



# **Report on Corporate Governance and Ownership Structure**

pursuant to article 123-bis of Legislative Decree no.  
58/1998

**Fiscal Year 2014**

Approved by the Board of Directors of  
Arnoldo Mondadori Editore S.p.A.  
on 12 March 2015

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

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**Report on**  
**Corporate Governance and Ownership Structure**  
pursuant to article 123-*bis* of Legislative Decree no. 58/1998  
**Fiscal Year 2014**

***PREFACE***

Pursuant to article 123-bis, paragraphs 1, 2 and 3 of Legislative Decree no. 58/1998 and subsequent amendments (hereinafter referred to as “TUF”), this report provides the following information regarding the 2014 fiscal year:

- the corporate governance system put in place by Arnoldo Mondadori Editore S.p.A. (hereinafter referred to as “the Company” or “the Issuer”), and the Company’s compliance with the Code of Conduct for listed companies issued by Borsa Italiana S.p.A. (hereinafter referred to as “the Code”);
- the main characteristics of existing systems of risk management and internal control in relation to financial reporting;
- information on the ownership structure in accordance with the provisions of the above-mentioned article 123-*bis* of Legislative Decree no.58/1998.

The report consists of four sections, divided as follows: (i) description of the corporate governance system put in place by the Company, and the ways in which it complies with the Code; (ii) information on existing systems of risk management and internal control in relation to financial reporting; (iii) information on the ownership structure; (iv) summary tables.

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

### ***INTRODUCTION***

Arnoldo Mondadori Editore S.p.A. acknowledges, on principle, the Code of Conduct for listed companies as a benchmark for defining the Company's organizational structure and modus operandi in terms of Corporate Governance.

Even before the Code was officially released, various aspects of the Company's corporate organizational structure were already in line with what the Code would subsequently call for in its guidelines. Other aspects were put in place as part of a stepwise process of abiding by the Code, while maintaining congruency with the specific characteristics of Mondadori's corporate organizational structure.

What follows is a description of the system of corporate governance put in place by the Company, as well as information on how and which measures have been or will be taken to conform to each requirement of the Code of Conduct. It must be stated beforehand that the Company has adopted a traditional model of administration and control.

This report refers to the Code of Conduct as published in July 2014, which is available to the public on the website 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 on 19 April 2012 - with a term of office determined to last 3 fiscal years and thus concluding with the Shareholders' Meeting to approve the financial statements for the fiscal year ended 31 December 2014.

#### **Change in the Composition of the Board of Directors**

On 17 June 2014, as already indicated in the disclosure to the market, pursuant to art. 2386 of the Italian Civil Code and pursuant to the resolution of the Board of Statutory Auditors and completed verification of fulfilment of the requirements of reputability and eligibility of the law applicable to newly appointed directors, the Board of Directors appointed Mr. Oddone Maria Pozzi by co-optation to replace the resigning director Carlo Maria Vismara, attributing to him the same powers of management and furthermore naming him the Chief Financial Officer - Finance, Procurement and IT Systems, reporting directly to the chief executive officer.

The Board, having heard the opinion in favour of the Board of Statutory Auditors and verified the fulfilment of the requirements of professionalism as provided by the Bylaws, also attributed to Mr. Oddone Maria Pozzi, pursuant to art. 24 of the Bylaws and art. 154-bis of Legislative Decree no. 58/1998, the position of "Manager in charge of financial reporting," attributing to him the duties as required by the aforementioned art. 154-bis of Legislative Decree 58/1998 and any other applicable rule, this having been the role covered by the resigning director.

The director above will remain in office until expiration of the mandate of the Board of Directors, therefore until the approval of the financial statements as at 31 December 2014.

At the conclusion of the fiscal year examined in this report, the Board of Directors was composed of fourteen directors as follows:

4 executive directors:

**Marina Berlusconi**, Chairwoman.

Though the Chairwoman does not hold individual management authority in the Company, she qualifies as an executive director because she works alongside the Chief Executive Officer on the development of business strategies to be submitted to the Board of Directors for approval.

**Ernesto Mauri**, Chief Executive Officer

**Oddone Maria Pozzi** who qualifies as an executive director based on his executive positions in the Company, namely as Chief Financial Officer - Finance, Procurement and IT Systems.

**Mario Resca**, following his recruitment as the President of Mondadori Direct S.p.A. (as at the date of this report, Mondadori Retail S.p.A.), a subsidiary company which operates in the retail area, selling directly to customers, and a company that is strategically significant to the Group. Though Mario Resca's appointment as President does not entail individual management authority, it does entail a role in the development of business strategies relevant to the field of retail.

10 non-executive directors, defined as such because they do not hold individual management authority or executive positions in the Company (or in companies of strategic importance to the Group), nor do they hold such positions in the parent company that may be relevant to the management of the Company:

**Piersilvio Berlusconi**

**Pasquale Cannatelli**

**Danilo Pellegrino**

**Bruno Ermolli**

**Martina Mondadori**

**Roberto Poli**

**Angelo Renoldi**

**Cristina Rossello**

**Carlo Sangalli**

**Marco Spadacini**

Professional and personal biographies of each member of the Board of Directors can be found on the website at [www.mondadori.it](http://www.mondadori.it), under the section "Governance".

## **APPOINTMENT PROCEDURE**

Article 17 of the Bylaws in force regulates the procedure for appointing directors. This is done through a slate voting system, and the relative provisions can be found below.

In that regard, it must be noted that during the 2013 fiscal year, and specifically on 23 April 2013, the Extraordinary Shareholders' Meeting resolved to amend the Bylaws in order to abide by the provisions laid

down in Law no. 120 of 12 July 2011. This law concerns gender balance in governing and supervisory bodies of listed companies.

Specifically, the amendments that were resolved upon concerned articles 17 and 27, which deal with the appointment procedures (through a slate voting system) for the Board of Directors and the Board of Statutory Auditors respectively. New procedures were introduced regarding the composition of slates and apportionment of votes, so as to ensure conformity to the above-mentioned provisions in the composition of the two Boards.

The provisions of the above-mentioned law took effect on 12 August 2011, and were to be applied to the first renewal of the governing and supervisory bodies to occur after one year of the law's entry into force. Thanks to these provisions, the Company's Bylaws were able to welcome the principle of gender equality in terms of access to governing and supervisory bodies of listed companies on regulated markets.

These new regulations state that at least one third of the members of corporate bodies in such companies must be made up of the "less-represented gender". However, on the first application of the law this proportion must be at least one fifth.

In the case of Arnoldo Mondadori Editore S.p.A., Law no. 120/2011 will be applied for the first time when the Company renews its corporate boards at the meeting held to approve the financial statements for the fiscal year ended 31 December 2014. It must be noted, however, that the Board of Directors currently in office is already made up of one fifth of the "less-represented gender", in accordance with the above-mentioned law.

There is a minimum ownership stake required to submit a slate (also referred to as "list" in the Bylaws) of candidates, and in this matter, the Bylaws refer to the percentage established yearly by Consob in accordance with the Issuers Regulation. This percentage is based on the average market capitalization of companies in the last quarter of each fiscal year. As a result of Consob resolution no. 19109 of 28 January 2015, the current minimum ownership stake required to submit a slate of candidates for Arnoldo Mondadori Editore has been established at 2.5% of its share capital.

The same minimum ownership stake of 2.5% was applicable when the Board of Directors were appointed at the Shareholders' Meeting on 19 April 2012.

It must be specified that the Company is not subject to further regulations regarding the composition of the Board of Directors beyond those provided for by Legislative Decree no. 58/1998 and referred to in article 17 of the Bylaws, which can be found below.

**Article 17 of the Bylaws:**

*1. The Company is managed by a Board of Directors composed of seven to fifteen directors, who must meet the requirements envisaged by the from time to time applicable primary and secondary regulations and whose terms of office may also be renewed.*

*2. Before proceeding with the appointment of the members of the Board of Directors, the Shareholders' Meeting shall determine the relevant number and the term of office in compliance with the time requirements established by law.*

*3. The Board of Directors is appointed by the Shareholders' Meeting on the basis of lists containing not more than fifteen candidates, with each one being attributed a progressive number.*

*A candidate may only be present in one list, otherwise s/he is subject to ineligibility for election.*

*The shareholders with voting rights reserve the right to submit the lists, alone or together with other shareholders, when they represent at least that percentage underwritten as of the date of submission of the list, determined and published by Consob pursuant to the regulation adopted by means of resolution no. 11971 of 14 May 1999 and subsequent changes and supplements (hereinafter also "Issuer Regulation").*

*The ownership of the Company capital is determined by taking into account the shares that have been registered in favour of the shareholders on the day in which the list is filed with the Company, with reference to the underwritten capital as of the same date.*

*The relevant confirmation or certification may be communicated or produced also subsequent to the filing of the list, provided that this is served to the Company within the term established for the disclosure of the lists by the Company.*

*The company hereby allows the shareholders who wish to submit the lists to submit them by remote communication means, according to the criteria that it will indicate in the relevant call for the Shareholders' Meeting and that allow the identification of the shareholders upon submission.*

*The interest percentage required for the submission of the lists of candidates for election to the Board of Directors is specified in the relevant call for the Shareholders' Meeting to resolve upon the appointment of the same Board.*

*Any shareholder may not submit nor vote more than one list, even if by third party or through trust companies. Shareholders belonging to the same group – being herein intended as the parent company, subsidiaries and companies under joint control – and shareholders who have adhered to a Shareholders' Agreement pursuant to Article 122 of Italian Legislative Decree no. 58/1998 referring to the Issuer's shares, may not submit nor vote more than one list, even if by third party or through trust companies.*

*Any list that contains a number of candidates not exceeding seven shall include and identify at least one candidate who meets the criteria set out in Italian Legislative Decree no. 58/1998 for the independent directors of listed companies (hereinafter also "Independent Directors pursuant to Italian Legislative Decree no. 58/1998" or "Independent Director pursuant to Italian Legislative Decree no. 58/1998").*

*Any list which contains a number of candidates exceeding seven shall include and identify at least two candidates who meet the criteria set out in Italian Legislative Decree no. 58/1998.*

*In order to ensure a balance in genders, in accordance with current regulations, each list containing a number of candidates equal to or greater than three must provide for the inclusion of candidates of both genders, so that the less represented gender makes up at least third, rounded up if the number is fractional, of the candidates. On the first application, the share of the less represented gender must be at least a fifth, rounded up if the number is fractional.*

*The lists are filed with the Company within the twenty-fifth day preceding the date scheduled for the Shareholders' Meeting called in first or single call to resolve on the appointment of the Board of Directors' members, and the same lists are made available to the public at the Company's premises and on the Company's website, as well as by any other means envisaged by the applicable regulatory provisions, at least twenty-one days before the date of the Shareholders' Meeting.*

*The lists shall include:*

- a) information relative to the identity of the shareholders who have submitted the lists with indication of the percentage interest held;*
- b) a declaration from the shareholders who have submitted the lists and other than those who hold, also collectively, a controlling interest or a relative majority, certifying the non existence or the existence of relations with the latter, as per Article 144-quinquies, first paragraph, of the "Issuer Regulation";*
- c) exhaustive information on the personal and professional characteristics of the candidates as well as a statutory declaration by the same certifying that they meet the requirements envisaged by law and that they accept the candidacy, as well as the possible satisfaction of the independence requirements specified in Article 148, par. 3 of Italian Legislative Decree no. 58/1998.*

*The lists submitted without compliance with the afore specified provisions shall not be presented for voting.*

*Before the vote, the Chairman of the meeting shall make reference to any of the declarations under letter b) above, inviting participants, who have not filed or contributed to the filing of any lists, to declare any possible relations as specified above.*

*Should any subject having relations with one or more shareholders vote for a minority list, the existence of such relation becomes relevant only if the vote is decisive for the appointment of the director.*

*In relation to the breakdown of the directors to appoint, the lists that have not obtained a number of votes at least equal to half the number requested for the relevant submission are not taken into account.*

*For the purpose of voting, the votes obtained by the lists are divided by the progressive integers ranging from one to the number of directors to appoint.*

*The resulting quotients are attributed to the candidates of each list according to the order in which they appear therein.*

The quotients attributed to the candidates of the various lists are registered in one single ranking in descending order. Appointed are, up to the attainment of the number of directors established by the Shareholders' Meeting, those who have obtained the higher quotients, subject to the fact that, in any case, the candidate ranking first in the list that scored second and that is in no way, even indirectly, connected with the shareholders who have submitted or voted the list which has ranked first by number of votes, must be appointed.

Consequently, should the aforementioned candidate not have obtained the quotient necessary for the appointment, the candidate who has obtained the lowest quotient in the list that has obtained the highest number of votes shall not be appointed and the board shall be completed with the appointment of the candidate listed in the first position of the list that scored the second-highest number of votes.

The first ranking candidate in the list that has obtained the highest number of votes shall be appointed Chairman of the Board of Directors.

For the purpose of completing the Board composition, should more candidates have obtained the same quotient, the candidate of the list which has not yet had any director appointed or that has obtained the lowest number of directors appointed shall be elected.

If no director is elected from the lists received or in the case in which all the lists have the same number of directors elected, the candidate of the list which has obtained the largest number of votes shall be appointed.

In case of an equal number of list votes and with the same quotient, a new voting session by the Shareholders' Meeting shall be held and the candidate obtaining the simple majority of the votes shall be elected.

If, proceeding in this manner, with a Board of Directors to be appointed with up to seven or more than seven members, respectively, at least one or two directors are respectively elected who meet the requirements set out in Italian Legislative Decree no. 58/1998 for independent directors of listed companies, the following shall be done:

a) in case the Board of Directors includes up to seven members, the candidate who would be appointed as last one according to the progressive quotient and derived from the first list that has obtained the highest number of votes is replaced by the first candidate who has obtained the next-lowest progressive quotient, having the requirements aforementioned and indicated in the same list;

b) in case the Board of Directors includes more than seven members, the two candidates who would be appointed as last ones according to the progressive quotient and derived from the first list that has obtained the highest number of votes are replaced by the two candidates who obtained the next-lowest progressive quotients, possessing the aforementioned requirements and indicated in the same list;

c) in case the Board of Directors includes more than seven members and with only one of the two candidates satisfying the aforementioned requirements, the second candidate shall be appointed as described under letter a) above.

If at the conclusion of voting and the above operations the composition of the Board of Directors does not comply with current regulations concerning the balance of genders, the last elected candidate of the more represented gender on the basis of a progressive quotient and the first list to obtain the highest number of votes shall be replaced by the first candidate of the less represented gender obtaining the immediately lower progressive quotient in the same list, provided that the minimum number of independent directors required by current regulations is respected. If this is not the case, the replaced candidate of the most represented gender, on each occasion, will be penultimate, antepenultimate and so on candidate, based on the progressive quotient of the first list to obtain the highest number of votes.

**If in this way the required result is not reached, the replacement will be made by a Shareholders' resolution passed by a simple majority, after the presentation of candidates belonging to the less represented gender.**

4. Should one single list be presented, the Shareholders' Meeting shall express its vote on it and, if that list obtains the majority requested by Articles 2368 and the following of the Italian Civil Code, the candidates, in progressive order, shall be elected directors up to the number of directors established by the Shareholders' Meeting.

The candidate indicated as first in the list is appointed Chairman of the Board of Directors.

**If by this process for the appointment of a Board of Directors the regulatory provisions concerning independent directors and/or the balance between genders are not satisfied, the procedure outlined in paragraph 3. above of this Article will be adopted.**

5. Failing lists and in the case in which through the voting procedure by list the number of candidates elected is lower than the number established by the Shareholders' Meeting, the Board of Directors shall be respectively appointed or supplemented by the Shareholders' Meeting according to the majorities established by law.

6. In the event of the resignation, for whatever reason, of one or more directors, those remaining in office shall move to replace them by co-option pursuant to art. 2386 of the Civil Code, without prejudice to the obligation to comply with the minimum number of independent directors pursuant to Legislative Decree 58/1998 and current provisions concerning gender balance.

The appointment, by the Shareholders, of directors to replace directors resigning from office, even after the co-option of the same, may be made freely by the legal majority, without prejudice to the obligation to comply with the minimum number of independent directors pursuant to Legislative Decree 58/1998 and current provisions concerning gender balance.

Given that no alternative slate of candidates was presented during the above-mentioned Shareholders' Meeting on 19 April 2012, the current Board of Directors does not include any directors who were appointed by minority shareholders.

## **NON-EXECUTIVE DIRECTORS**

Thanks to their authoritative knowledge and expertise, non-executive directors make an indisputably important contribution during the adoption of resolutions by the Board of Directors.

## **INDEPENDENT DIRECTORS**

During the fiscal year, the Board of Directors undertook to ensure that the non-executive directors listed below met the requirements needed to qualify as independent directors. By using information that was provided by the person concerned, or that was in any case available to the Company, the Board assessed the following directors' independence according to a set of criteria established by the Board itself:

**Martina Mondadori**

**Angelo Renoldi**

**Cristina Rossello**

**Carlo Sangalli**

**Marco Spadacini**

This assessment of directors' independence was carried out with reference to all the criteria provided for in the Code, except for the following (described below): the requirement pertaining to the term of office, which may not be more than 9 years out of the last 12 years. The Code classifies as independent those directors who do not maintain, nor have recently maintained - be it directly or indirectly - business relationships with Arnoldo Mondadori Editore S.p.A. or entities in some way linked to the Issuer, such that might currently influence their independent judgment. By way of example, independent directors are those who:

- a) do not control the Issuer, nor are they able to exercise considerable influence over the Issuer, nor do they form part of a shareholders' agreement through which one or more entities might exercise control or considerable influence over the Issuer, be it directly or indirectly, including through subsidiaries, trustees or by proxy;
- b) are not, nor have been over the previous three fiscal years, a key member\* of the Issuer, of a strategically important subsidiary of the Issuer, or of a company jointly controlled in part by the Issuer, nor of a company or entity which controls or exercises considerable influence over the Issuer, including jointly, through shareholders' agreements;
- c) do not have, nor have they had over the previous fiscal year, a significant business, financial or professional relationship - be it directly or indirectly (for example, through subsidiaries or as a key member of a subsidiary, or as a partner in a professional service firm or consulting firm) - with:

- the Issuer, a subsidiary of the Issuer, or any key members thereto related;
  - a person who controls the Issuer, including jointly through a shareholders' agreement, or any key members of a company or entity that might control the Issuer;
- nor are they or have been an employee of one of the above-mentioned entities over the previous three fiscal years;
- d) do not receive, nor have received over the previous three fiscal years, a significant amount of remuneration from the Issuer, a subsidiary or a parent company of the Issuer - including participation in performance-based and/or equity-based incentive plans - in addition to their "base" emolument as a non-executive director of the Issuer;
  - e) have not been a director of the Issuer for more than nine years out of the last twelve years;
  - f) do not hold the position of executive director in any company in which an executive director of the Issuer holds the position of director;
  - g) are not a partner or director of a company or entity belonging to the network of the company in charge of auditing the Issuer's financial accounts;
  - h) are not an immediate family member of a person who finds themselves in the circumstances referred to in points a) to g).

\* "Key member" of a company or entity refers to one of the following: the president of the entity, the legal representative, the chairman of the board of directors, executive directors and key management personnel of the company or entity concerned.

The Board of Directors confirmed the independent status of the directors Marco Spadacini and Martina Mondadori, despite their lacking one of the requirements laid down in the Code, namely a term in office that may not be more than nine years out of the last twelve years.

The satisfaction of the independence requirements on the part of the above-mentioned directors was confirmed nonetheless, in recognition of the specific expertise and unbiased opinion that they bring to the Board and, in the case of Marco Spadacini, to the Committees set up by the Board as well; furthermore, these directors satisfy all other independence requirements as established by the Code.

In the period under review, the independent directors met without any other directors being present, to:

- review together with the Head of Internal Audit, the procedures for implementing the guidelines of the internal control and risk management system with a special focus on the evolution and development of the Risk Assessment process during the fiscal year at hand.

The following table lists the positions held by current directors of Arnoldo Mondadori Editore S.p.A. as director or statutory auditor in other listed companies, as well as in financial companies, banks, insurance companies, or in other large companies:

Board of Directors	Positions held by directors in other listed companies, as well as in financial companies, banks, insurance companies, or in other large companies
Berlusconi Marina	President of Fininvest S.p.A., Board Member of Mediaset S.p.A. and Mondadori France S.A.S.
Ernesto Mauri	President of Mondadori France S.A.S and of Mondadori Libri S.p.A Resigned from the office of President and Chief Executive Officer of Mondadori Pubblicità S.p.A in April 2014

Berlusconi Piersilvio	Vice-President of Mediaset S.p.A. and President and Chief Executive Officer of R.T.I. S.p.A., Medusa Film S.p.A., and Publitalia 80 S.p.A. Board Member of Fininvest S.p.A from June 2014. Resigned in April 2014 from Board Member of Mediaset Espana Comunicacion S.A. Resigned in June 2014 from Board Member of Mediobanca S.p.A.
Cannatelli Pasquale	Chief Executive Officer of Fininvest S.p.A., Board Member of Mediaset S.p.A., Mediolanum S.p.A. and A.C. Milan S.p.A.
Ermolli Bruno	Board Member of Mediaset S.p.A., Mondadori France S.A.S. and Sipa Bindi S.p.A.  Mr. Ermolli holds the following positions in other entities and companies: President of Promos (Special Agency of the Milan Chamber of Commerce) Vice Chairman of Fondazione Teatro alla Scala. Board Member of Bocconi University, the Politecnico di Milano, Censis, Fondazione Pier Lombardo, the Milano per la Scala Foundation, and FAI. Member of Executive Committee and Board of the Milan Chamber of Commerce
Mondadori Martina	
Pellegrino Danilo	President of Teatro Manzoni S.p.A., ISIM S.p.A., Mediolanum Assicurazioni S.p.A. and Mediolanum Vita S.p.A. Board Member of Mediolanum S.p.A., Fininvest S.p.A. and Fininvest Gestione Servizi S.p.A.
Poli Roberto	President of Poli e Associati S.r.l., Board Member of FIMITA S.r.l., Fininvest S.p.A., Coesia S.p.A. and San Raffaele Hospital.
Pozzi Oddone Maria (in office from 17 June 2014)	Board Member of Mondadori France S.A.S and of Mondadori Libri S.p.A  Resigned in June 2014 as Board Member of: Giochi Preziosi S.p.A., Giochi Preziosi Lussemburgo S.A., Distritoys S.A.S., Giochi Preziosi Hong Kong Ltd., Holding Company of Giochi S.p.A.
Renoldi Angelo	Board Member of Mediolanum S.p.A. and Banca Mediolanum S.p.A.
Resca Mario	President of Mondadori Direct S.p.A. (as at the date of this report Mondadori Retail S.p.A.), Confimprese and Bioenergy Casei Gerola. Private Equity Fund Advisor at Ergon Capital Investment.  Resigned in June 2014 from his position as Board Member of ENI S.p.A.
Rossello Cristina	Board Member of Spafid S.p.A., Branca International S.p.A., and Veneto Banca S.c.p.a.
Sangalli Carlo	Vice Chairman of Fondazione Cariplo.
Spadacini Marco	Chairman of the Statutory Boards of AMBI S.p.A., Apple Italia S.r.l., Apple S.p.A., Cooperativa Palomar 3 ltd.; Almagiva S.p.A., Standing Statutory Auditor of Centurion Immobiliare S.p.A., AXA Assicurazioni SpA and BIOASE Srl; Board Member of Compagnia Fiduciaria Nazionale S.p.A. and Metroweb S.p.A.
Vismara Carlo Maria (in office until 31 May 2014)	Vice-Chairman and Board Member of Mondadori France S.A.S. (resigned form office on 31 May 2014).

There are no specific guidelines as to the maximum number of positions a Board Member may hold as a board member or statutory auditor in the types of companies listed above; that decision is left to the director him/herself when asked to accept the appointment.

This stance has also been taken because it is supported by the criteria contained in the Code regarding a position on a board of directors. Indeed, the Code's provisions recommend that directors accept an

appointment only when they deem they can devote the necessary time to the diligent performance of their duties, taking into account, among other things, their own professional and business-related commitments, the number of positions they hold on the boards of directors or statutory auditors in other listed companies, and similar positions in financial companies, banks, insurance companies and other large companies.

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

Powers are delegated in such a way as to ensure a central role for the Board of Directors in corporate organization. Indeed, the Bylaws state that the Board shall have all the powers necessary for the ordinary and extraordinary management of the Company, except for those powers mandated by law to be reserved exclusively to the Shareholders' Meeting. Furthermore, it is the Board's function and responsibility to determine the strategic and organizational guidelines for the Company and Group.

Specifically, the Board of Directors performs the following duties:

- it examines the plans proposed by the Chief Executive Officer regarding the industrial and financial strategy of the Company and Group, approving them in general terms and then ensuring that they are implemented;
- it examines and approves the system of corporate governance in the Company and the structure of the Group;
- with the support and counsel of the relevant Committee, it determines the guidelines to be followed for the system of internal control and risk management; at the same time, it also determines how compatible any risks are with the management of the Company, so that the latter is in keeping with established strategic objectives; at least once a year, it assesses the adequacy of the system of internal control and risk management as it relates to the Company's characteristics and risk profile, while also assessing its effectiveness;
- at least once a year, and after consulting with the Board of Statutory Auditors and the Director in charge of the system of internal control and risk management, it approves the action plan prepared by the Head of Internal Audit;
- it has appointment and removal powers over the Head of Internal Audit, which it exercises at the recommendation of the Director in charge of internal control and risk management, upon approval from the Internal Control and Risk Management Committee and after having consulted with the Board of Statutory Auditors. Furthermore, it works together with the Internal Control and Risk Management Committee to ensure that the Internal Audit function is provided with the resources it needs to successfully carry out its duties;
- after consulting with the Board of Statutory Auditors, it assesses the results presented by the external auditor, which includes the audit report on the key issues that emerged during the audit as well as any letter of recommendation that may have been prepared;
- with the investigative support of the Internal Control and Risk Management Committee, it evaluates the organizational, administrative and accounting structure of the Company and its strategically important subsidiaries. In accordance with the provisions laid down in article 165 of Legislative Decree no. 58/1998, particular focus is placed on subsidiaries that make a significant contribution to the Group's consolidated results;
- it grants and revokes the operating limits of the Chief Executive Officer, and it establishes the ways in which, and to what extent, those limits may be exercised. Furthermore, at the recommendation of the Remuneration and Appointments Committee, and having consulted with the Board of Statutory Auditors

- (in accordance with article 2389 of the Italian Civil Code), it determines the remuneration of the Chief Executive Officer as well as that of other directors who hold key positions;
- using the information it receives from the Chief Executive Officer on at least a quarterly basis, it assesses the general performance of the Company's management, including a comparison between the results achieved and forecasts made beforehand;
  - it approves in advance all transactions carried out by the Company that have a material impact on the Company's income statement and balance sheet.
  - Specifically, a Board resolution has determined that the following types of transactions are considered to be of material impact, and as such, the Board of Directors has exclusive authority insofar as their examination and approval:
    - acquisition, conferral and sale of equity investments;
    - acquisition, conferral and sale of companies or company divisions;
    - acquisition, conferral and sale of real estate;
    - definition of joint venture agreements
    - the issue of personal guarantees or collateral to third parties on the part of Arnoldo Mondadori Editore S.p.A., in its own interest or in that of its subsidiaries, for amounts over 20 million euro;
    - investments in property, plant and equipment that are of great strategic importance to the Company, and in any case, investments of an amount exceeding 5 million euro for each single investment.

The Board of Directors examines and approves in advance all transactions that have a material strategic, economic and financial impact on the Company, including its subsidiaries.

The transactions pertaining to subsidiaries that must be submitted for approval to the Board of Directors of Arnoldo Mondadori Editore S.p.A. are classified as material based on the subject-matter and value of the transaction.

Specifically, the following transactions pertaining to subsidiaries have been identified as material:

- acquisition, conferral and sale of equity investments;
- joint venture agreements;
- acquisition, conferral and sale of companies or company divisions;
- acquisition and sale of real estate;
- investments in property, plant and equipment that are of great importance to the Group;
- taking out loans, the issue of personal guarantees or collateral;

in the event that one or more of the following criteria are met:

- a) the transactions qualify as significantly influencing the share price in accordance with the provisions laid down in Legislative Decree no. 58/1998, and as such they are subject to mandatory disclosure to the market;
- b) the transactions have a material impact on the Company's income statement and balance sheet.

Specifically, any transaction of the types listed above which is worth over 15 million euro, insofar as the total or the consideration paid, qualifies as having a material impact on the Company's income statement and balance sheet.

During the 2014 fiscal year, the Board of Directors held 7 meetings, which were regularly attended by the Board of Statutory Auditors. Each meeting lasted, on average, 2 hours and 30 minutes.

Each director's attendance rate for these meetings is enclosed with this report.

At the time this report was drafted, 3 meetings of the Board of Directors had already been held during the 2015 fiscal year. Looking forward to the rest of 2015, the corporate events calendar has the following meetings scheduled:

- 12 May 2015 (review of the quarterly management report for the quarter ended 31 March 2015),
- 28 July 2015 (review of the semi-annual financial report for the first half ended 30 June 2015),
- 5 November 2015 (review of the quarterly management report for the quarter ended 30 November 2015),

The corporate events calendar has already been disclosed to the market. It should also be noted that the Bylaws do not call for a minimum number of Board meetings.

Managers from the Issuer or its subsidiaries who are in charge of specific divisions within the Group may be asked by the Chairman of the Board of Directors to participate in Board meetings. This could be done at the request of Board members themselves, or on the initiative of the Chief Executive Officer. The aim is to bring specific issues to the Board's attention regarding the business areas under the managers' responsibility, as well as to enhance Board members' knowledge of company dynamics and offer them insight into the everyday situations that managers face.

Furthermore, the Chief Executive Officer ensures that the business area managers who may be involved with the meeting's agenda are available to take part if necessary.

## **CHAIRMAN**

In accordance with the Bylaws, the Chairman of the Board of Directors legally represents the Company before third parties and in court. As stated above, the Chairman does not hold individual management authority, and works alongside the Chief Executive Officer on the development of business strategies to be submitted to the Board of Directors for approval.

### ***Notice of meeting***

The Chairman of the Board of Directors calls and coordinates the Board meetings. All the documentation relative to agenda topics is normally sent out to directors and statutory auditors beforehand, so as to ensure their well-informed participation in the meetings. This notice of meeting is sent out by the secretary of the Board of Directors and by the Department of Corporate and Legal Affairs, with an average notice of 3 days, except in cases of necessity or urgency.

Generally, the documentation sent out is accompanied by a summary that covers the main points on the agenda, in line with the resolutions to be adopted.

As part of the self-assessment process described below, overall the Board of Directors deemed the aforementioned notice of meeting to be satisfactory in terms of timeliness and thoroughness.

## **CHIEF EXECUTIVE OFFICER**

The Chief Executive Officer is invested with full operational management authority, except for issues falling under the exclusive authority of the Board of Directors, as described and listed in the previous paragraph "Functions and activities of the Board of Directors".

The Chief Executive Officer reports regularly to the Board of Directors and the Board of Statutory Auditors on the main activities carried out under his/her authority, and in accordance with article 2381 of the Italian Civil Code. These reports take place during the regularly scheduled meetings, and in any event, on at least a quarterly basis; focus is placed on any atypical, unusual or related-party transactions which do not require approval on the part of the Board of Directors.

#### **EXECUTIVE COMMITTEE**

It should be noted that no “Executive Committee” has been formed.

### **SELF-ASSESSMENT OF THE BOARD OF DIRECTORS**

The Board has implemented a process of self-assessment regarding the Board of Directors itself and the Committees it sets up.

Specifically, “self-assessment questionnaires” are filled in individually and collected by the Department of Corporate and Legal Affairs, which then brings the aggregate results to the attention of the Board of Directors.

This self-assessment is conducted on a yearly basis. In keeping with the recommendations on the subject contained in the Code, its general aim is to evaluate the adequacy of the size, composition and operating procedures of the Board of Directors and its internal committees. Among other things, the assessment process takes into account the professional qualifications and experience, managerial experience and gender make-up of the members, as well as their seniority on the Board. It could also make recommendations on which persons it would be most appropriate to include as Board members.

In particular, the assessment of adequacy focuses on: (i) the individual characteristics of Board members, in terms of professional qualifications and experience; (ii) the structural characteristics of the Board of Directors (its size, and how that relates to the Group’s needs and to the possibility of forming internal committees as necessary; its composition, especially in terms of achieving gender balance, an appropriate proportion of executive to non-executive directors, and an appropriate number of independent directors); (iii) the organizational characteristics of the Board of Directors, meaning its processes and operating procedures (ensuring the proper flow of information to directors, so that they are adequately briefed beforehand on the agenda topics to be covered; the frequency and scheduling of meetings; frequency of attendance at the meetings on the part of the directors; meeting minutes and relevant supporting documents).

When applicable, similar assessments are also carried out in reference to Committees set up by the Board of Directors.

The results of this self-assessment process confirmed a general level of adequacy regarding the aspects described above, independent directors included.

## DIRECTORS' INTERESTS AND RELATED-PARTY TRANSACTIONS

In accordance with article 2391 *bis* of the Italian Civil Code, and in keeping with the general principles set out in Consob's "Regulations on Related-Party Transactions" (resolution no. 17221 of 12 March 2010 and subsequent amendments, hereinafter referred to as the "Consob Regulations"), on 25 November 2010 the Board of Directors approved the "Procedures for Related-Party Transactions" (the "Procedures"). Approval was granted only after having received the prior endorsement of a Committee solely made up of independent directors, namely Angelo Renoldi, Carlo Sangalli and Marco Spadacini.

The Procedures replaced the previous internal regulations that the Board had adopted in this matter. They describe the rules, roles, responsibilities and measures put in place in order to ensure transparency and substantive and procedural fairness in related-party transactions executed directly by the Company or through subsidiaries.

Specifically, the Procedures:

- identify and define Related Parties, making reference to the definitions covered by Annex 1 to the Consob Regulations as well as to International Accounting Standard no. 24;
- establish the criteria to be used in defining material and non-material transactions. The Board of Directors is to approve material transactions upon receiving the binding opinion in favour thereof from a Committee solely made up of independent directors;
- identify the bodies and entities involved in implementing these Procedures, while regulating their respective roles and making sure that the appropriate information and documents are being communicated effectively;
- identify the types of transactions that are exempt from the application of these Procedures.

Using the relevant Consob Regulations as a guiding principle, the Procedures seek to reinforce transparency and substantive and procedural fairness in related-party transactions even further. As such, some of the provisions laid down in the Procedures are more stringent than those expected of companies according to article 4, paragraph 1, letter f) in the Consob Regulations.

In that regard, the Procedures call for the following:

- for certain types of transactions, a reduction of the Consob Regulations' minimum threshold to be considered a material transaction;
- exclusion of the possibility for the Shareholders to resort to a so-called "whitewash mechanism" in the event that the Committee of independent directors expresses a negative opinion on a transaction.

In keeping with the aforementioned criteria used to identify related parties, the Procedures also apply in the event that a Company director is one of the related parties involved, resulting in a potential conflict of interest with respect to the transaction at hand.

If the Company is involved in a transaction in which a director is a stakeholder - be it directly or on behalf of third parties - the director concerned generally does not participate in the Board's discussion and voting regarding the transaction, unless otherwise instructed by the Board of Directors. Furthermore, the director in this case is to provide the Board of Directors and the Board of Statutory Auditors with a disclosure statement beforehand, in accordance to article 2391 of the Italian Civil Code.

The “Procedures for Related-Party Transactions” are available on the website at [www.mondadori.it](http://www.mondadori.it). Click on the “Governance” section, then “Governance system” and “Regulations and procedures”.

Detailed information on the related-party transactions regarding the 2014 fiscal year can be found in the Management Report and in the notes to the Separate and Consolidated Financial Statements, all of which make up the Annual Financial Report for the fiscal year ended 31 December 2014. The Annual Financial Report is available on the website at [www.mondadori.it](http://www.mondadori.it), under the “Governance” section.

## REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

The Board of Directors has examined and approved the guidelines for a general Policy on the remuneration of Directors and Key Management Personnel. This was done with the aid of recommendations and counsel on the part of the Remuneration and Appointments Committee, which was set up by the Board of Directors and has the composition, competence and operating procedures described below.

### Guidelines for the Remuneration Policy

In general, the Remuneration Policy has been developed in order to attract, motivate and retain those individuals who possess the professional skills needed to ensure that the Company and Group can reach their main objective: the creation of sustainable value in the medium-to-long term.

To that end, the Policy has identified the focal point where Shareholders’ and Management’s interests meet: maintaining a strong link between pay and performance.

It follows that a significant part of the total remuneration for Executive Directors and Key Management Personnel is linked to the achievement of specific targets. Said targets are set in reference to both the Group’s overall performance and to the performance measured in specific business areas or corporate functions, over both the short term and the medium-to-long term.

In keeping with the general aims outlined above, the Remuneration Policy bases its guidelines on the following criteria:

- an appropriate balance between base pay and variable pay, which shall depend on the Company’s strategic objectives and risk management policy, as well as on the line of business involved and the nature of the work that has actually been carried out;
- the establishment of limits on variable pay;
- as relates to variable pay, setting measurable performance objectives beforehand;
- as far as medium-to-long-term plans are concerned, the payout of a significant portion of variable pay is to be appropriately deferred in relation to its accrual.

The compensation of non-executive Directors is not linked to the Company’s economic performance or to the economic performance of the Group as a whole, nor is it linked to any type of performance objective in general.

Furthermore, non-executive Directors are not entitled to equity incentive plans.

### Implementation of the Remuneration Policy

The Board of Directors has set forth the principles and guidelines described above, which are to be respected in implementing the Remuneration Policy. For the remuneration of Executive Directors and other

Directors who have been appointed to key positions, this is the responsibility of the Board of Directors itself; for the remuneration of Key Management Personnel, the duties fall upon the Chief Executive Officer, who is supported by the Department of Human Resources and Organization.

The Head of Human Resources and Organization reports to the Remuneration and Appointments Committee at least once a year on the effective implementation of the Remuneration Policy.

In light of the above-mentioned report, the Remuneration and Appointments Committee then monitors and verifies that the implementation of the Policy respects its predetermined principles, and reports on this to the Board of Directors.

#### Equity incentive plans

Any current or future compensation plans based on the allocation of financial instruments are to be submitted to the Shareholders for approval, in accordance with article 114 bis of Legislative Decree no. 58/1998; in the event of approval, these plans are also subject to market disclosure, in compliance with the regulations in force. The details and application procedures of the plans are established by the Board of Directors, who are supported by the counsel and recommendations of the Remuneration and Appointments Committee. The Company's risk profile is also carefully considered, and reference is made to the following general principles:

(i) strengthening the creation of sustainable value for the Company and Group in the medium-to-long term; as regards management personnel, improving incentives and retention rates by setting out multi-year incentive plans and multi-year vesting periods; (ii) the granting or exercise of financial instruments that are contingent on the achievement of predetermined, measurable objectives related to corporate and/or market performance; (iii) contractual commitments regarding the recipients' tenures with the company.

For stock option plans that have already been established by the Shareholders and which still have time remaining in their exercise period, please refer to the description and relative table in section II of the Remuneration Report, referred to below, and to the disclosure documents made available on [www.mondadori.it](http://www.mondadori.it) (Governance Section) in accordance with article 84-bis of Consob Regulation no. 11971/1999.

The stock option plans that have already been established by the Shareholders, and which are currently in their exercise period, do not include clauses aimed at holding financial instruments in the company's portfolio after they have been traded. This is because a three-year vesting period after the option grant was deemed an effective way to provide incentives, improve retention and create value.

#### Referral to the Remuneration Report

The above-mentioned guidelines for the Remuneration Policy have been developed and acknowledged in the Remuneration Report, which has been approved by the Board of Directors at the recommendation of the Remuneration and Appointments Committee. Pursuant to article 123-ter of Legislative Decree no. 58/1998, the Remuneration Report has been made available for public consultation at the company's registered office and on the company website at [www.mondadori.it](http://www.mondadori.it), under the "Governance" section.

Please refer to the Remuneration Report for issues concerning the following:

(i) detailed information on the principles and aims of the Company's Remuneration Policy for directors and key management personnel, as well as the steps taken to adopt and implement the Policy (Section I); (ii) an analytical description, including tables, of the remuneration packages granted during the fiscal year to directors and key management personnel (Section II).

The first section of the Report is to be submitted to the Ordinary Shareholders' Meeting for a non-binding resolution in its favour or against it. The Ordinary Shareholders' Meeting has been called for 23 April 2015 (and if necessary, a second call on 24 April 2015), for the approval of the financial statements for the fiscal year ended 31 December 2014.

## **REMUNERATION AND APPOINTMENTS COMMITTEE**

The Remuneration and Appointments Committee is made up of three non-executive directors, the majority of whom are independent; the Chairman of the Committee must be one of the independent directors. The Committee is made up of the following members:

**Marco Spadacini** - Chairman, independent non-executive director

**Bruno Ermolli** - non-executive director

**Carlo Sangalli** - independent non-executive director

Unless otherwise resolved, members of the Remuneration and Appointments Committee shall remain in office until the end of their board-mandated term, which corresponds to the meeting called to approve the financial statements for the fiscal year ended 31 December 2014.

The Committee held 3 meetings in 2014, each duly recorded in their respective minutes. Each meeting was also attended by the Chairman of the Board of Statutory Auditors, at the request of the Committee itself, and the average duration was of 1 hour and 30 minutes.

The attendance rate at the meetings for each member of the Committee was 100%.

The meetings dealt with the following issues:

- Definition of the proposal on the adoption of the Remuneration Report, to be presented to the Board of Directors in accordance with article 123-ter of the Consolidated Law on Finance (TUF): actual figures for 2013 and forecasted figures for 2014;
- Description of the main trends of the remuneration policies for top management in the publishing sector (pursuant to Hay research carried out in September 2013);
- Review of the proposal of the Board of Directors regarding the payment of a one-time extraordinary remuneration to the Chief Executive Officer Ernesto Mauri following the positive outcomes of the placements during the year of ordinary shares from the share capital increase resolved upon by the Board of Directors on 17 June 2014; these were restricted to institutional investors, both domestic and international;
- The presentation of the final incentive plan for the three year period 2014-2016 for the following key managers:
- approval of the report from the Head of Human Resources and Organization on the effective implementation of the Remuneration Policy in the 2014 fiscal year.

The Board of Directors has granted the Remuneration and Appointments Committee the following functions and authority:

- the capacity to provide counsel and make recommendations to the Board of Directors in matters regarding remuneration policies for Directors and Key Management Personnel (covered by the Remuneration Report, pursuant to article 123-ter of the TUF); the responsibility to carry out periodic checks - in conjunction with the Head of Human Resources and Organization - to ensure that the Remuneration Policy is being implemented in compliance with its principles, and then reporting their findings to the Board of Directors;
- the capacity to provide counsel to the Board of Directors in matters concerning the remuneration of directors who hold key positions (e.g. Chairman, Chief Executive Officer, Executive Directors and Directors on Committees);
- the task of making presentations to the Board of Directors regarding the Committee's work on identifying and laying down corporate guidelines aimed at retaining and motivating management personnel;
- the capacity to make recommendations on the implementation of Shareholder-approved Stock Option Plans, in accordance with article 114-bis of Legislative Decree no. 58/1998 and referred to above;
- the task of expressing opinions to the Board of Directors on "the size and composition of the Board and on whom it would be most appropriate to include as Board members", in addition to any limitations on the number of other positions a Board member may take on;
- the task of proposing new candidates for the position of director to the Board of Directors, in the event of an appointment by co-optation to replace an independent director.

The Remuneration and Appointments Committee has access to all the corporate information and functions necessary to carry out its duties.

The Committee's operating procedures are covered by specific guidelines, which state that Committee members shall meet and act collectively any time the Chairman deems it necessary, or at the request of one or both of the other members.

The Committee's resolutions are passed by a simple majority, and are then recorded in the minutes pertaining to the relative meeting. The minutes are signed by all members who take part in the meeting, as well as by the Chairman of the Board of Statutory Auditors, who takes part in the meetings without voting rights.

It should be noted that the Committee, in its function as an advisory body, does not deliberate on issues in the presence of interested parties. This is in keeping with the Code's recommendations on the matter.

Specifically, a director will refrain from participating in Committee meetings in which his/her own remuneration package is being discussed for proposal to the Board of Directors.

## DESCRIPTION OF THE SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT

### MAIN CHARACTERISTICS OF THE SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT

#### *INTRODUCTION*

The system of internal control and risk management is the set of rules, procedures and organizational structures established to enable the identification, measurement, management and monitoring of the main risks the Group faces.

This system forms an integral part of the overall organizational structure and corporate governance system that the Issuer has adopted, and it makes sure to take frameworks of reference and best practices from both a national and international level into consideration.

Among the major themes that are addressed by such a system, special focus is placed on risk management: indeed, this is the one guiding principle that all Issuers' internal control systems have in common. In this context, the Board of Directors takes on a fundamental role, as evidenced by its specific duty to "determine a risk appetite that is consistent with the Issuer's strategic objectives". Once the risk profile has been determined, it is the Board's task to "establish guidelines for the system of internal control and risk management so as to correctly identify the main risks threatening the Issuer and its subsidiaries, and to then measure, manage and monitor them accordingly. Furthermore, the Board is to determine how to best manage the Issuer so that the Issuer's risk appetite is aligned with its strategic objectives; it is also responsible for assessing, "on at least a yearly basis, the adequacy of the system of internal control and risk management as it relates to the Issuer's characteristics and risk profile, while also assessing its effectiveness". The Internal Control and Risk Management Committee duly carries out its investigative activities in order to assist the Board in its performance of the above-mentioned duties.

In 2008, the Mondadori Group implemented a Risk Management process by adopting a framework for the identification, assessment and management of the risks it is exposed to in the various fields it works in. At the same time, it drew up the first draft of Guidelines for the internal control system.

#### ***Guidelines for the system of internal control and risk management***

With the endorsement of the Internal Control and Risk Management Committee, the Board of Directors has approved the guidelines for the system of internal control and risk management; at the same time, it also updated said guidelines to include the recommendations contained in the December 2014 edition of the Code of Conduct.

#### ***a) Framework of reference***

The Code is unequivocal in its recommendation to "duly consider frameworks of reference and best practices on both a national and international level". To that end, the method adopted by the Board is based on the principles laid down in the "COSO Report", one of the most authoritative and widely-adopted standards in the world. More specifically, the guidelines are rooted in the principles found in the "COSO - Enterprise Risk Management" (COSO ERM) framework, which deals with the identification and management of risks.

The COSO ERM - Integrated Framework ensures:

- \* that management has implemented satisfactory objective-setting processes, and that the objectives established are aligned with and support the company's mission;
- \* the compatibility of risks with the achievement of strategic objectives (Risk Appetite).

In keeping with the framework adopted and the recommendations of the Code of Conduct, the Mondadori Group meets with management on a yearly basis to establish and share its mission/vision and strategic objectives, the latter of which are divided into quantitative and qualitative targets.

These strategic objectives are then adapted to the single business areas and corporate functions.

The Board of Directors establishes the Group's risk appetite in correspondence to its strategic objectives, as described above.

### ***b) Areas of analysis***

the system of internal control and risk management was developed by identifying and managing three areas of analysis:

- objectives;
- components;
- scope.

An explanation can be found below.

#### 1. Objectives of the system of internal control and risk management

The implementation of a system of internal control and risk management provides reasonable assurance that an enterprise will be protected from risks connected to the pursuit of its strategic and related operating objectives, that is:

- effective and efficient business operations, including the safeguarding of company resources (operations objectives);
- reliability of financial and non-financial reporting (reporting objectives);
- compliance with applicable laws and regulations (compliance objectives).

As such, a risk management system helps define and protect the following measures:

- identification of risks that threaten the achievement of objectives;
- assessment of those risks in terms of impact / likelihood;
- evaluation of risk responses currently in place;
- assessment of risk response effectiveness as it relates to the risks identified.

The system of internal control and risk management that is put in place to fulfil the three categories of objectives listed above must have the following characteristics:

- respond in a timely fashion to significant risk situations, while making sure that the proper control activities are in place;
- in the context of business processes, ensure that there is the proper degree of separation between operational functions and control activities, so that conflicts of interest may be avoided in the tasks assigned;
- in the context of operational, administrative and accounting activities, make use of systems and procedures that ensure the accurate recording of facts and events that occur in a company setting and/or during its management, while making sure that information flows within and outside the Group in a reliable and timely manner;
- allow the proper levels of the Group to be promptly informed of significant risks and irregularities in control activities that may emerge, thereby enabling the identification and timely execution of corrective measures.

## 2. Components of the system of internal control and risk management

There are a series of components to risk management which, when taken into account, ensure an appropriate overview of the company's situation. Not only does the system of internal control and risk management consider all the components necessary to do just that, it also examines how they are interrelated.

The management of these components must be clearly defined through a Risk Management Process, in order to achieve a dynamic internal control system.

This process consists of the following key steps:

- set strategic and operations objectives,
- identify the events that might pose a risk to achieving these objectives;
- establish management's roles and responsibilities (risk ownership);
- establish the level and form of communication;
- monitor the process through ongoing management activities and assurance activities.

## 3. Defining the scope (or field of application)

The system of internal control and risk management concerns the entire Group and is integrated into the Group's various Business Areas.

### ***c) Periodic communication***

Effective communication is required for the system to function correctly, and to that end, the Group has ensured that all the pertinent documents - be they updates or reports - flow as efficiently as possible among the persons and bodies involved in running the system of internal control and risk management: the Board of Directors, the Internal Control and Risk Management Committee, the Director in charge of the system of internal control and risk management, Internal Audit.

### ***The balance between risks and the achievement of strategic objectives***

As explained above, in keeping with the framework adopted, the Mondadori Group meets with management on a yearly basis to establish and share its mission/vision and strategic objectives, the latter of which are divided into quantitative and qualitative targets.

For the period spanning 2013-2014, the following objectives have been set:

Vision

- focus on publishing businesses;
- enhance the value of the content offered;
- rationalization and efficiency.

Quantitative objectives

- protection of profit margins;
- financial stability.

Qualitative objectives

- innovation;
- digital development;
- brand protection;
- synergy between business areas;
- internationalization.

The Board of Directors has determined the Group's risk appetite based on the outcomes of the Risk Management Process, which has been in place since 2008 and is updated annually. This process has led to the establishment of levels of risk tolerance, which in turn has allowed for the identification of three levels of risk (High, Medium and Low). In this way, the expected value of risks can be weighed against the achievement of the Group's objectives. With that in mind, the Board of Directors has determined a risk appetite that, on average, can be defined as cautious, particularly as regards the achievement of the following objectives: defending the Group's reputation, compliance with applicable laws and regulations, and adequacy of financial disclosure.

Following is the composition, functioning and activities of the persons involved in the system of internal control and risk management:

## **RISK MANAGEMENT**

Within the Department of Internal Control, Risk Management is the function in charge of the process that bears its name. Specifically, it supervises the activities pertinent to the process and coordinates the persons involved.

Identified risks are classified within an internal Framework, and then subsequently assessed on both an inherent level - that is, the degree of risk that would exist if no controls or mitigating factors were put in place by management - and a residual level - that is, the risk that would remain after taking mitigating controls into account.

Two parameters are used to perform this assessment: the likelihood of an event's occurrence and its potential impact, the latter being measured in terms of economic and financial repercussions, market share, competitive advantage and the Group's reputation.

Each risk factor is associated with the strategic objectives of the Group, as established by the Chief Executive Officer, and the objectives of the specific Business Areas and Corporate Functions, as established by the relevant management personnel.

The identification and assessment of inherent and residual risks is carried out by the Heads of the business areas or corporate functions in proportion to their areas of expertise. This is done through a process of self-assessment, and they report any mitigating strategies that they have put in place.

The Department of Risk Management gathers and analyzes this information, and then presents the risk outlook for each business area or corporate function to the relevant management personnel for validation.

The next step is to consolidate the risks, which is done by grouping the various risk factors into similar categories and then assigning each one a weight that is commensurate with the relevance that each business area or corporate function represents for the Group.

The results of the Risk Management Process are subject to a specific communication protocol: the first to be informed are the Director in charge of the system of internal control and risk management, the Internal Control and Risk Management Committee and the Board of Statutory Auditors, the latter being informed by the Head of Internal Audit; the Director in charge of the system is then expected to inform the Board of Directors. This information is used to carry out more in-depth analysis of the situation on the part of the relevant bodies and systems in place.

It is then the duty of Internal Audit to verify the actual existence and effectiveness of the mitigating controls put in place, as reported by the various business areas during the assessment phase.

The Risk Management Process is updated through an annual review of risk status, which is carried out in accordance with the procedures described above.

It should be noted that the Risk Assessment system for the Parent Company, its subsidiaries and its associate companies was updated and monitored during the 2014 fiscal year.

The main risks and uncertainties that regard the Parent Company, its subsidiaries and its associate companies are included in a specific chapter of the Management Report for the 2014 fiscal year.

## **INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE**

The Board of Directors has set up an Internal Control and Risk Management Committee, composed of three directors who, in the Board's opinion, possess the necessary administrative and financial experience to perform this duty.

The members of the Internal Control and Risk Management Committee are the following:

Prof. Angelo Renoldi - non-executive, independent director, also the Chairman of the Committee

Mr. Marco Spadacini - non-executive, independent director

Cristina Rossello - non-executive, independent director

The term of office for the members of the Internal Control and Risk Management Committee is the end of the term of the Board of Directors, unless otherwise resolved.

The Internal Control and Risk Management Committee has the task of providing counsel and recommendation to the Board of Directors, as well as offering the Board assistance and support in verifying the adequacy of the system of internal control and risk management.

Within the terms of its competence, the Committee coordinates its activity with that of the following persons and bodies: the Board of Statutory Auditors; the external audit firm; the Head of Internal Audit; the Director in charge of the system of internal control and risk management; and the Manager in charge of financial reporting.

In compliance with the Code of Conduct, the Committee has been granted the following tasks:

- (i) assess the action plan drawn up by the Head of Internal Audit, and examine the periodic reports that the latter prepares based on the assessment of the system of internal control and risk management, as well as any other reports of particular relevance that are prepared by the Internal Audit function;
- (ii) assess the proper implementation of the accounting standards in use, as well as their suitability for the preparation of the consolidated financial statements. This is to be done in conjunction with the Manager in charge of financial reporting, after consulting with the external auditor and the Board of Statutory Auditors;
- (iii) monitor the independence, adequacy, effectiveness and efficiency of the Internal Audit function;
- (iv) request the Internal Audit function to carry out checks on specific operational areas, and inform the Chairman of the Board of Statutory Auditors of such requests at the time they are made;
- (v) periodically report to the Board of Directors on the adequacy of the system of internal control and risk management, at least every six months in conjunction with the annual and semi-annual financial reports;
- (vi) provide counsel on specific aspects regarding the identification of the Group's main risks, as well as on the designing, implementation and supervision of the system of internal control and risk

management, should it be so requested by the Director of the system of internal control and risk management;

- (vii) provide counsel to the Board of Directors on the findings of the external auditors, presented in the letter of recommendation and in the audit report on the key issues that emerged during the audit;
- (viii) provide counsel to the Board of Directors on the appointment and removal of the Head of Internal Audit, as well as on the resources made available to him/her and his/her remuneration.

The Internal Control and Risk Management Committee has access to all the corporate information and functions necessary to carry out its duties.

During 2014, the Control and Risk Management Committee met 8 times and the average duration of each meeting was two hours. Minutes were regularly taken at each meeting and the meetings were attended from time to time by members of the Board of Statutory Auditors, the Head of Internal Audit, the Supervisory and Oversight Board and the Director of Legal and Corporate Affairs, and it also met with the audit firm Deloitte and Touche S.p.A. and the manager of certain company departments. In particular: The Chief Financial Officer, Procurement and IT Systems on the measurements for the impairment test method relative to the financial statements as at 31 December 2013, the Group Finance and Current Assets Director regarding financial policy, the Head of Human Resources and Organization for the Group regarding the company's organisational chart, the Head of Education regarding details on the business at hand.

Regarding participation at committee meetings, we note that Prof. Renoldi and Attorney Rossello participated in 100% of the meetings while Dr. Spadacini participated in 75% of the meetings.

As far as the 2014 fiscal year is concerned, the Internal Control and Risk Management Committee carried out the following activities worthy of note:

- it approved the 2014 Annual Internal Audit Plan for the Company and its subsidiaries - prepared by the Head of Internal Audit - and confirmed its implementation.  
The 2014 Annual Internal Audit Plan for the Parent Company and its subsidiaries is structured around four types of audits:
  - i. Operational audit: an analysis of business processes and an assessment of their effectiveness (success rate in reaching objectives) and efficiency (costs, timing, resources employed);
  - ii. Compliance audit: the enforcement of some operational guidelines by the Parent Company and companies in the Group;
  - iii. Compliance 231 audit: the enforcement of Legislative Decree no. 231/01, in support of Supervisory Bodies in the Parent Company and its subsidiaries;
  - iv. Financial audit: the enforcement of Law no. 262/05, in support of the manager in charge of financial reporting;
- it examined the activities carried out by the Internal Audit department in 2014, agreeing with the recommendations made and proposing recommendations of its own; within this context, the follow-ups to the Internal Audit interventions were reviewed;
- it acknowledged the operational guidelines implemented by the company during the year;
- it examined the preliminary analysis presented by company management, and it approved the impairment testing to be adopted by the company relative to the financial statements for the fiscal year ended 31 December 2013. It acknowledged the fact that the impairment tests' definitive findings on the

potential decline in value of property, plant and equipment, intangible assets and/or equity investments would be subject to specific review and approval by the Board of Directors;

- it reviewed the annual report drawn up by the Risk Management Committee, which did not contain any irregularities;
- it analyzed the results of the year's Risk Assessment process along with the relative Report on the matter, prepared and presented by the Head of Internal Audit. The activity referred both the Parent Company and its associate companies in Italy and France;
- it acknowledged the report prepared by the Head of Internal Audit on the Self-assessment of the Mondadori Group System of Internal Control and Risk Management;
- it analyzed the findings of the external auditor as presented in the report on the key issues that emerged during the audit; no failings were observed in the internal control system in terms of financial disclosure, and there were no uncertainties worthy of note regarding business continuity;
- It presented the updated version of the Organization, Management and Control Model which took into account the regulatory amendments and organizational changes within the Issuer company; within this area, it also acknowledged the relative training provided to employees on the Model itself;
- It examined the documentation relative to the Mondadori Group organization chart presented by the Group Head of Human Resources and Organization .

6 meetings are planned for fiscal year 2015.

It should be noted that the Internal Control and Risk Management Committee has held 3 meetings during the current fiscal year; a summary of those meetings follows:

- During the meeting of 27 January, the Committee reviewed the impairment testing adopted by the company relative to the financial statements for the fiscal year ended 31/12/2014, and it approved the method used to calculate impairment.
- During the meeting of 5 February, the Committee:
  - i. reviewed the Internal Audit activity carried out between October and December 2014. It agreed with the proposed suggestions, and made recommendations of its own.
  - ii. having consulted with the Board of Statutory Auditors, it approved the 2015 Annual Risk-Based Internal Audit Plan for the Company and its subsidiaries, which was prepared by the Head of Internal Audit.  
The 2015 Plan calls for 56 audits to be carried out in five different categories:
    - a) Operational audit:
    - b) Compliance audits
    - c) Compliance 231 audits
    - d) Financial audit:
    - e) IT,
  - iii. The Internal Control and Risk Management Committee examined the resources and organizational structure of the Internal Audit function and deemed them fit for purpose.
- During the meeting of 12 March, the Committee:
  - i. reviewed the findings of the 2014-2015 Risk Assessment process, which was presented by the Head of Internal Audit. The activity referred to the results of the Parent Company as well as those of the Italian and French subsidiaries;

- ii. having consulted with the Board of Statutory Auditors, approved the report prepared by the Head of Internal Audit on the Self-assessment of the System of Internal Control and Risk Management within the Mondadori Group, relevant to the 2014 fiscal year.
- iii. reviewed the Risk Management Committee's 2014 Annual Report, presented by the Head of Financial Reporting and Net Working Capital. No irregularities were revealed upon review of this documentation.
- iv. examined the 2014 report of the Supervisory and Oversight Body.

All activities carried out by the Committee were duly and regularly reported to the Board of Directors.

## **DIRECTOR IN CHARGE OF THE SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT**

Upon recommendation by the Internal Control and Risk Management Committee, the Board of Directors appointed Chief Executive Officer Mr. Ernesto Mauri to the position of "Director in charge of the system of internal control and risk management." This position enables him to exercise the following functions:

- (i) enforce the guidelines laid down by the Board of Directors and see to the designing, implementation and supervision of the system of internal control and risk management, while at the same time constantly verifying its adequacy and effectiveness;
- (ii) see to the identification of the main risks for the Company, while taking into account the characteristics of the business areas in which the Company and its subsidiaries operate; submit said risks to the Board of Directors for periodic review;
- (iii) request the Internal Audit function to carry out checks on specific operational areas, as well as checks on compliance with internal rules and procedures in the performance of business operations; inform the respective Chairman of the Board of Directors, the Internal Control and Risk Management Committee and the Board of Statutory Auditors of such requests at the time they are made;
- (iv) adapt this system to the operating conditions and legislative and regulatory environment;
- (v) promptly report to the Internal Control and Risk Management Committee (or to the Board of Directors) on problems or critical situations that may have emerged in the performance of his duties, or that were otherwise brought to his knowledge, so that the Committee (or the Board) may take the necessary measures.

In the implementation of the guidelines established by the Board of Directors, the Director in charge of the system of internal control and risk management has planned and coordinated the Risk Assessment process as described in this report, specifically in the paragraph entitled "Description of the System of Internal Control and Risk Management".

## **HEAD OF INTERNAL AUDIT**

In addition to the designing and conducting of all internal audit activities in the Company and its subsidiaries, the Head of Internal Audit is also responsible for checking that Company activity is in compliance with the laws, regulations and Company procedures in force, the latter being adopted to ensure the sound and efficient management of the Company itself. Furthermore, he/she is to make every possible effort to identify, prevent and manage the potential risks and fraud that threaten the Company.

In keeping with the Code of Conduct, the Board of Directors has established the following functions:

- (i) verify the effectiveness and adequacy of the system of internal control and risk management - on an ongoing basis and as required by international standards - through an audit plan, which is to be approved by the Board of Directors, and which is to be based on a well-defined process of risk analysis and prioritization.
- (ii) have direct access to all the information needed to perform his/her duties.
- (iii) prepare regular and sufficiently detailed reports on the work being carried out in performance of the function, the ways in which risk management is being conducted, and on compliance with the plans that have been implemented to control risks. These periodic reports shall include an assessment regarding the adequacy of the system of internal control and risk management.
- (iv) promptly prepare reports on any events of particular importance.
- (v) communicate the reports described in the previous two points to the respective Chairmen of the Board of Statutory Auditors, the Internal Control and Risk Management Committee and the Board of Directors, as well as to the Director in charge of the system of internal control and risk management.
- (vi) use the audit plan to verify the reliability of the Company's information systems, including its accounting IT systems.

Upon the proposal of the Director in charge of the system of internal control and risk management, following the opinion in favour of the Control and Risk Committee and the opinion of the Board of statutory auditors, on 28 February 2013 Mr. Paolo De Benedetti was appointed Head of the Internal Audit Department.

The Head of Internal Audit is not under the authority of any other operational area Head, and he reports to the Board of Directors, the Director in charge of the system of internal control and risk management, the Internal Control and Risk Management Committee and the Board of Statutory Auditors.

The Board of Directors has verified that the Head of Internal Audit has the appropriate financial resources, including in terms of the organisational structure, to carry out his functions and fulfil his responsibilities.

The Head of Internal Audit verifies the operations and appropriateness of the control and risk management system, through an audit plan that has been approved by the board of directors, based on a structured process of analysis and prioritization of the main risks and therefore a risk-based audit plan.

The audit plan takes the following under consideration:

- The intervention priority required to allow for allocation of considerable resources based on the materiality and significance of the risk exposure;
- The flexibility to be able to face any unanticipated situations;
- Adequate audit coverage over all corporate processes.

The activities in 2014 relative to the Parent Company and its subsidiaries has provided for interventions along five lines:

- Operational: analysis of the company processes and their assessment in terms of efficacy and efficiency;
- Compliance: the enforcement of some operational guidelines on the part of the Parent Company and companies in the Group;
- Compliance 231: application of Legislative Decree 231/01, in support of Supervisory Bodies in the Parent Company and its subsidiaries;

- Financial: the enforcement of Law no. 262/05, in support of the manager in charge of financial reporting;
- IT: in support of information systems.

## **ORGANIZATION, MANAGEMENT AND CONTROL FRAMEWORK (AS PER LEGISLATIVE DECREE NO. 231/2001)**

Legislative Decree no. 231 of 8 June 2001 introduced the principle of corporate liability into the Italian legal system, in connection with certain types of crimes committed by a corporation's directors, managers or employees in the interest or to the advantage of the corporation itself. On 11 December 2003, the Board of Directors adopted an Organization, Management and Control Framework that met the requirements of this Legislative Decree.

On 27 March 2014, the Board of Directors adopted a version of the Organization, Management and Control Framework which is updated and integrated pursuant to the regulatory framework, the organisational changes of the Issuer company and in order to also take into account the jurisprudential trends and experience insofar as their application gained in the initial years of the Framework.

The Framework constitutes yet another fundamental part of the Company and Group's internal control system. It has been developed in accordance with guidelines established by trade associations, and its composition is as follows:

- a general part which contains, among other things, specific information on the salient points of Legislative Decree no. 231/2001 and subsequent amendments, how the framework works and what its aims are, the terms of reference for the Body tasked with overseeing the implementation and functioning of the framework, information flows, and the disciplinary action to be taken in the event the framework's provisions are breached;
- a special part made up of a series of specific protocols to follow depending on the types of crimes covered by Legislative Decree no. 231/2001.

The Organization, Management and Control Framework is available on the website at [www.mondadori.it](http://www.mondadori.it), under the "Governance" section.

## **SUPERVISORY AND OVERSIGHT BODY**

On 19 April 2012, the Board of Directors confirmed the formation of a collective Supervisory and Oversight Body (SB), to be based on the Organizational Framework as per Legislative Decree no. 231/01. Its term of office was determined to coincide with the term of office of the Board itself, unless otherwise resolved.

Its composition is as follows:

Professor Ferdinando Superti Furga	- Chairman of the Board of Statutory Auditors
Professor Angelo Renoldi	- independent director
Dr. Paolo De Benedetti	- Head of Group Internal Audit

The Board of Directors has granted the Supervisory and Oversight Body all the decision-making power and authority needed to ensure its timely and efficient supervision of the Framework's functioning (in accordance with Legislative Decree no. 231/01 and subsequent amendments). This includes supervision of

compliance with the framework itself, as well as free access to all the corporate functions which could provide information and data deemed necessary for the fulfilment of the Body's duties.

Specifically, the Supervisory and Oversight Body has been assigned tasks and duties - some of which are listed below - to be carried out in conjunction with other corporate functions and/or third-party consultants if necessary. It is economically self-sufficient, and it is even entitled to having specific budget items reserved for its operation. Examples of its duties include, but are not limited to the following:

- (i) supervise the due compliance with the Framework's rules on the part of interested parties, and report any cases of non-compliance. In addition, it should indicate any areas that might be at greater risk in light of the number of breaches that have already taken place;
- (ii) supervise the actual efficiency and effectiveness of the Framework in terms of preventing the commission of the crimes covered in Legislative Decree no. 231/01 and subsequent amendments, with a view towards specific operational areas within the Company and the tangible results achieved;
- (iii) ensure that the conditions are in place such that the Framework enjoys stability and functionality over the long term;
- (iv) oversee any opportunities to update the Framework, in the event that it requires adjustment due to regulatory changes or developments within the Company;
- (v) access records and information from the various corporate functions in order to carry out periodic checks and monitor specific at-risk activities;
- (vi) promote information and training initiatives that are oriented around the Framework's principles, values and code of conduct.

The Supervisory and Oversight Body periodically reports to the Board of Directors on the work it has carried out, on the functioning of the Framework, or on any specific situations that have arisen.

## **MANAGER IN CHARGE OF FINANCIAL REPORTING**

In its meeting of 17 June 2014 and following the resignations of director Carlo Maria Vismara, who was the Chief Financial Officer – Finance, Procurement and IT Systems and the Manager in charge of financial reporting, the Board of Directors co-opted director Oddone Maria Pozzi, conferring upon him the same duties and management powers previously attributed to Mr. Vismara Carlo Maria.

The Board, having heard the opinion in favour of the Board of Statutory Auditors and verified the fulfilment of the requirements of professionalism as provided by the bylaws, also attributed to Oddone Maria Pozzi, pursuant to art. 24 of the Bylaws and art. 154-bis of Legislative Decree 58/1998 "Manager in charge of financial reporting" until expiration of the mandate of the board of directors, therefore until the shareholders' meeting for the approval of the financial statements for the fiscal year ended 31 December 2014.

Furthermore, the Board granted the Manager in charge of financial reporting all the powers and resources necessary to perform the duties covered by the above-mentioned article 154-bis of Legislative Decree no. 58/1998, as well as by any other applicable regulation. This includes authority over the management and coordination of corporate functions that are involved in monitoring accounting and administrative procedures.

For matters concerning the professional qualifications of the Manager in charge of financial reporting, as well as the appointment procedure employed by the Board of Directors, please refer to article 24 of the Bylaws on the Company's website at [www.mondadori.it](http://www.mondadori.it) under the "Governance" section.

In the performance of his duties, the Manager in charge of financial reporting implemented and coordinated a series of organizational and operational measures aimed at meeting the requirements of the regulations in force.

Specifically, one of the most significant measures taken was the establishment of a Standard Operational Framework within the Group. This is modelled on the "Internal Control Framework" developed by the Committee of Sponsoring Organizations of the Treadway Commission, which is the most widely-adopted standard in the world for internal control systems.

The Framework's objective is to ensure reliability in financial reporting, achieved by identifying a series of controls to be implemented during accounting and administrative procedures, and in particular during the preparation of the separate financial statements, the consolidated financial statements, the semi-annual financial report and any kind of financial report in general.

The Framework also regulates the methods used to monitor the adequacy of accounting and administrative procedures, as well as the checks in place to verify that these procedures are actually being implemented.

With the support of the Internal Control and Risk Management Committee, the Board of Directors ensures that the powers and resources granted to the Manager in charge of financial reporting are appropriate to his task, and that accounting and administrative procedures are respected in practice.

Specifically, the Board has:

- formalized a set of Rules for the Manager in charge of financial reporting, which establish procedural and organizational terms for the following:
  - roles and functions of the Manager in charge of financial reporting, which are to be exercised in relation to the tasks and responsibilities legally assigned to him. Specifically, the powers granted to him by the Board of Directors are broken down into specific categories, namely spending power, use of internal resources and use of corporate functions. Particular reference is made to "Administrative Processes" and "Group Administration and Accounts" for all work related to the designing, implementation and monitoring of accounting procedures, and to "Internal Audit" for what concerns the checks in place to ensure that those same procedures are being implemented correctly;
  - the main information flows, and how to coordinate the respective activities of the Manager in charge of financial reporting, the Board of Directors, the Board of Statutory Auditors and the various corporate functions.
- verified the Operational Framework, which regulates the methods used to monitor the adequacy of accounting and administrative procedures, as well as the checks in place to verify that these procedures are actually being implemented.
- Details on the definition and implementation of the above-mentioned Operational Framework are provided in Section II of this Report.

## THE BOARD OF STATUTORY AUDITORS

In accordance with the Bylaws, the Board of Statutory Auditors is composed of three standing statutory auditors and two substitutes. It was appointed by the Shareholders on 19 April 2012 and its term will expire with the meeting to approve the financial statements for the fiscal year ended 31 December 2014.

The Board of Statutory Auditors is currently composed of the following members:

<b>Ferdinando Superti Furga</b>	- Chairman
<b>Francesco Antonio Giampaolo</b>	- standing statutory auditor
<b>Franco Carlo Papa</b>	- standing statutory auditor
<b>Ezio Simonelli</b>	- substitute statutory auditor
<b>Francesco Vittadini</b>	- substitute statutory auditor

The following table lists the positions as board member or statutory auditor held by current members of the Board of Statutory Auditors of Arnoldo Mondadori Editore S.p.A. in other listed companies:

Board of Statutory Auditors	Positions held by statutory auditors in other listed companies
Superti Furga Ferdinando	Chairman of the Board of Statutory Auditors of Saras S.p.A. and standing Statutory Auditor of Telecom Italia S.p.A.
Giampaolo Francesco Antonio	
Papa Franco Carlo	Board Member of Risanamento S.p.A. Amministratore di Gabetti Property Solutions S.p.A.

The term of office for statutory auditors is 3 fiscal years, and they can be reappointed.

Professional and personal biographies of each member of the Board of Statutory Auditors can be found on the website at [www.mondadori.it](http://www.mondadori.it), under the section "Governance".

In accordance with the current provisions in the Bylaws, all statutory auditors must be officially listed on the Italian Register of Statutory Auditors and Audit Firms, and they must have at least three years of statutory audit experience.

Furthermore, statutory auditors must meet all legal and regulatory requirements in force.

Among other activities over the course of the 2014 fiscal year, the Board of Statutory Auditors:

- confirmed the correct application of the criteria adopted by the Board of Directors to assess the independent status of directors;
- confirmed that its own members met the independence requirements laid down by the Code in reference to directors, with the sole exception of a term of office that may not exceed nine years out of the last twelve years;

- monitored the independent status of the external audit firm, including the nature and extent of non-audit services provided to the Company and its subsidiaries by the audit firm and/or any entities belonging to the audit firm's network.

During 2014, 13 meetings were held between the Board of Statutory Auditors for which minutes were regularly kept; moreover, the Internal Control and Risk Management Committee and the Heads of the various corporate functions - including the Head of Internal Audit - met with a focus on assessing the adequacy of the system of internal control and risk management and meetings were held between the Board of Statutory Auditors and the external audit firm in order to have a mutual exchange of information.

The meeting attendance rates for each statutory auditor are enclosed with this Report.

## **APPOINTMENT PROCEDURE**

Article 27 of the Bylaws in force regulates the procedure for appointing statutory auditors. This is done through a slate voting system, and the relative provisions can be found below.

It should be noted once again that amendments to the Bylaws were introduced during the 2014 fiscal year in order to conform to the provisions laid down in Law no. 120/2011. For details, please refer to the paragraph on the Appointment Procedure for directors.

Regarding the appointment procedure, the following information is relevant:

there is a minimum ownership stake required to submit a slate (also referred to as "list" in the Bylaws) of candidates, and in this matter, the Bylaws (as described below) refer to the percentage established yearly by Consob in accordance with the Issuers Regulation. This percentage is based on the average market capitalization of companies in the last quarter of each fiscal year. As a result of Consob resolution no. 19109 of 28 January 2015, the current minimum ownership stake required to submit a slate of candidates for Arnoldo Mondadori Editore has been established at 2.5% of its share capital.

The same minimum ownership stake of 2.5% was applicable during the appointment of the Board of Statutory Auditors at the Shareholders' Meeting on 19 April 2012.

### ***Article 27 of the Bylaws:***

*1. The Ordinary General Meeting elects the Board of Statutory Auditors, which consists of three standing members and three substitute members, who shall hold office for three years and expire at the Shareholders' Meeting called to approve the financial statements for the third year of the term of office and they may be re-elected. The composition of the Board of Statutory Auditors referred to in this provision shall apply from the first appointment following the adoption of the same.*

*All the Statutory Auditors shall be registered in the Register of statutory auditors and independent auditing firms established pursuant to law and shall have to have performed auditing activities for a period of not less than three years.*

*The Statutory Auditors shall also meet the requirements provided for in the relevant applicable law and regulatory provisions and the Board of Directors shall verify compliance.*

*2. The Statutory Auditors shall be appointed on the basis of lists submitted by the shareholders with the procedure described hereinafter. The lists shall contain a number of candidates registered with a progressive number. Each list shall include two sections: one for the candidates as Standing Statutory Auditor and the other for the candidates as Substitute Statutory Auditor. Each candidate may be registered in only one list or otherwise become ineligible.*

*Each list shall include the indication of at least a Standing and a Substitute Statutory Auditor.*

*In order to ensure the balance between genders in accordance with the regulations currently in force, each list that contains a total number of candidates equal to or greater than three must provide for the presence of candidates of both genders, so*

that at least one candidate for the office of statutory auditor and one for the office of substitute auditor is of the less represented gender.

3. The shareholders with voting rights reserve the right to submit the lists, when they represent, alone or together with other shareholders, at least that percentage of capital underwritten determined and published by Consob for the submission of the lists of candidates for the appointment of the Board of Directors pursuant to the Issuer Regulation as of the date of submission of the list.

The ownership of the Company capital is determined by taking into account the shares that have been registered in favour of the shareholders on the day in which the list is filed with the Company, with reference to the underwritten capital as of the same date.

The relevant confirmation or certification may be communicated or produced also subsequent to the filing of the list, provided that this is served to the Company within the term established for the disclosure of the lists by the Company.

The company hereby allows the shareholders who wish to submit the lists to submit them by remote communication means, according to the criteria that it will indicate in the relevant call for the Shareholders' Meeting and that allow the identification of the shareholders upon submission.

The interest percentage requested for the submission of the lists of candidates for the election of the Board of Statutory Auditors is specified in the relevant call for the Shareholders' Meeting to resolve upon the appointment of the same Board.

Any shareholder may not submit nor vote more than one list, even if by third party or through trust companies. Shareholders belonging to the same group – being herein intended as the parent company, subsidiaries and companies under joint control – and shareholders who have adhered to a Shareholders' Agreement pursuant to Article 122 of Italian Legislative Decree no. 58/1998 referring to the Issuer's shares, may not submit nor vote more than one list, even if by third party or through trust companies.

4. The lists are filed with the Company within the twenty-fifth day preceding the date scheduled for the Shareholders' Meeting called in first or single call to resolve on the appointment of the Board of Statutory Auditors' members and the same lists are made available to the public at the Company's premises and on the Company's website, as well as by other means envisaged by the applicable regulatory provisions at least twenty-one days before the date of the Shareholders' Meeting.

The lists shall include:

a) information relative to the identity of the shareholders who have submitted the lists with indication of the percentage interest held;

b) a declaration from the shareholders who have submitted the lists and other than those who hold, also collectively, a controlling interest or a relative majority, certifying the non existence or the existence of relations with the latter, as per Article 144-quinquies, first paragraph, of the "Issuer Regulation";

c) exhaustive information on the personal and professional characteristics of the candidates as well as a statutory declaration by the same certifying that they meet the requisites envisaged by law and by these By-Laws and that they accept the candidacy.

Candidates may not be appointed Statutory Auditors if they hold office as members of Boards of Directors or Boards of Statutory Auditors to an extent that exceeds the thresholds established by the relevant applicable law and regulatory provisions.

5. In the case in which on the expiry date of the term of twenty-five days before the scheduled date of the Shareholders' Meeting in first or single call called to resolve upon the appointment of the Statutory Auditors, only one single list has been filed, or the only lists submitted are by shareholders who have relations pursuant to Article 144-quinquies of the Issuer Regulation, the lists may be submitted until the third day subsequent to such date. In the latter case the threshold referred to in paragraph 3 above is reduced by half.

6. The lists submitted without compliance with the afore specified provisions shall not be presented for voting.

7. Before the vote, the Chairman of the meeting shall make reference to any of the declarations under letter b) above, inviting participants, who have not filed or contributed to the filing of any lists, to declare any possible relations as specified above.

Should any subject having relations with one or more shareholders vote for a minority list, the existence of such relation becomes relevant only if the vote is decisive for the appointment of the statutory auditor.

8. The statutory auditors are appointed as follows:

a) two auditors and two substitute auditors are drawn from the list that obtained the highest number of votes, in the order in which they appear in the list;

b) one Standing Statutory Auditor and one Substitute Statutory Auditor are appointed from the second list which received the highest number of votes and that, also pursuant to from time to time applicable law provisions, has not, even indirectly, relations with the shareholders who have submitted or voted the list with the highest number of votes and they are selected based on the progressive order in which they appear on the relevant list.

*In the hypothesis that more lists have obtained the same number of votes, a new round of balloting shall be held and those listed candidates who receive a simple majority of the votes shall be elected.*

*If at the conclusion of voting and the above operations the composition of the Board of Statutory Auditors does not comply with current regulations concerning the balance of genders, the necessary replacements will be made in the numerical order in which candidates are listed on the list obtaining the highest number of votes.*

9. The candidate ranked first on the second most voted list for standing statutory auditors shall be appointed Chief Statutory Auditor.

10. If only one list is submitted, the Shareholders will vote on it, and if the list obtains the majority required by Article 2368 and following of the Civil Code, the three candidates in numerical order in the relative section shall be elected as standing auditors and the three candidates listed in progressive order in the relative section shall be elected as substitute auditors; the chairmanship of the Board of Statutory Auditors will go to the person indicated listed at the top of the section of the candidates for the office of standing auditor from the list presented.

11. In the absence of lists and if through the voting list the number of candidates elected is fewer than the number determined by these Bylaws, the Board of Statutory Auditors will be appointed or supplemented by the Shareholders on the basis of statutory majorities and in compliance with applicable provisions concerning gender balance.

12. In the case of the replacement of an auditor, the place will be taken by a substitute auditor from the same list as the former, in compliance with applicable provisions concerning gender balance; in the absence of such compliance, a shift in the order of subjects in the same list as the departing statutory auditor will be made or, alternatively, belonging to any other minority lists on the basis of votes received.

When the Shareholders are required to appoint standing and/or substitute auditors to complete the composition of the Board of Statutory Auditors, in compliance with applicable provisions concerning gender balance, these will be elected 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), in compliance with applicable provisions concerning gender balance 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, and in compliance with applicable provisions concerning gender balance appointments are made by a majority vote without list constraints.*

13. In any case of replacement of the Chief Statutory Auditor the substitute auditor holding office shall also act as Chief Statutory Auditor.

14. The Shareholders' Meeting establishes the compensation due to the statutory auditors in addition to the reimbursement of the expenses borne for the performance of their activities.

15. The powers and duties of the statutory auditors correspond to those provided for in the relevant law provisions.

16. The Statutory Auditors' meetings may be held by telecommunications means, provided that all participants may be identified and their identification is registered in the relevant minutes and that they are able to follow the discussion and intervene in real time in the analysis of the items on the agenda by exchanging documentation. In this case, the Statutory Auditors' meeting shall be considered held in the place in which the Board Chairman is present.

Given that no alternative slate of candidates was presented during the above-mentioned Shareholders' Meeting on 19 April 2012, the current Board of Statutory Auditors does not include any statutory auditors who were appointed by minority shareholders.

### **STATUTORY AUDITORS' INTERESTS**

If the Company is involved in a transaction in which a statutory auditor is a stakeholder - be it directly or on behalf of third parties - the statutory auditor concerned shall promptly and thoroughly inform the other statutory auditors and the Chairman of the Board of Directors on the nature, terms, origin and extent of his/her stake.

### **EXTERNAL AUDITORS**

In response to a informed proposal submitted by the Board of Statutory Auditors in accordance with article 13, paragraph 1 of Legislative Decree no. 39/2010, on 27 April 2010 the Ordinary Shareholders' Meeting resolved to grant the audit firm Deloitte & Touche S.p.A. the task of conducting full-scope audits of the separate and consolidated financial statements - as well as the performance of additional services as per article 14 of Legislative Decree no. 39/2010 - for the nine fiscal years between 2010/2018.

The Ordinary Shareholders' Meeting of 27 April 2010 also granted Deloitte & Touche S.p.A the task of conducting a limited-scope audit on the half-year financial statements relative to the first half of each of the fiscal years between 2010/2018.

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

A specific corporate function called "Investor Relations" has been set up to manage relations with institutional investors and shareholders in general, the latter in conjunction with the Department of Corporate and Legal Affairs.

The Head of Investor Relations is Ms. Nicoletta Pinoia, who can be reached at the following e-mail address: [invrel@mondadori.it](mailto:invrel@mondadori.it).

The Company has also set up an "Investor Relations" section on its website at [www.mondadori.it](http://www.mondadori.it), where shareholders and investors in general can find important information concerning the Company.

### **THE HANDLING OF CORPORATE INFORMATION**

The handling of corporate information is regulated by a series of procedures and provisions which are currently in place, and which also form a part of the Organization, Management and Control Framework adopted by the Board of Directors (pursuant to Legislative Decree no. 231/2001) and briefly described in this Report.

### **MANAGEMENT AND DISCLOSURE TO THE MARKET OF SENSITIVE INFORMATION**

In this matter, the Board of Directors approved a "Procedure for the monitoring, internal flow and public disclosure of sensitive information as defined in article 181 of Legislative Decree no. 58/1998".

Under this procedure, the Chief Executive Officer is tasked with managing sensitive information, who enlists the assistance of the Central Department of Finance, Administration and Control. The aim is to:

- regulate the ways in which corporate documents and information concerning Arnoldo Mondadori Editore S.p.A. and its subsidiaries are monitored, managed and circulated within the Company, especially with regard to sensitive information as per article 181 of Legislative Decree no. 58/1998;
- regulate the ways in which sensitive information is disclosed to the public, in accordance with applicable laws and regulations, and in keeping with standards for the transparency, timeliness and non-selective nature of disclosures.

The procedure also contains instructions for subsidiaries as required by article 114 of Legislative Decree no. 58/1998. These ensure that the information flows between the subsidiaries and Arnoldo Mondadori Editore S.p.A. are such that the Parent Company can promptly and duly disclose to the market any events or circumstances that constitute sensitive information pertaining to its subsidiaries. Lastly, it should be noted that this procedure was updated in the 2006 fiscal year as a result of the transposition into law of the European Directive on Market Abuse.

#### **REGISTER OF THE PERSONS WITH ACCESS TO SENSITIVE INFORMATION**

In response to article 115 *bis* of Legislative Decree no. 58/1998, the Board of Directors established the “Operational Rules for the management of the Register of persons with access to sensitive information” (“Register”), which went into effect on 1 April 2006. These rules are to be considered a part of the procedure described above.

The Rules concern the following topics: (i) there are certain persons who, because of their work, profession or duties performed on behalf of the Company or its subsidiaries, have access to sensitive information on an occasional or permanent basis. The Rules thus regulate the identification of said persons, their inclusion in the Register, and their potential removal from the Register at a later time; (ii) instructions on the information flow that is necessary for the corporate function in charge of keeping the Register to put any inclusions and/or removals into effect; (iii) the ways to provide those individuals included in the Register with information regarding their inclusion and relative variations and/or removals; (iv) the ways to manage and search the data contained in the Register, which are computer-assisted so as to ensure proper traceability and storage of data within the terms required by the Issuers Regulation.

#### **INTERNAL DEALING**

The subject of internal dealing falls under the procedures for the management and disclosure of corporate documents and information. In that regard, the Board of Directors adopted provisions accordingly, which went into effect on 1 April 2006. This was in response to article 114, paragraph 7 of Legislative Decree no. 58/1998 and the respective rules on that article’s implementation published in the Issuers Regulation.

According to those rules, any trading of Mondadori shares or other related financial instruments must be disclosed to the Company, to Consob and to the public if said trading has been carried out by members of the Board of Directors, the Board of Statutory Auditors or other Key Management Personnel who might have regular access to sensitive information, or who hold management authority and decision-making power that could influence the future growth and outlook of the Company.

Accordingly, the measures taken by the Board of Directors ensure: (i) the proper identification of those Company managers who are required to make disclosures in accordance with article 114, paragraph 7 of Legislative Decree no. 58/1998; (ii) that the individuals who have been identified are duly informed of their status, and that they are aware of the requirements associated with it, including the procedures and timing that must be legally respected in making their disclosures; (iii) the identification of the corporate function within the Company (Department of Corporate and Legal Affairs) that is in charge of receiving, managing and communicating the aforementioned disclosures to the market.

## **BLACKOUT PERIODS**

The rules on Internal Dealing establish a blackout period in which all individuals identified as key management figures are barred from trading any financial instruments subject to disclosure requirements. Specifically, this period begins 30 days before Board meetings called to examine the yearly results, or 15 days before Board meetings called to examine quarterly and semi-annual results, and lasts until those results are disclosed to the market. An additional aim of this blackout period is to ensure that the Company is in keeping with industry standards in this matter.

## **SHAREHOLDERS' MEETINGS**

The following articles of the Bylaws regulate the calling, running and right to attend and vote at the Shareholders' Meeting:

- article 9, regarding the ways in which the Shareholders' Meeting is called:
  - the Meeting is called by publishing the relevant notice of call on the Company's website, without prejudice to applicable regulations in force;
  - it shall be possible to call a Meeting, amend the agenda and/or present resolution proposals on matters already on the agenda at the request of minority shareholders, in accordance with applicable laws;
  - it shall be possible to exercise the right to attend and vote via electronic means if explicitly stated in the convening notice;
- article 11, regarding the right to attend and exercise voting rights: in accordance with the so-called "record date" principle, the right to attend and vote must be certified by submitting a statement to the Company through an authorized intermediary on the basis of its accounting records at the end of the seventh trading day prior to the date of the Shareholders' Meeting. Credit or debit records in the intermediary's accounts after this date have no effect in terms of legitimizing the exercise of voting rights in the Shareholders' Meeting. The Company must receive the statement by the end of the third trading day prior to the date set for the Shareholders' Meeting, without prejudice to legitimate attendance and the right to vote in the event that the certification reaches the Company after the deadline, provided that it does so by the start of the Shareholders' Meeting at each call.
- article 12, regarding the provisions in place to permit proxy votes and submission of proxy votes by electronic means, in accordance with article 135-novies, paragraph 6 of Legislative Decree no. 58/1998:
  - possibility to designate a proxy through an electronically-signed, computerized proxy form - as per the instructions in the Meeting's notice of call - by using the appropriate section of the Company's website or by sending the designation of proxy form to the Company's certified e-mail address;
  - the power for the Board of Directors to designate a person for each meeting to act as a proxy on behalf of shareholders, with instructions to vote on all or some of the agenda's proposals;

- article 16, regarding convocation and resolutions of the Meetings:
  - the power of the Board of Directors to convene both an ordinary and extraordinary session of the Meeting on single call, pursuant to article 2369, paragraph 1 of the Italian Civil Code, or on multiple calls, pursuant to article 2369, paragraph 2 and subsequent amendments of the Italian Civil Code;
  - enforcement of the quorums recognized by law which validate the Meeting's convocation and its resolutions, both on first call and subsequent calls, as well as on single call.

The documentation related to the Meeting's agenda is made available to the public at the Company's registered office, pursuant to the law, by deposit into the "1info" ([www.1info.it](http://www.1info.it)) and publication on the company's website.

The powers of the Ordinary and Extraordinary Shareholders' Meeting are determined as per the legislation in force.

As described in Section III of this Report, under the paragraph "Rules on Amendments to the Bylaws", the Bylaws grant the Board of Directors the power to adopt specific resolutions on matters that may fall under the competence of the Shareholders' Meeting, without prejudice to the competence of the Shareholders' Meeting on those same matters. This is in keeping with article 2365 of the Italian Civil Code.

#### SHAREHOLDERS' MEETING RULES

On 24 April 2001, the Ordinary Shareholders' Meeting passed a resolution to adopt a set of Meeting rules. One of the main objectives of these rules is to safeguard each Shareholder's right to express his/her opinion on matters under discussion, while at the same time ensuring that the Meetings are conducted in an orderly and practical fashion. All the Shareholders benefit in this way, as an efficient decision-making process is in the best interests of everyone.

The Meeting rules are available to Shareholders at the Company's registered office and at all venues in which Shareholders' Meetings take place (and on the Company's website at [www.mondadori.it](http://www.mondadori.it), under the "Governance" section).

It is also customary for the Board of Directors to use the Shareholders' Meetings as an opportunity to report on the work the Group has been carrying out, and what it has planned for the future, to the extent permitted by regulations on sensitive information.

## **SECTION II MAIN CHARACTERISTICS OF EXISTING SYSTEMS OF INTERNAL CONTROL AND RISK MANAGEMENT IN RELATION TO FINANCIAL REPORTING**

### *INTRODUCTION*

The guidelines for the Internal Control System have been set forth by the Board of Directors with the support of the Internal Control and Risk Management Committee. The idea is that the identification, measurement, management and monitoring of the main risks the Group faces will allow the Group itself to conduct its business soundly, appropriately and in a way that is aligned with the objectives it has set for itself.

In accordance with article 123-bis, paragraph 2, letter b) of TUF, the Risk Management System forms an integral part of the Internal Control System when it comes to financial reporting. This becomes even clearer considering that together, the two Systems represent the set of rules, procedures and organizational structures that can help ensure credibility, accuracy, reliability and timeliness in financial reporting.

As a listed company, Mondadori has appointed a Manager in charge of financial reporting to deal with this function. By law, this Manager is granted specific competencies, responsibilities and obligations of certification and declaration.

In compliance with legal and statutory requirements, the Manager in charge of financial reporting, with the support of the Director in charge of the system of internal control and risk management and the Board of Directors, has established a control framework of reference. This framework outlines specific flows of activity that involve numerous corporate functions. The goal is to help the Manager obtain certification in accordance with Law no. 262.

### **INTERNAL CONTROL FRAMEWORK**

In compliance with the legislation in force, the Manager in charge of financial reporting has adopted a universally-recognized control framework - COSO's Internal Control Integrated Framework - to assess the design and effectiveness of the Internal Control System as it relates to periodic financial reporting.

This framework of reference is able to assess the adequacy of the internal control system in terms of three areas of analysis (objectives, scope and components). The relevant features from each area have been identified and selected in order to best apply the framework to the Group.

From an **objectives** point of view, the Group's primary focus has been on its "financial reporting" objective, which has timeliness and reliability in financial reporting and accounting as its target.

In that context, the purpose of internal control processes is to provide the Company with reasonable assurance that:

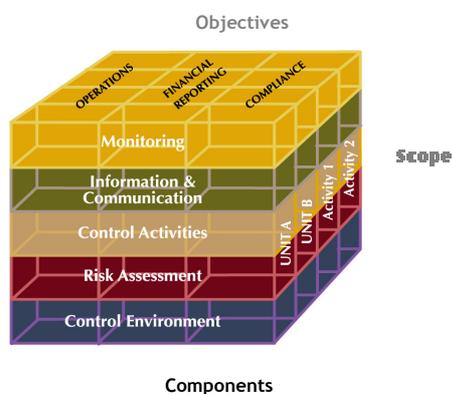
- the preparation of financial reports are in line with the timetables established by the regulations in force;
- the data, information and process being used to prepare financial reports are all reliable.

The framework is able to assess the adequacy of an internal control system on various corporate levels including on a Group level, a company level, a process level, etc.

The components of internal control are what allow the Group to assess the effectiveness of the internal control system in achieving predetermined objectives. From this point of view, the Group has focused on the following components:

- the "Control Environment", which identifies the individuals and resources responsible for the organization, assessment and verification of the general internal control system. One of the objectives in this context is reliability in financial reporting;

- “Risk Assessment”, which identifies the negative events that might prevent the Group from reaching its objectives of reliability and timeliness in financial reporting. Focus is also placed on assessing the risks associated with such events potentially occurring;
- “Control Activities”, which are the actions and controls that are in place to mitigate the risks that have already been identified and assessed. The control system will be effective to the extent that risks are adequately covered by a risk response and by specific control activities. The processes involved in risk assessment and the identification of control activities were carried out by creating a map of the Accounting and Administrative procedures and then assessing its adequacy;
- “Monitoring Activities”, which calls for measures to be taken periodically in order to evaluate and verify:
  - the actual implementation of procedures and above all, of the control activities mentioned above;
  - the proper updating of procedures and above all, of the control activities mentioned above;
- “Information and Communication”, which calls for the organization of effective communication channels between the personnel involved with the internal control system. In the particular case, these flows include:
  - informing the parties concerned of the procedures that apply to them;
  - exchanges of information between the individuals who have a role in the corporate governance system;
  - reporting on the progress of any activities being carried out to improve the internal control system;
  - reporting on any irregularities found during the monitoring process, which are described in subsequent sections of this document.



## CHARACTERISTIC FEATURES OF THE INTERNAL CONTROL FRAMEWORK

The Manager in charge of financial reporting works in conjunction with the bodies involved in corporate governance, first-level corporate functions and all the companies involved on a Group level, in order to receive information on any activities being carried out that have an impact on the Group's bottom line.

So as to best implement the internal control framework, the Manager in charge of financial reporting works in close contact with Heads of Administrative Processes and Internal Audit.

In particular:

- the Administrative Processes function assists him mainly with preparing documents that will be used to analyze and assess the adequacy of accounting and administrative procedures;

- the Internal Audit function assists him mainly in verifying that these procedures are actually being implemented.

The internal control framework at Mondadori is organized around the following phases, which were specifically worked on and updated during the 2013 fiscal year.

Planning;

Recording;

Assessment of adequacy;

Assessment of actual implementation;

Establishment and monitoring of corrective measures.

#### PLANNING

Mondadori has updated its scope of analysis in the “Scope of Analysis Document” to include all of the Group’s subsidiaries as a consolidated whole.

In particular:

- a materiality threshold was established for accounting items;
- a qualitative and quantitative risk assessment of accounting items was carried out division by division;
- each business division was subjected to a global assessment of the materiality of single accounting items in order to determine the scope of analysis;
- processes were identified for each division, where they were matched with the accounting items included in the scope of analysis;
- an overall assessment of risk (high, medium, low) was then attributed to each process in each division.

#### RECORDING

The processes and procedures relative to the accounting and finance areas of the Group were mapped out. This highlighted the key control activities in place to cover the risks that have been identified as potential threats to financial reporting. The Heads of the various processes involved collaborated on this mapping activity.

The map was created through the use of flow charts, which described the activities, supporting resources, and roles/responsibilities.

#### ASSESSMENT OF ADEQUACY

By assessing the key control activities in place (which address identified risks), and by using a specific effectiveness matrix, the adequacy of the processes and procedures was able to be analyzed and documented.

The Heads of the respective processes are informed of the assessment’s findings. In the event of any inadequate controls, corrective measures are put in place.

#### ASSESSMENT OF ACTUAL IMPLEMENTATION

The mapped out processes were subjected to an assessment, on the part of the Internal Audit function, of the actual implementation of key control activities. The findings are collected in specific reports - to be addressed to the Manager in charge of financial reporting - which are used to update the documentation regarding the processes and to put any corrective measures in place.

## MONITORING

The internal control framework was monitored in the following ways:

- activation of communication channels with the Heads of the respective processes, in order to identify any changes in their activities through “Certification of processes” forms;
- updates of process-related documentation (flow charts and effectiveness matrices);
- establishment and implementation of corrective measures aimed at restoring adequacy to any inadequate key controls;
- preparation of certification paperwork on the part of the companies in the Group which have been the focus of analysis;
- ensuring a proper flow of information to the Board of Statutory Auditors.

## SECTION III INFORMATION ON OWNERSHIP STRUCTURE

### STRUCTURE OF SHARE CAPITAL. SHARE STRUCTURE AND RIGHTS.

On the date of approval of this Report, the share capital of Arnoldo Mondadori Editore S.p.A. was equal to EUR 67,979,168.40, fully subscribed and paid-up. This amount can be subdivided into 261,458,340 ordinary shares, each with a nominal value of EUR 0.26. Shares are issued through a central securities depository and are uncertificated, and they are traded on the Electronic Share Market (MTA) which is organized and run by Borsa Italiana S.p.A.

Mondadori shares are registered, indivisible and freely transferable shares which grant the holder the right to vote at Ordinary and Extraordinary Shareholders' Meetings in accordance with the laws in force and the Bylaws; furthermore, they grant the holder additional administrative and capital rights in compliance with laws on 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 that confer the right to subscribe to newly-issued shares.

### RESTRICTIONS ON TRANSFER OF SHARES

There are no restrictions on the transfer nor holding of shares, nor are there any prior approval clauses on the part of the Company or other security holders regarding the transfer of shares.

### MAJOR SHAREHOLDERS

Major shareholders are those entities holding investments that are greater than 2% of the Company's share capital - whether held directly or indirectly - as recorded in the shareholder register, complete with notifications received in accordance with article 120 of Legislative Decree no. 58/1998 and other available information. On the date of this Report, the major shareholders with significant equity participation were as follows:

Shareholders	Number of shares held	% of share capital
Silvio Berlusconi (indirectly through Fininvest S.p.A.)	131,773,658	50.39
Silchester International Investors LLP <sup>(i)</sup>	32,832,869	12.56
River and Mercantile Asset Management LLP <sup>(i)</sup>	13,246,396	5.07

(i) equity participation held in "discretionary asset management" portfolios

We note that:

- the significant equity participation held by River and Mercantile Asset Management LLP was purchased and disclosed in compliance with article 120 of Legislative Decree no. 58/1998 on 4 and 5 February 2014, respectively.

Over the course of 2014, there was a decrease in the market capitalization of the Company's shares by approximately 33%.

#### **SPECIAL CONTROL RIGHTS**

No shares were issued that confer special control rights.

#### **EXERCISE OF VOTING RIGHTS IN AN EMPLOYEE STOCK OWNERSHIP PLAN**

There is no specific mechanism for the exercise of voting rights that can be applied to an employee stock ownership plan.

The voting rights associated with the exercise of stock options under the employee Stock Option Plan (described in Section I of this Report) are not subject to any restrictions whatsoever and may be exercised directly by the beneficiary.

#### **RESTRICTIONS ON VOTING RIGHTS**

There are no restrictions on the exercise of voting rights.

#### **AGREEMENTS PURSUANT TO ARTICLE 122 OF LEGISLATIVE DECREE NO. 58/1998**

The Board of Directors is not aware of the existence of any shareholder agreements as per article 122 of Legislative Decree no. 58/1998, regarding the exercise of shareholders' rights or the transfer of shares.

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

In the month of November, 2013, contracts were entered into with a series of banking institutions concerning the re-negotiation of credit facilities for a total amount of 570 million euro; these contracts call for the potential early repayment of shareholders should the ownership structure of the Company change, which at this point is customary for contracts of this nature.

#### **AGREEMENTS RELATED TO SEVERANCE PAY FOR DIRECTORS**

There are no agreements in place between the Company and its directors which call for severance pay in the event of resignation or dismissal without just cause, or in the event of termination of employment as a result of a public takeover bid.

In keeping with the Company's Remuneration Policy regarding directors and key management personnel, any severance pay is determined solely in accordance with applicable legal provisions or with the relative collective agreements, pursuant to article 123-ter of Legislative Decree no. 58/1998.

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

For the rules that apply to the appointment (through a slate voting system) and replacement of directors, please refer to the paragraph entitled "Appointment procedure" in Section I of this Report, as well as to article 17 of the Bylaws, herein included.

#### **RULES ON AMENDMENTS TO THE BYLAWS**

Amendments to the Bylaws are subject to resolutions on the part of the Extraordinary Shareholders' Meeting. In accordance with article 16 of the Bylaws, the legislation in force shall apply as to the validity of the

convocation and resolutions of the Extraordinary Shareholders' Meeting, be it on first call, subsequent calls, or on single call.

With reference to article 2365 of the Italian Civil Code, and pursuant to article 23 of the Company Bylaws, the Board of Directors has the power to adopt resolutions concerning the following: mergers, in the cases provided for by article 2505 of the Italian Civil Code; the opening or closing of branches; the designation of directors who can legally represent the Company; the reduction of share capital in the event of withdrawal of shareholders; amendments to the Bylaws to conform with the provisions of binding regulations; and the issue of non-convertible bonds within the terms of article 2412 of the Italian Civil Code, and in any case for an amount that may not exceed EUR 400,000,000, it being understood that the Extraordinary Shareholders' Meeting has the competence to authorize an issue that is greater than that amount. The issue of bonds with subscription warrants attached also falls under the exclusive competence of the Shareholders.

#### **POWERS TO INCREASE SHARE CAPITAL AND ISSUE BONDS IN ACCORDANCE WITH ARTICLES 2443 AND 2420 TER OF THE ITALIAN CIVIL CODE.**

On 30 April 2014, the Shareholders' Extraordinary Meeting resolved:

- a) to grant the Board of Directors, pursuant to art. 2443 of the Italian Civil Code, the powers to increase, once or more time, the share capital, including pursuant to art. 2439 of the Italian Civil Code, within a period of five years from the resolution, for a maximum amount of EUR 78,000,000, through the issue of ordinary shares, including in several tranches, reserved as an option to the entitled parties pursuant to art. 2441, par. 1 of the Italian Civil Code, with the directors afforded the right to establish, from time to time, the issue price, including any premium of the shares themselves, the entitlement and the subscription term for the newly issued shares, as well as any allocation of the share capital increase for the conversion of the bonds issued, including by third parties, whether in Italy or abroad, or of warrants;
- b) without prejudice to the authority of the Board of Directors regarding the issuing of non-convertible bonds as regulated by article 2410 of the Italian Civil Code, and within the limits established in article 23, paragraph 2, to grant the Board of Directors - pursuant to article 2420 ter of the Italian Civil Code - the power to issue convertible bonds with the associated increase in share capital, which may be done on one or more occasions and within a period of five years from the date of the resolution; that they can establish the terms, conditions, procedures and relative settlement under which the issue is effected; and that, having taken into account the number of outstanding bonds on the date of the resolution pertaining to each issue, these convertible bonds may be issued for a sum that does not exceed the limits of law on each occasion, and that in any case, does not exceed the maximum nominal amount of EUR 260,000,000.
- c) to grant the Board of Directors - pursuant to article 2443 of the Italian Civil Code - the power to increase share capital through cash contributions on one or more occasions and possibly in tranches, in accordance with article 2439 of the Italian Civil Code; that this power may be exercised within a period of five years from the date of this resolution, with the exemption from option rights pursuant to the second sentence of article 2441, paragraph 4 in the Italian Civil Code; that this increase in share capital shall take place through the issue, potentially in tranches, of a number of ordinary shares not exceeding 10% of the total number of shares comprising the share capital on the date of the exercise of such powers, and in any case for a nominal amount not exceeding EUR 20,000,000; and that the directors shall have the power to determine the issue price as they see fit on each occasion, including any share premium, dividend entitlement, and time period for subscription to the newly issued shares, provided that - in accordance with the second sentence of article 2441, paragraph 4 in the Italian Civil

Code - the issue price corresponds to the share's market value and that such correspondence is verified in the appropriate report by the statutory auditor or external audit firm.

## **AUTHORIZATION TO BUY BACK TREASURY SHARES**

In accordance with article 2357 of the Italian Civil Code, on 30 April 2014 the Ordinary Shareholders' Meeting resolved to renew the authorization to buy back treasury shares and consequently, provide the possibility of taking advantage of any investment opportunities and transactions involving the shares themselves. The Shareholders' Meeting furthermore authorised, pursuant to art. 2357-ter of the Italian Civil Code, for the reasons listed below, the sale of treasury shares purchased or which are already in the portfolio.

The main aspects of the share buyback authorized by the Shareholders can be found below:

### **1. Reasons**

- ✓ to use bought back shares or currently held treasury shares as possible consideration for equity investment, providing it falls under the company's investment policy guidelines;
- ✓ to use bought back shares or currently held treasury shares upon the exercise of rights, including conversion rights, that stem from financial instruments issued by the company, subsidiaries or third parties;
- ✓ to dispose of any investment or divestment opportunities when deemed to be to the strategic benefit of the company, and in proportion to available liquidity;
- ✓ to trade treasury shares upon the exercise of stock options for the purchase of the shares themselves by beneficiaries of Shareholder-approved Stock Option Plans.

### **2. Maximum number of shares that may be bought back**

This authorisation made it possible to reach 10% of the share capital.

Given the total of 14,953,500 shares already held on the date of the shareholders' meeting (equal to 6.067% of the share capital), the additional shares that could be purchased amounted to a maximum of 9,692,334 ordinary shares with a nominal value of EUR 0,26 per share, or 3.933% of the capital.

### **3. Manners in which buybacks will be executed and information on the minimum and maximum consideration**

Pursuant to article 144 bis, paragraph 1, letter b) of Consob Regulation no. 11971/1999, buybacks shall be executed on regulated markets and in accordance with trading procedures as established by the respective market regulations, which do not permit direct matching of bids with predetermined ask prices.

The minimum and maximum buyback price consideration is based on the same objective criteria as the previous authorization granted by Shareholders. As such, that means the share price must fall within a range that is determined as follows: the official share price on the day before the buyback is reduced by 20%, and the resulting price is set as the floor; whereas the same official price is increased by 10%, with the result being set as the ceiling.

Furthermore, buybacks will be carried out in compliance with the conditions laid down in article 5 of EC Regulation 2273/2003 concerning the volumes and prices of shares. In particular:

- shares shall not be purchased at a price higher than the highest price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out;

- in so far as volume is concerned, the Company shall not buy back an amount of shares that exceeds 25% of the average daily volume of Mondadori shares traded in the 20 trading days preceding the date of purchase.

In accordance with the provisions laid down in article 2357, paragraph 1 of the Italian Civil Code, buybacks will be executed within the limits of the available “surplus reserve”, as determined by the latest regularly-approved financial statements.

#### 4. Duration

The duration of the buyback authorization is established to be up until approval of the financial statements for the fiscal year ended 31 December 2014, and in any case up to a maximum of 18 months from the date of the Shareholders’ resolution. In contrast, authorization for the Board to trade treasury shares has been requested without time limits.

#### **BUYBACKS EXECUTED DURING THE 2014 FISCAL YEAR**

Subsequently to the resolution of the Shareholders' Meeting, the company did not proceed to purchase the treasury shares, whether directly or indirectly through subsidiary companies.

On 17 June 2014, in partial exercise of the delegation attributed to it by the Shareholders’ Meeting of 30 April 2014, the Board of Directors resolved to increase the share capital for payment of the placement of a total of 29,953,500 ordinary shares with a nominal value of EUR 0.26 each, to take place through a private placement restricted exclusively to “Qualified Investors” as defined in art. 34-ter, par. 1, letter b) of the Regulation adopted with Consob resolution no. 11971 of 14 May 1999 as currently applicable in Italy and institutional investors abroad (pursuant to Regulation 5 of the United States Securities Act of 1933, as currently applicable, and in the United States of America, solely to “Qualified Institutional Buyers” pursuant to Rule 144 A of the United States Securities Act of 1933, as currently applicable, excluding any country in which the placement would be prohibited pursuant to applicable laws).

In particular, the total offer is structured as follows:

- 15,000,000 newly issued ordinary shares, equalling 6.09% of the share capital, deriving from a share capital increase EUR 3,900,000 which falls within the limits of 10% of the share capital, excluding the option right pursuant to art. 2441 par. 4 , second line of the Italian Civil Code, in partial execution of the delegation conferred by the Shareholders' Meeting of 30 April 2014, pursuant to art. 2443 of the Italian Civil Code;
- 14,953,500 shares equal to 6.067% of the share capital, held by the company as treasury shares pursuant to art. 2357 of the Italian Civil Code.

The newly issued shares and the treasury shares were offered as part of a private placement, restricted exclusively to recipients and implemented using Accelerated Book Building procedures.

To this end, in relation to the transaction, the Company appointed Banca IMI and Unicredit Corporate & Investment banking the duty as Joint Bookrunners.

The transaction was completed in its entirety on 18 June 2014 at a price per share of EUR 1.06 for a total value of EUR 31,750,710.

The final subscription price of the new shares equal to the sale of treasury shares was determined upon completion of the Book Building pursuant to the criteria established by the Board of Directors pursuant

to the provisions of art. 2441, paragraph four, second line, of the Civil Code, regarding the exclusion of option right of up to 10% of the capital.

Upon completion of the increase, the company's share capital was EUR 67,979,168.40 divided into 261,458,340 ordinary shares at the nominal value of EUR 0.26.

As part of this transaction, the company assumed Lock-Up commitments of 120 days in line with market practices for similar transactions.

Upon completion of this transaction, on the approval date of this report, the company held no treasury shares either directly or through subsidiary companies.

#### **RULES ON THE FUNCTIONING OF SHAREHOLDERS' MEETINGS**

Section III of the Bylaws (Shareholders' Meetings) regulates the calling of meetings, the quorums necessary to validate their convocation and resolutions, and the way they are conducted. Please refer to the Company's website at [www.mondadori.it](http://www.mondadori.it), under the "Governance" section to consult the Bylaws.

Additionally, please refer to the paragraph entitled "Shareholders' Meetings" in Section I of this Report.

## SECTION IV SUMMARY TABLES

TABLE 1: STRUCTURE OF BOARD OF DIRECTORS AND COMMITTEES

Board of Directors										Internal Control and Risk Management Committee		Remuneration and Appointments Committee		Executive Committee (a)
Office	Members	term		Slate (M/m) *	executive	non-executive	Independence as per Code and TUF	% attendance rate for BoD meetings **	number of other positions held ***	****	% committee attendance rate **	****	% committee attendance rate **	
		from	to <sup>(1)</sup>											
Chairman	Marina Berlusconi	19/04/2012	31/12/2014	M	X			100.00	3					
Chief Executive Officer	Ernesto Mauri	23/04/2013	31/12/2014	M	X			100.00	2					
Director	Piersilvio Berlusconi	19/04/2012	31/12/2014	M		X		0	5					
Director	Danilo Pellegrino	23/04/2013	31/12/2014	M		X		100.00	7					
Director	Pasquale Cannatelli	19/04/2012	31/12/2014	M		X		100.00	4					
Director	Bruno Ermolli	19/04/2012	31/12/2014	M		X		100.00	3			X	100.00	
Director	Martina Mondadori	19/04/2012	31/12/2014	M		X	X	57.14						
Director	Roberto Poli	19/04/2012	31/12/2014	M		X		100.00	5					
Director	Oddone Maria Pozzi	17/06/2014	31/12/2014	M	X			100.00	2					
Director	Angelo Renoldi	19/04/2012	31/12/2014	M		X	X	100.00	2	X	100.00			
Director	Mario Resca	19/04/2012	31/12/2014	M	X			100.00	4					
Director	Cristina Rossello	19/04/2012	31/12/2014	M		X	X	100.00	3	X	100.00			
Director	Carlo Sangalli	19/04/2012	31/12/2014	M		X	X	14.28	1			X	100.00	
Director	Marco Spadacini	19/04/2012	31/12/2014	M		X	X	71.42	10	X	75.00	X	100.00	
<b>DIRECTORS WHO RESIGNED DURING THE FISCAL YEAR</b>														
Director	Carlo Maria Vismara	19/04/2012	31/05/2014	M	X			100.00	1					
Quorum needed to present a slate of candidates at the last appointment: 2.5%				The Company's applicable minimum ownership stake for shareholders to submit a slate of candidates was determined by Consob resolution no. 18083 of 25 January 2012.										
Number of meetings that took place during the fiscal year		Board of Directors: 7					Internal Control and Risk Management Committee : 8					Remuneration and Appointments Committee: 3		

### NOTES

<sup>(1)</sup> the end date of the term is to be understood as the date of the Shareholders' Meeting to approve the financial statements for the fiscal year ended 31 December 2014.

\* the M/m in this column depends on whether the Board member was appointed from a slate voted by a majority (M) or a minority (m).

\*\* this column reports the attendance rate for the directors at the BoD and Committee meetings, respectively (number of times present / number of meetings held during the actual term of office of the person concerned).

\*\*\* this column reports the number of positions held by the person concerned as director or statutory auditor in other companies listed on regulated markets, including abroad, as well as in financial companies, banks, insurance companies, or other large companies. These positions are described in more detail in this Report.

\*\*\*\* an "X" in this column means that the Board member was a member of the Committee.

(a) no Executive Committee has been formed.

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

Board of Statutory Auditors							
Office	Members	Term		Slate (M/m) *	Independence as per Code	% attendance rate for meetings of Board of Statutory Auditors **	Number of other positions held ***
		from	to <sup>(1)</sup>				
Chairman of the Board of Statutory Auditors	Ferdinando Superti Furga	19/04/2012	31/12/2014	M	X	92.30	13
Standing Statutory Auditor	Francesco Antonio Giampaolo	19/04/2012	31/12/2014	M	X	92.30	24
Standing Statutory Auditor	Franco Carlo Papa	19/04/2012	31/12/2014	M	X	46.15	17
Substitute Statutory Auditor	Simonelli Ezio	19/04/2012	31/12/2014	M		---	
Substitute Statutory Auditor	Francesco Vittadini	19/04/2012	31/12/2014	M		---	
STATUTORY AUDITORS WHO RESIGNED DURING THE FISCAL YEAR							
Quorum needed to present a slate of candidates at the last appointment: 2.5%				The Company's applicable minimum ownership stake for shareholders to submit a slate of candidates was determined by Consob resolution no. 18083 of 25 January 2012			
Number of meetings that took place during the fiscal year: 13							

**NOTES**

- <sup>(1)</sup> the end date of the term is to be understood as the date of the Shareholders' Meeting to approve the financial statements for the fiscal year ended 31 December 2014.
- \* the M/m in this column depends on whether the Board member was appointed from a slate voted by a majority (M) or a minority (m).
- \*\* this column reports the attendance rate for the statutory auditors at meetings of the Board of Statutory Auditors (number of times present / number of meetings held during the actual term of office of the person concerned).
- \*\*\* this column reports the number of positions held by the person concerned as director or statutory auditor pursuant to article 148 *bis* TUF. The complete list of these positions is published on Consob's website, in accordance with article 144-*quinquiesdecies* of the Consob Issuers Regulation.  
In this Report, only the positions held in other listed companies are described in more detail.

**TABLE 3: INFORMATION ON OWNERSHIP STRUCTURE**

SHARE CAPITAL STRUCTURE				
	Number of shares	% of share capital	Listed (markets)	Rights and obligations
Ordinary shares	261,458,340	100	MTA	*
Shares with limited voting rights	----	----	----	----
Shares without voting rights	----	----	----	----

\* please refer to Section III of the Report, under the paragraph “Share capital structure. Share structure and rights.”

MAJOR SHAREHOLDERS			
Declarant	Direct shareholder	% of ordinary share capital	% of voting share capital
Silvio Berlusconi	Fininvest S.p.A.	50.39	50.39
Silchester International Investors LLP *	Silchester International Investors LLP <small>(as manager of - among others - two funds: Silchester International Investors International Value Equity Trust, which holds 5.95%, and Silchester International Investors International Value Equity Group Trust, which holds 3.23%)</small>	12.56	12.56
River and Mercantile Asset Management LLP *	River and Mercantile Asset Management LLP	5.07	5.07

\* equity participation held in “discretionary asset management” portfolios