criteria adopted by the board of directors to evaluate the independence of directors;
- verified, applying the criteria required by the Code in relation to directors' independence, the independence requisites of its members as set out in the Code;
- monitored the independence of the external auditing firm with regard to the nature and

extent of non-auditing services provided to the company and its subsidiaries by independent auditors and other companies in its network;

- prepared, pursuant to art. 13, paragraph 1, of Italian legislative decree N. 39/2010, a reasoned proposal to be submitted to the Shareholders' Meeting of 27 April 2010 regarding the appointment of the auditing firm Deloitte & Touche SpA, for the 2010-2018 nine year period pursuant to Article 13, paragraph 1, and 17, paragraph 1, of Italian legislative decree N. 39/2010, the full audit of the company's consolidated financial statements and additional activities under Article. 14, of Italian legislative decree N. 39/2010.

During 2010 13 duly minuted meetings of the board of statutory auditors were held. There were also meetings between the board of statutory auditors, the Internal Control Committee and the heads of various business functions - including the Internal Audit unit - with particular reference to assessing the adequacy of the internal control system, and between the board of statutory auditors and the external auditing firm for the mutual exchange of information.

Attached to this report is the attendance percentage at the meetings by each statutory auditor.

Below are the requirements, established by art. 27 of the Articles of Association regarding the method and procedures for the appointment, through the mechanism of a voting list, of the board of statutory auditors. In this regard it is noted that:

- during the year, by resolution of the Extraordinary Shareholders' Meeting of 11 November, the provisions of art. 27 of the Articles of Association were adjusted to the new provisions set out in the Italian legislative decree N. 27/2010 in response to the EU Directive 2007/36/EC on the exercise of specific shareholders rights in listed companies. In particular, they have been adjusted to the new rules governing the terms of the deposit with the Company and availability to the public (25 and 21 days prior to the Shareholders' Meeting, compared with the previous term of 15 days) of lists of candidates for the appointment of statutory auditors; similarly, the term was changed for the date of filing of the lists with the company, to determine the ownership of the minimum stake required for the presentation of such lists;
- on 11 November 2010 the Extraordinary Shareholders' Meeting also resolved to modify the provisions introduced by Italian legislative decree N. 39/2010 "Application of Directive/2006/43/CE on the statutory audits of annual accounts and consolidated accounts, the adoption of the new term of "legal auditors" in place of the former "accounts auditors" and the expectation that statutory auditors' meetings may be held using telecommunications technology;
- with regard to the fee required for the submission of lists, the Articles of Association, as specified below, refers to the percentage that, according to the Issuers' Regulations, is annually established by Consob on the basis of the average market capitalisation of

companies in the last quarter of each year. As an indication it should be noted that currently, based on Consob Resolution N. 17633 of 26 January 2011, the fee required to submit lists applying to Arnaldo Mondadori Editore has been set at 2.5% of the share capital. The same fee of 2.5% was applicable for the appointment of the board of directors approved by the Shareholders on 29 April 2009.

#### *Article 27 of the Articles of Association*

*1. The Ordinary Shareholders' Meeting elects the Board of Statutory Auditors, consisting of three Regular Statutory Auditors and two Alternate Statutory Auditors, who remain in office for three financial periods, their terms expiring on the date of the Shareholders' Meeting convened to approve the financial statements for the third financial period of their office; they may be re-elected.*

*All auditors must be listed in the Register of external auditors and auditing firms established by law and must have no fewer than three years' experience in professional practice as an official auditor.*

*The auditors must furthermore possess the current legal and regulatory requirements, and the Board of Directors verifies the existence thereof.*

*2. Auditors are elected from lists presented by shareholders adopting the following procedure. The lists contain a number of progressively numbered candidates. Each list has two sections: one for candidates for the office of Regular Statutory Auditor and one for candidates for the office of Alternate Statutory Auditor. Each candidate may appear in a single list, on pain of being unelectable. Each list must contain the name of at least one Regular Statutory Auditor and one Alternate Statutory Auditor.*

*3. Entitled to submit lists are those shareholders with voting rights that, alone or with other shareholders, represent at least the percentage of share capital, subscribed at the time the lists are submitted, laid down, referred to and published by Consob for the presentation of lists of candidates for electing the Board of Directors under the Issuer Regulations.*

*Ownership of the percentage of share capital is determined by referring to the shares that are recorded in the name of shareholders on the day that the list is filed with the Company, with reference to the share capital subscribed on that same date.*

*The pertinent attestation or certification may be communicated or produced even after the list is filed provided that it reaches the Company by the term provided for the publication of the list by the Company.*

*The percentage shareholding required in order to present lists of candidates for election as members of the Board of Statutory Auditors is specified in the notice of the Shareholders' Meeting that is called to deliberate the appointment of said Board.*

*Shareholders may neither present nor vote for more than one list, even through a third party or a trust company. Shareholders belonging to the same group - this being construed as the parent company, the subsidiaries and the companies under joint control - and shareholders that are parties to a shareholders' agreement in accordance with Article 122 of Legislative Decree 58/1998 regarding the issuer's shares may neither present nor vote for more than one list, even through a third party or a trust company.*

*4. Lists are deposited at the Company by the twenty-fifth day prior to the date of the Meeting called by first or only call in order to deliberate on the appointment of the members of the Board of Directors. They are made available to the public at the registered office, on the website and through other means provided for by the applicable regulatory provisions at least twenty-one days prior to the date of the Meeting.*

*The lists contain:*

*a) information regarding the identity of the shareholders presenting the lists, specifying the total percentage of equity they possess and an attestation or certification showing their title to their holding;*

*(b) a declaration from the shareholders presenting the lists other than those that possess, even jointly, a controlling shareholding or a relative majority shareholding, stating the absence or the presence of any relations with the latter, as required in Article 144 quinquies, paragraph 1, of the Issuer Regulations;*

*(c) full information regarding the personal and professional characteristics of the candidates and declarations from the candidates themselves to the effect that they are in possession of*



*the statutory requirements and the requirements laid down in these Articles of Association and that they agree to their candidature.*

*Persons in positions of governance and control to an extent higher than that laid down in the laws and regulations in force may not be elected as Statutory Auditors.*

*5. In the event that only one list has been deposited by the deadline of twenty-five days before the date set for the first or only call of the Shareholders' Meeting that is to decide on the appointment of the Statutory Auditors, or only lists presented by shareholders who are related to each other as per Article 144 quinquies of the Issuer Regulations, lists may be deposited up to the fourth day after this date, unless another inviolable deadline is required by the applicable legislative provisions in force from time to time. In this case the participation qualification specified in paragraph 3 above is reduced by half.*

*6. Lists presented that do not comply with the above provisions will not be voted.*

*7. Before opening the voting, the Chairman of the Shareholders' Meeting reports any declarations that have been made in accordance with paragraph (b) above and asks the participants attending the Meeting that have not deposited or joined in the depositing of lists to state any relations as defined above.*

*If a person that is related to one or more major shareholders has voted for a minority list, the existence of such a relationship is only relevant if the vote has been decisive in the election of a Statutory Auditor.*

*8. The procedure for the election of Statutory Auditors is as follows:*

*a) two Regular Statutory Auditors and one Alternate Statutory Auditor are chosen from the list that has obtained the greatest number of votes, based on the progressive order in which they are named in the sections of the list;*

*b) one Regular Statutory Auditor and one Alternate Statutory Auditor are chosen from the list that has obtained the second highest number of votes at the Shareholders' Meeting and that, in accordance with the provisions of current rules, including regulations, are not related, even indirectly, to the shareholders who presented or voted for the list that obtained the greatest number of votes, based on the progressive order in which they are named in the sections of the list. In the event that a number of lists obtain the same number of votes, a new round of voting takes place between these lists, electing the candidates of the list that obtains the simple majority of votes.*

*9. The first-placed candidate in the section containing the candidates for Regular Statutory Auditor of the list that obtained the second highest number of votes is chosen as the Chairman of the Board of Statutory Auditors.*

*10. If only one list is presented, the Shareholders' Meeting expresses its vote on the list and, if it obtains the majority required in accordance with Article 2368 ff. of the Italian Civil Code, the three candidates progressively numbered in the corresponding section are elected as Regular Statutory Auditors and the three candidates progressively numbered in the other section are elected as Alternate Statutory Auditors. The candidate in the first place in the list of candidates as Regular Statutory Auditors has the position of Chairman of the Board of Statutory Auditors.*

*11. If there are no lists, or if the number of candidates elected by means of the list mechanism is lower than the number of Statutory Auditors set by these Articles of Association, the Board of Statutory Auditors is, respectively, either appointed or completed by the Shareholders' Meeting by the statutory majorities.*

*12. If a number of lists have been presented, in the event of the replacement of a Statutory Auditor the successor must come from the same list as that of the his or her predecessor. If the Chairman is replaced, his or her successor also takes on the position of Chairman of the Board of Statutory Auditors.*

*When the Shareholders' Meeting is to appoint Regular Statutory Auditors and/or Alternate Statutory Auditors as necessary to re-integrate the Board of Statutory Auditors, it will proceed as follows. Should Statutory Auditors elected from the majority list need to be replaced, their successors are appointed by a relative majority without list constraints; on the other hand, if Statutory Auditors from a minority list are to be replaced, the Shareholders Meeting does so by a relative majority vote, choosing from among the candidates indicated in the list to which the Statutory Auditors to be replaced belonged or, as a second option, from among the candidates contained in any additional minority lists.*

*If there are no candidates in the minority list(s), the appointments are made by voting one or more lists, made up of a number of candidates not greater than those to be elected, presented prior to the meeting in compliance with the provisions laid down in this Article for the appointment of the Board of Statutory Auditors. Lists may not be presented (and if presented they are void) by major shareholders or the shareholders related to them, as*

*defined by current legal and regulatory provisions. The candidates in the list that obtains the greatest number of votes will be elected.*

*If no lists are presented in compliance with the above, appointments are made by a majority vote without list constraints.*

*13. In any circumstances in which the Chairman is to be replaced, the incoming Statutory Auditor also takes on the office of Chairman of the Board of Statutory Auditors.*

*14. The Shareholders' Meeting determines the remuneration payable to the Statutory Auditors and the refund of the costs sustained in the performance of their duties.*

*15. The powers and duties of the Statutory Auditors are those established by law.*

*16. The meetings of the Board of Statutory Auditors may also be held by telecommunication, on the condition that all the participants may be identified and that such identification is recorded in the pertinent minutes and that they are permitted to follow the discussion and participate in real time in the discussions on the issues covered, exchanging documentation where necessary; in that case, the meeting of the Board of Statutory Auditors will be considered held in the place where the person presiding over the meeting is located.*

The current board of statutory auditors does not include any members nominated by minority shareholders in that no alternative list was presented at the aforementioned Shareholders' Meeting of 29 April 2009.

### **STATUTORY AUDITORS' INTERESTS**

Any member of the board of statutory auditors who, on their own behalf or on behalf of a third-party, has an interest in any transaction involving the company is obliged to promptly inform in detail the other statutory auditors and the chairman of the board of directors about the nature, terms, origin and extent of his interest.

### **EXTERNAL AUDITORS**

The shareholders' meeting of 27 April 2010 following the proposal expressed by the board of statutory auditors pursuant to art. 13, paragraph 1, of Italian legislative decree N. 39/2010, approved to appoint, for the 2010/2018 nine-year period, the auditing firm Deloitte & Touche SpA, to conduct auditing activities on the company's consolidated financial statements and any additional activities referred to by art. of Italian legislative decree N. 39/2010.

The Shareholders' Meeting of 27 April 2010 has also appointed Deloitte & Touche to conduct a limited audit of the interim financial statements for the first half of each of the years from 2010 to 2018.

### **RELATIONS WITH INSTITUTIONAL INVESTORS AND OTHER SHAREHOLDERS**

Investor Relations is the Company's specific corporate function dedicated to managing relations with institutional investors and, in concert with the Corporate Affairs and Legal Department, and with shareholders in general.

Mondadori's Investor Relations is headed by Dario Fumagalli, who can be contacted at the following e-mail address: [invrel@mondadori.it](mailto:invrel@mondadori.it).

The company has created a section - Investor Relations - on its website, [www.mondadori.it](http://www.mondadori.it), to provide information about the company to shareholders and investors in general.

## **TREATMENT OF CORPORATE INFORMATION**

A series of procedures are in place for the management of corporate information, also in compliance with the company's organisational, management and control model, adopted by the board of directors pursuant to Italian legislative decree N. 231/2001 and briefly outlined in the report.

### **MANAGEMENT AND DISCLOSURES OF PRIVILEGED INFORMATION TO THE MARKET**

In particular, the board of directors has approved a "Procedure for monitoring, internal circulation and public disclosure of privileged information as defined in art. 181, of Italian legislative decree N. 58/1998 ":

The procedure attributes the management of privileged information to the chief executive officer, who makes use of Finance, Administration and Control, with a view to:

- regulating, on a reserved and need-to-know basis, the arrangements for the monitoring, management and internal distribution of documents and corporate information - with particular reference to insider dealing as outlined in art. 181, of Italian legislative decree N. 58/1998 concerning Arnoldo Mondadori Editore SpA and its subsidiaries;
- regulating disclosures to the public, according to criteria of transparency, timeliness and non-selectivity, in accordance with applicable laws and regulations regarding privileged information.

The procedure, which was updated in 2006 in compliance with the terms of the European Directive on Market Abuse, also contains provisions for subsidiaries as laid out in art. 114, of Italian legislative decree N. 58/1998 concerning information flows regarding Arnoldo Mondadori Editore SpA to enable it to provide timely market information about events and circumstances that qualify as sensitive information about subsidiary operating activities.

### **REGISTER OF PERSONS WITH ACCESS TO PRIVILEGED INFORMATION**

This relates to the procedure described above the "Operational provisions for the management of lists of persons who have access to privileged information (the "Register ") established by the board of directors with effect from 1 April 2006, pursuant to art. 115 *bis* of Italian legislative decree N. 58/1998.

The provisions regulate: (i) the procedures for the identification, registration in the Register and any subsequent cancellation of persons who, on account of their work or profession or duties on behalf of the company or its subsidiaries, shall have access on a permanent or

occasional basis to privileged information, (ii) the flow of information to be monitored by the function responsible for maintaining the Register and making all necessary inclusions and/or deletions, (iii) the manner in which information is provided to those on the Register and any necessary variations and cancellations, (iv) arrangements for the management and search of data contained in the Register, using information technology that ensures the traceability and storage of data according to the terms required by Issuers' Regulations.

### **INTERNAL DEALING**

Rules regarding internal dealing fall within Mondadori's procedures on management and disclosure of documents and information about the company. These rules were adopted by the board of directors becoming enforceable as of 1 April 2006, in accordance with par. 7 of the Finance Consolidation Act.

Such rules govern the requirement to communicate to the company, Consob and the public any transactions of Mondadori shares – or other financial instruments related to them – involving members of the board of directors or the board of statutory auditors and other senior personnel such as managers with regular access to privileged information and the power to make decisions about the management of the company that could influence its development and future prospects.

The rules adopted by the board of directors: (i) identify the company managers who are committed to making the information available as per par. 7 of the Finance Consolidation Act; (ii) provide these people with instructions about their being identified as insiders, about the requirements they must follow, and how and when they should make any legally-required disclosures; (iii) identify "Corporate Affairs" as the company function that receives, manages and makes disclosures to the market.

### **BLACKOUT PERIODS**

As part of the internal dealing rules and with the aim of ensuring uniform behaviour, all those defined as insiders are barred from buying or selling financial instruments subject to disclosure rules in the 30 days preceding board meetings called to examine annual results and the 15 days preceding board meetings to examine quarterly and half-yearly results until the information has been released to the market.

## **SHAREHOLDERS' MEETINGS**

The Shareholders' Meeting of 11 November 2010, in compliance with the provisions of Italian legislative decree N. 27/2010 in response to EU Directive 2007/36/EC regarding the exercise of specific shareholders rights in listed companies, adopted new statutory provisions relating to the calling, operation and entitlement to attend and exercise voting rights, with particular reference to the following articles of the Articles of Association:

- art. 9 regarding the calling of Shareholders' Meetings:
  - posting on the company website of the notice of meeting, in line with current regulations, with the repeal of the previous provision which provided for callings to be published in the Official Gazette;
  - prior warning of the calling and the inclusion on the agenda of the minority shareholders requests;
- art. 11 regarding to the right to participate and the exercise of voting rights: the introduction of the principle of the so-called "Record date", whereby legitimacy is established by communication to the company made by intermediaries on the basis of the findings at the end of the seventh trading day before the date fixed for the meeting, making any changes made after this term irrelevant to the legitimacy of the voting rights;
- art. 12 regarding the use and notification of proxies, also via IT, to be determined in line with the Regulations of the Italian Ministry of Justice pursuant to art. 135-*novies*, paragraph 6, of Italian legislative decree N. 58/1998:
  - the possibility of electronic notification of proxies, as outlined in the calling, either by using the appropriate section of the company's website or by submitting the document by certified email;
  - an option for the board of directors to appoint a person for each meeting to act on behalf of the shareholders with instructions to vote on all or some of the proposals on the agenda;
- art. 16 regarding the constitution and resolutions of the Shareholders' Meetings:
  - the introduction of the option for the board of directors to take advantage of the single notice of the meeting, whether ordinary or extraordinary, in lieu of subsequent meetings, in line with the provisions of article. 2369 of the Italian Civil Code, as amended by art. 1 of Italian legislative decree N. 27/2010;
  - the application of a quorum for the valid constitution and resolutions of the Meeting, as per the aforementioned art. 2369 of the Italian Civil Code, in the case of Shareholders' Meetings in a single call.

Shareholders' Meetings are called under the terms of article 9 of the Articles of Association, by means of a notice published on the company's website in line with current regulations.

The documentation regarding the agenda will be made available to the public, as prescribed by law, at the company's registered office, by NIS to Borsa Italiana SpA (the Italian Stock Exchange) and publication on the company's website.

A quorum for and resolutions of both ordinary and extraordinary meetings, whether on first or subsequent callings, are determined as per current legislation.

The powers of ordinary and extraordinary meetings are determined as per current legislation. As mentioned in Section III of this report, the "Rules applicable to the amendment of the

Articles of Association” provide, with reference to the provisions of Article 2365 of the Civil Code, the power to the board of directors to make specific decisions on some matters, including some that may be in the power of the Shareholders’ Meeting, without prejudice to the powers of the Shareholders’ in such matters.

Under the terms of the current Articles of Association, the right to participate and exercise of voting rights at Shareholders’ Meetings is certified by a declaration made through an intermediary on the basis of account records relating to the end of the seventh trading day prior to the date fixed for the Meeting in the first or single call.

Records in credit or debit after this deadline will not be considered valid for the voting rights at the meeting.

Notification must reach the company by the end of the third trading day prior to the date fixed for the meeting or beyond the deadline indicated by the beginning of the meeting.

The Ordinary Shareholders’ Meeting of 24 April 2001 resolved to adopt regulations for governing, among other, the guarantee of the rights of each shareholder to speak on matters under discussion and ensuring the orderly and effective conduct of business by ensuring the efficiency of the decision-making process in the interest of all shareholders.

The regulations are available to shareholders at the company’s registered office and at the places where the shareholders’ meetings are held (as well as on the company’s website [www.mondadori.it](http://www.mondadori.it) - Governance section).

It is also the practice of the board of directors to use the Shareholders’ Meetings as an opportunity to report, in compliance with the rules on inside information, on the work completed, under way and planned.

## **SECTION II MAIN CHARACTERISTICS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS WITH REGARD TO FINANCIAL REPORTING**

### ***PREMISE***

The guidelines and focus of the internal control system have been defined by the board of directors, with the support of the internal control committee, to facilitate, through an appropriate process the identification, measurement, management and monitoring of the main risks the Group is exposed to, the sound management of the company, that is fair and consistent with its objectives.

In accordance with the provisions of art. 123-*bis*, paragraph 2, lett. b) of the Finance Consolidation Act, the risk management system with regard to financial reporting is an integral part of the internal control system, providing a set of rules, procedures and organisational structures to ensure accountability, and the accuracy, reliability and timeliness of financial reporting.

As part of its financial reporting process, Mondadori as a listed company, has appointed an officer responsible for preparing the company's accounting documents to whom the law gives specific powers, responsibilities and obligations of certification or declaration.

In accordance with statutory requirements and law, the executive responsible has determined, with the support of the chief executive officer and the board of directors, a control model of reference and outlined specific activities that involve different business functions inside the company, with the aim to provide support in the process of certification.

### **CONTROL MODEL OF REFERENCE**

In compliance with regulatory requirements, the executive responsible has adopted a universally recognised control model - the COSO Report, Internal Control Integrated Framework - for the evaluation of the design and effectiveness of the internal control system for periodic financial and business reporting.

This reference model facilitates the evaluation of the adequacy of the internal control system, along three lines (objectives, scope and components), for each of which aspects that are considered relevant for the Group have been selected.

From the target perspective, the main focus is on "financial reporting", whose aim is the timeliness and reliability of financial reporting.

In this context, the aim of the internal control processes is to provide reasonable reassurance concerning:

- respect for the timing foreseen by the reference standards for the preparation of



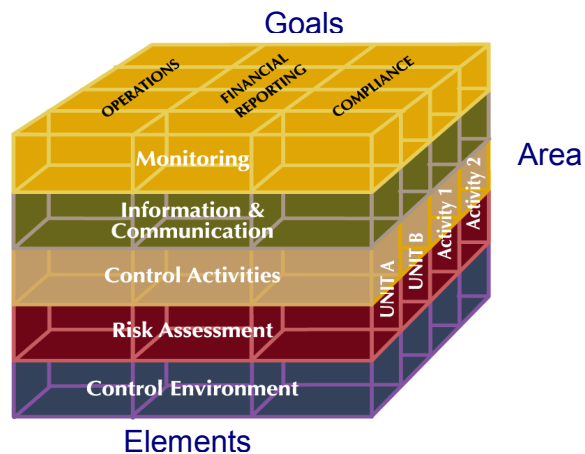
financial reporting;

- reliability of data, information and process adopted for the preparation of financial reports.

In terms of scope, the model facilitates the assessment of the adequacy of the internal control system at different levels of the corporate organisation, including, for example, at group level, company, process, level etc.

From the point of view of the components that represent the elements against which the adequacy of the control system to achieve its goals is assessed, the focus is on:

- the "control environment" in which individuals and instruments have been identified, for the preparation, assessment and evaluation of the overall internal control system, and where the reliability of financial information is one of the key objectives;
- "Risk Assessment", or the identification of negative events that may preclude the achievement of the objectives of reliability and timeliness for financial reporting and risk assessment related to such events;
- "Control Activities", i.e. the activities and types of control aimed at reducing previously identified and evaluated risks. The control system will be adjusted to the extent that the risks are covered by specific responses to risk and control measures. Risk assessment and the identification of control activities were carried out through the mapping of administrative and accounting procedures and an assessment of their adequacy;
- "Monitoring" includes regular activities aimed at verifying:
  - the effective application of procedures and in particular those relating to control activities;
  - the updating of procedures and, in particular, those relating to control activities;
- "Information and communication" provides for the provision of adequate information flows between stakeholders in the system of internal control. In this case, such flows include: communication of the procedures to stakeholders;
  - exchange of information between parties with a role in the model of corporate governance;
  - reporting on the progress of any activities for improvement of the control system;
  - reporting on any identified anomalies in the monitoring activities identified in subsequent sections of this document.



### CHARACTERISTIC ELEMENTS OF THE CONTROL MODEL

The executive responsible works in conjunction with corporate governance bodies, first level corporate functions and the companies included in the scope of consolidation in order to collate information on the activities that have an impact on the Group's economic, assets and financial situation.

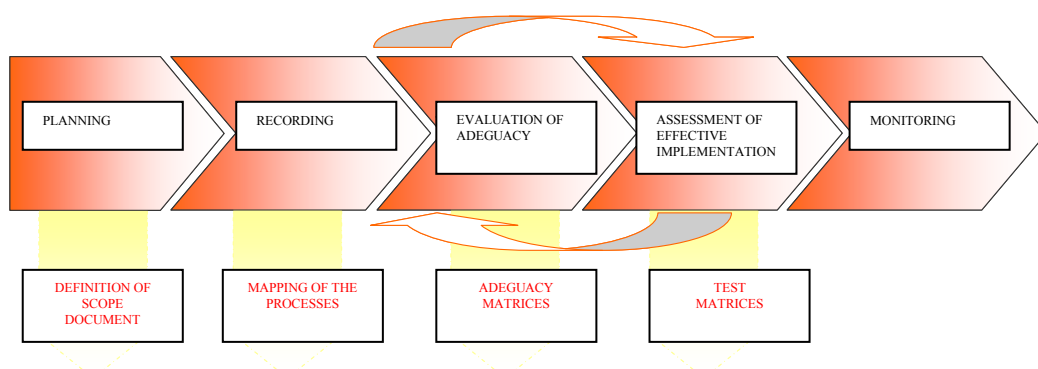
In its application, the control model interfaces with the managers of the administrative processes and internal audit structures.

In particular:

- the administrative processes, which mainly assist in the preparation of documentation for the analysis and assessment of the adequacy of administrative and accounting procedures;
- the Internal Audit structure, assists in the verification of the effective application of such procedures.

Mondadori's control model envisages the following steps, which were updated in 2009 and involved specific activities:

- Planning,
- Recording,
- Evaluation of adequacy,
- Assessment of effective implementation,
- Definition and monitoring corrective actions.



#### PLANNING

Mondadori has updated the scope of analysis in its "Definition of scope" to include the Group's wholly-consolidated subsidiaries.

In particular:

- an analysis of the business areas, with a description of the value chains;
- a classification of areas of the budget according to significance and complexity criteria.

#### RECORDING

Processes and procedures in relevant areas have been mapped, highlighting key control activities to cover identified risks related to financial information. This was done in collaboration with the managers of individual processes.

The mapping of the flows was made by creating a flowchart describing activities, support tools, roles and responsibilities.

#### EVALUATION OF ADEQUACY

The adequacy of processes and procedures was documented through the evaluation of key control activities, related to identified risks, using appropriate adequacy metrics.

The valuation results are shared with the managers of individual processes. If controls are not deemed adequate, corrective action is taken.

#### ASSESSMENT OF EFFECTIVE IMPLEMENTATION

The activities of the internal audit function in the assessment of the effective application of key controls are conducted in relation to the processes mapped. The test results are included in specific reports addressed to the executive responsible, which are then used to update the process documentation and initiate corrective action.

#### MONITORING

The monitoring of the control model was completed with the:

- creation of communication flows with the representatives of the processes to identify any changes in activities using process certification profiles;
- documentation of the updating process (flow chart and adequacy metrics);
- definition and initiation of corrective actions designed to align key controls deemed inadequate;
- preparation of documentation for certification by Group companies included in the scope of analysis;
- provision of information flows to the control bodies.

## SECTION III INFORMATION ON THE SHAREHOLDER STRUCTURE

### SHAREHOLDERS' STRUCTURE AND COMPOSITION AND RELATED SHARE RIGHTS

On the date of this report, the fully paid up share capital of Arnoldo Mondadori Editore SpA, amounted to €67,451,756.32 divided into n. 259,429,832 ordinary shares with a par value of €0.26 each.

The shares are issued by the central depository and in book-entry form and are traded on the market organised and managed by Borsa Italian SpA.

Shares are registered, indivisible and freely transferable, and include the right to vote at the company's ordinary and extraordinary Shareholders' Meetings in accordance with current legislation and the Articles of Association and provide additional administrative and financial rights as foreseen by law for shares with voting rights.

There are no other classes of shares or securities that are not traded on regulated markets.

No other securities are issued which confer the right to subscribe new shares.

### RESTRICTIONS ON THE TRANSFER OF SHARES

There are no restrictions on the transfer or limitations on the holding of shares or terms of approval by the company or other holders of securities regarding the transfer of shares.

### SIGNIFICANT HOLDINGS

Significant investments, in excess of 2% of the shares held directly or indirectly, according to the shareholders' register, the notifications received pursuant to art. 120, of Italian legislative decree N. 58/1998 and other available information, are outlined below:

Shareholder	no. of shares held	% of share capital
Silvio Berlusconi (indirectly through Fininvest SpA)	130,773,658	50.408
Silchester International Investors LLP <sup>(1)</sup>	32,073,748	12.363
Tweedy Browne Company LLC <sup>(1)</sup>	12,669,738	4.884
<sup>(1)</sup> shares held in "asset management" portfolios		

During the year there were no significant changes in the shareholders' structure, while there was a reduction of the company's market capitalization of around 14.447%.

### SPECIAL CONTROL RIGHTS

No shares have been issued with special control rights.

### **EXERCISE OF VOTING RIGHTS REGARDING EMPLOYEE SHARE OWNERSHIP SCHEME**

There is no specific mechanism for the exercise of voting rights applicable to the system of employee share ownership.

The voting rights attaching to shares deriving from the exercise of stock options under the Stock Option Plan (described in Section I of this report) are not subject to any form of restriction and may be exercised directly by the beneficiaries.

### **RESTRICTIONS ON VOTING RIGHTS**

There are no restrictions on the exercise of voting rights.

### **AGREEMENTS PURSUANT TO ART. 122 OF ITALIAN LEGISLATIVE DECREE N. 58/1998.**

The board of directors is not aware of the existence of shareholders' agreements, pursuant to art. 122 of Italian legislative decree N. 58/1998, concerning the exercise of rights attached to the shares or the transfer of same.

### **SIGNIFICANT AGREEMENTS SUBJECT TO MODIFICATION OR TERMINATION IN THE EVENT OF A CHANGE OF CONTROL**

There are no significant agreements to which the company or its subsidiaries are party and which could become effective, be modified or terminated in the event of a change of control in the company.

### **AGREEMENTS ON DIRECTORS COMPENSATION**

There are no agreements between the company and the directors that envisage compensation in the event of resignation or dismissal without just cause or in the case of a termination of employment resulting from a takeover bid.

### **RULES GOVERNING THE APPOINTMENT AND REPLACEMENT OF DIRECTORS**

With regard to the rules governing the appointment, by the voting list system, and replacement of directors, reference is made to Section I of this report under "Appointments procedures" and the provisions of article. 17 of the Articles of Association.

### **RULES GOVERNING AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

Amendments to the Articles of Association may only be resolved by an Extraordinary Shareholders' Meeting, under the provisions of art. 16 of the Articles of Association for the constitution and resolutions of an Extraordinary Shareholders' Meeting, both in first and subsequent calls, or in the case of a single call, in line with current legislation.

With reference to art. 2365 of the Civil Code and pursuant to art. 23 of the Articles of Association, the board of directors has the power to adopt resolutions concerning the merger, as foreseen by art. 2505 of the Civil Code, the opening or closing of branch offices, an indication of the directors representing the company, the reduction of the share capital in

the case of withdrawal of shareholders, amendments to the Articles of Association in compliance with regulatory changes and the issue of non-convertible bonds within the terms of art. 2412 of the Civil Code and in any event up to a maximum of €400,000,000, provided that any issue beyond this limit remains subject to the approval of an Extraordinary Shareholders' Meeting. Shareholders are also exclusively responsible for the authorization of the issue of bonds with warrants for the subscription of company shares.

#### **POWERS FOR CAPITAL INCREASE AND THE ISSUE OF BONDS PURSUANT TO ARTICLES 2443 AND 2420 TER OF THE ITALIAN CIVIL CODE**

The Extraordinary Shareholders' Meeting of 29 April 2009 resolved:

- a) to grant, pursuant to art. 2443 of the Italian Civil Code, to the board of directors the faculty to increase, on one or more occasions, the share capital, within a period of five years from the date of the resolution, up to a maximum nominal amount of €78 million by issuing shares with the faculty of the directors to determine, from time to time, the issue price, including a share price premium, the fruition and eventual destination of the capital increase to service the conversion of bonds also issued by third parties, both in Italy and abroad, or warrants;
- b) within the limits referred to in article 23, paragraph 2, of the Articles of Association, the jurisdiction of the board of directors as per article 2410 of the Civil Code regarding the issue of convertible debentures, to grant the board, pursuant to art. 2420 *ter* of the Italian Civil Code, the power to issue, on one or more occasions, convertible bonds with the correlated increase in share capital, within a period of five years from the date of the resolution, for an amount that, in view of the outstanding bonds on the date of the resolution of each issue, does not exceed legal limits, or, in any case, does not exceed a maximum nominal amount of €260 million, as determined by the relevant procedures, terms, conditions and related regulations.

The attribution to the board of the faculty to increase the share capital does not provide for exclusion of option rights.

#### **AUTHORISATION TO BUY BACK COMPANY SHARES**

The Shareholders' Meeting of 27 April 2010, following the expiry of the previous authorisation of the Shareholders' Meeting of 29 April 2009, agreed, pursuant to art. 2357 of the Italian Civil Code, to renew authorisation for the buy back of company shares. The limit defined by the shareholders' is 15% of the share capital - taking into account shares already held as Treasury Shares and those held by subsidiaries.

What follows is an outline of the buy-back programme authorised by the Shareholders:

1. Aims and underlying motivation

- use company shares for the exercise of options for the purchase of shares assigned to participants in the stock option plans put in place by the shareholders;
- use company shares, either bought or in the portfolio, for the exercise of rights, including conversion rights, deriving from financial instruments issued by the company, its subsidiaries or third parties;
- use company shares, either bought or in the portfolio, as part or whole payment in any eventual acquisitions or equity investments that fall within the company's stated investment policy;
- take advantage, where and when considered strategic for the company, of investment opportunities, also in relation to available liquidity.

## 2. Cap on the number of shares that may be bought

The authorisation requested applies to a limit of 15% of the company's share capital, corresponding to 38,914,474 shares.

Given that the company on the date of the shareholders' resolution, held a total of 17,850,101 shares and a further 4,517,486 shares were held by the subsidiary Mondadori International SpA – making a total of 22,367,587 shares or 8.62% of the share capital – the new authorisation gives to the board the faculty to buy back further 16,546,887 ordinary shares, corresponding to 6.38% of the share capital.

## 3. Method of acquisition and the price range

Buy backs would be effected on regulated markets as per art. 132 of Italian legislative decree n. 58 of 24 February 1998 and art. 144 bis, par. 1 Lett B of Consob regulation 11971/99 according to operating procedures established by the regulations for the organisation and management of the markets themselves, which, does not permit the direct combination of offers to buy with predetermined offers to sell.

The corresponding minimum and maximum price of sale will therefore be determined at the same conditions that applied to previous authorisations agreed by the Shareholders, i.e. at a unit price not less than the official market price on the day prior to any transaction, less 20%, and not more than the official market price on the day prior to any transaction, plus 10%.

In terms of price and daily volumes, acquisition transactions will in any case be conducted in line with the norms foreseen by EU regulation N. 2273/2003, in particular:

- the company will not buy shares at a price greater than the highest price of the last independent transaction and the price of the highest current independent offer on the regulated market where the acquisition was made.
- in terms of daily volumes, the company will not purchase a quantity greater than 25% of the average daily volume of Mondadori shares traded on the regulated market and



calculated on the basis of the average daily volume of trading of Mondadori shares in the 20 trading days prior to the dates of purchase.

#### 4. Duration

This authorisation will remain valid until the approval of the Annual Report for the year ended 31 December 2010, and in any case for a period of not more than 18 months from the date of the shareholders' approval.

#### **BUY-BACKS MADE DURING THE YEAR**

In 2010 – in the period between 8 and 26 February - Arnoldo Mondadori Editore SpA acquired a total of 2,270,000 shares on the automated stock market as specified by the Annual Shareholders' Meeting in 2009. The company did not make any use of such shares and its subsidiaries have not made any acquisitions or disposals.

As of 31 December 2010, the total number of treasury shares held amounted to 22,367,587 (8.62% of the share capital) of which 17,850,101 directly held by Arnoldo Mondadori Editore SpA and 4,517,486 held by the subsidiary Mondadori International SpA

At the date of approval of this report the total number of shares held was unchanged from the situation as at 31 December 2010.

#### **PROVISIONS APPLICABLE TO THE RUNNING OF SHAREHOLDERS' MEETINGS**

The calling, constitutive and deliberative quorums and the operation of shareholders' meetings are governed by Chapter III of the Articles of Association (Shareholders' Meetings) available on the company website: [www.mondadori.it](http://www.mondadori.it) - Governance section.

Reference is also made to Section I of this report.

#### **CHANGES SINCE THE END OF THE PERIOD**

There were no changes in the corporate governance structure from the date of the closing of the reporting period.

## SECTION IV SUMMARY TABLES

**TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES**

Board of Directors									Internal Control Committee		Remuneration Committee		Appointments Committee (a)	Executive Committee (b)	
Office	Members	In office		List (M/m) *	executive	non-executive	Independence	% Attendance **	Other offices held ***	****	% Attendance **	****	% Attendance **		
		From	to <sup>(1)</sup>												
Chairman	Berlusconi Marina	29/04/2009	31/12/2011	M	X			88.89	4						
Deputy Chairman & Chief Executive	Costa Maurizio	29/04/2009	31/12/2011	M	X			100.00	2						
Director	Berlusconi Piersilvio	29/04/2009	31/12/2011	M		X		22.22	7						
Director	Briglia Roberto	11/11/2010	31/12/2011	•	X			100.00 •	1						
Director	Cannatelli Pasquale	29/04/2009	31/12/2011	M		X		88.89	4						
Director	Ermolli Bruno	29/04/2009	31/12/2011	M		X		88.89	7	X	100.00	X	100.00		
Director	Mondadori Martina	29/04/2009	31/12/2011	M		X	X	66.67							
Director	Poli Roberto	29/04/2009	31/12/2011	M		X		44.44	7			X	100.00		
Director	Renoldi Angelo	11/11/2010	31/12/2011	•		X	X	100.00 •	3	X	100.00 •				
Director	Resca Mario	29/04/2009	31/12/2011	M		X	X	100.00	1	X	100.00				
Director	Sangalli Carlo	11/11/2010	31/12/2011	•		X	X	100.00 •				X	100.00 •		
Director	Spadacini Marco	29/04/2009	31/12/2011	M		X	X	77.78	12	X	100.00	X	100.00		
Director	Veronesi Umberto	29/04/2009	31/12/2011	M		X	X	11.11							
Director	Vismara Carlo Maria	29/04/2009	31/12/2011	M	X			100.00	2						
<b>DIRECTORS RESIGNED DURING THE YEAR</b>															
Quorum required for the presentation of voting lists for the latest appointment: 2.5%															
Fee applicable for the presentation of lists, in line with Consob resolution n. 16779 of 27 January 2009															
Number of meetings held in the period						Board of Directors: 9			Internal Control Committee: 4			Remuneration Committee: 3			

**NOTE**

- <sup>(1)</sup> until the AGM for the approval of the Annual Report for the year to 31 December 2011.
- \* M/m indicates whether the member was appointed by a list voted by a majority (M) or minority (m).
- directors appointed by the Shareholders' Meeting of 11 November 2010 to integrate the board of directors.
- \*\* indicates the percentage attendance of directors at meetings of the board and the committees respectively (attendance/n. of meetings held during the period in office).
- \*\*\* indicates the number of offices held by directors in other listed companies, also outside Italy, in financial, banking or insurance companies, or other companies of significant size. Such offices are indicated in full in this report.
- \*\*\*\* an "X" indicates a director is a member of a Committee.
- (a) the company does not currently have an Appointments Committee.
- (b) the company does not currently have an Executive Committee.

**TABLE 2: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS**

Board of Statutory Auditors							
Office	Members	In office		List (M/m) *	Independence	% Attendance **	Number of offices ***
		from	to <sup>(1)</sup>				
Chairman	Superti Furga Ferdinando	29/04/2009	31/12/2011	M	X	100.00	12
Standing auditor	Giampaolo Francesco Antonio	29/04/2009	31/12/2011	M	X	100.00	31
Standing auditor	Papa Franco Carlo	29/04/2009	31/12/2011	M	X	100.00	8
Substitute auditor	Ezio Simonelli	29/04/2009	31/12/2011	M		---	
Substitute auditor	Vittadini Francesco	29/04/2009	31/12/2011	M		---	
SINDACI CESSATI DURANTE L'ESERCIZIO DI RIFERIMENTO							
Quorum required for the presentation of voting lists for the latest appointment: 2.5%				Fee applicable for the presentation of lists, in line with Consob resolution n. 16779 of 27 January 2009			
Number of meetings held in the period: 13							

**NOTE**

<sup>(1)</sup> until the AGM for the approval of the Annual Report for the year to 31 December 2011.

\* M/m indicates whether the member was appointed by a list voted by a majority (M) or minority (m).

\*\* in indicates the percentage attendance of statutory auditors at meetings of the statutory auditors and the committees respectively (attendance/n. of meetings held during the period in office).

\*\*\* indicates the number of offices held as director or statutory auditor by subjects deemed relevant under article 148 *bis* of the Finance Act  
Such offices are indicated in full in this report.

**TABLE 3: SHAREHOLDER STRUCTURE**

<b>SHARE CAPITAL STRUCTURE</b>				
	N° shares	%	Listed (markets)	Rights & obligations
Ordinary shares	259,429,832 *	100	MTA	**
Shares with limited voting rights	----	----	----	----
Shares without voting rights	----	----	----	----

\* as of the date of this report the company held, directly or indirectly, a total of 22,367,587 shares, for which, as per current legislation, voting rights are suspended.

\*\* see Section III of this report, Share Capital Structure and right attached to shares.

<b>SIGNIFICANT SHAREHOLDINGS</b>			
<b>Declaring subject</b>	<b>Direct shareholder</b>	<b>% of ordinary share capital</b>	<b>% voting rights</b>
Silvio Berlusconi	Fininvest SpA	50.408	50.408
Silchester International Investors LLP *	Silchester International Investors LLP (as the asset manager, among others, of the Silchester International Investors International Value Equity Trust which holds 5.95% and Silchester International Investors International Value Equity Group Trust which holds 3.23%)	12.363	12.363
Tweedy Browne Company LLC *	Tweedy Browne Company LLC (as the asset manager, among others, of the Tweedy Browne Global Fund which alone holds 4.124%)	4.884	4.884

\* stake held in asset management portfolio