

**Report on Corporate Governance  
and Ownership Structure**

pursuant to art. 123-*bis* of Leg. Decree no. 58/1998

**Fiscal Year 2016**

Approved by the Board of Directors of  
Arnoldo Mondadori Editore S.p.A.  
on 21 March 2017

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## **Arnoldo Mondadori Editore S.p.A.**

Via Bianca di Savoia 12

Share capital EUR 67,979,168.40 fully paid-up

Tax code and Register of Companies of Milan 07012130584

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

# **Report on Corporate Governance and Ownership Structure pursuant to article 123-bis of Legislative Decree no. 58/1998 Fiscal Year 2016**

## **1. GROUP PROFILE**

### **INTRODUCTION**

A leading European media company, the Mondadori Group operates in two main sectors: books and magazines.

The Group is a major publisher of trade books under the trademarks Mondadori, Giulio Einaudi editore, Piemme and Sperling & Kupfer. It is also a leading scholastic publisher with Mondadori Education and Rizzoli Education: Mondadori publishes art and illustrated books through its subsidiary Mondadori Electa, which is also active in museum licensing and the organization and management of exhibitions and cultural events. Through Rizzoli International Publications, the Group also has an international presence in the illustrated books sector.

The book operations are completed with Mondadori Retail, which manages the largest network of bookshops in the country with over 600 point of sale (operated directly and with franchised bookstores) and the e-commerce websites [mondadoristore.it](http://mondadoristore.it) and [libreriarizzoli.it](http://libreriarizzoli.it), with over 20 million customers every year.

The Group is also Italy's main publisher of magazines, both printed and digital, owning the most well known brands in Italy: *Donna Moderna*, *Grazia*, which is also published internationally, *Chi*, *Panorama*, *Tv Sorrisi e Canzoni*, and design, interior design, cooking and lifestyle magazines.

From 2006, the Mondadori Group has been present in France with Mondadori France, one of the main consumer magazine publishers of the country. Among the most successful brands, in paper and digital form, are the following titles: *Closer*, *Grazia*, *Plein Vie*, *Science & Vie*, *Télé Star*.

Mondadori also operates internationally, through its subsidiary Mondadori International Business, with 31 international publications published in 26 countries, through joint ventures, direct presence or licensing agreements with international publishers.

Throughout its history that is now more than a century in the making, the Mondadori Group has remained loyal to its original mission: the dissemination of culture and ideas through products, activities and innovative services that respond to the needs and tastes of the public. In its vision, Mondadori combines the love of culture and publishing quality with market laws, the propensity to foretell and anticipate changes while respecting and safeguarding the values that constitute the basis of a publisher's role in civil society.

## 2. 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 is 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) - STAR segment which is organized and run by Borsa Italiana S.p.A.

The STAR qualification was attributed to the Company's ordinary shares and their trading on the Screen-based Share Market (MTA) allowed pursuant to Borsa Italiana order no. 8291 of 29 November 2016 following the successful completion of the admission procedure, as the Company fulfilled all the requirements, governance characteristics and procedures required by the Regulation applicable to Markets that are organised and managed by Borsa Italiana Stock Exchange.

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 REGARDING THE 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 HOLDERS OF SHARE CAPITAL

Major shareholders are those entities holding investments that are greater than 3% 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.)	139,355,950	53.29
Silchester International Investors LLP <sup>(i)</sup>	30,033,556	11.49
<sup>(i)</sup> equity participation held in "discretionary asset management" portfolios		

Over the course of 2016, there was an increase in the market capitalization of the Company's shares by approximately 13%.

### SHARES THAT CONFER SPECIAL CONTROL RIGHTS

No shares were issued that confer special control rights.

#### **EMPLOYEE STOCK OWNERSHIP: MECHANISM APPLICABLE TO VOTING RIGHTS**

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 this Report), lapsed at the date of this Report, were subject to no restrictions.

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

There are no restrictions on the exercise of voting rights.

#### **SHAREHOLDER AGREEMENTS**

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.

#### **CHANGE OF CONTROL CLAUSES**

In the month of December 2015, a new contract was entered into with a series of banking institutions concerning the negotiation of credit facilities for a total amount of 515 million euro; this contract calls for the potential early repayment of shareholders should the ownership structure of the Company change, which is customary for contracts of this nature.

#### **AUTHORIZATION TO INCREASE THE SHARE CAPITAL AND PURCHASE TREASURY SHARES**

In accordance with article 2357 of the Italian Civil Code, in consideration of the expiration of the present shareholders' meeting authorization provided on 23 April 2015 and to ensure that the Board of Directors maintains the authorization to take any investment opportunities regarding the treasury shares of the company, on 21 April 2016 the Ordinary Shareholders' Meeting resolved to renew the authorization to buy back. 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.

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

##### **1. Reasons**

- ✓ to use bought back treasury shares as possible consideration for equity investment, providing it falls under the Company's investment policy guidelines;
- ✓ to use bought back treasury shares upon the exercise of rights, including conversion rights, that stem from financial instruments issued by the Company, subsidiaries or third parties, and use the treasury shares for exchanges or conferrals of shares or for extraordinary capital transactions or borrowing or incentives that involve assignment or disposal of treasury shares;
- ✓ 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 by beneficiaries of Shareholder-approved Stock Option Plans.

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

The authorization refers to the buyback of a maximum number of ordinary shares with a nominal value of EUR 0.26 per share up to 10% of the Company's present share capital. The Company's share capital currently stands at 26,145,834 ordinary shares.

3. Manners in which buybacks will be executed and information on the minimum and maximum consideration  
Pursuant to article 132 of Legislative Decree no. 58/1998 and art. 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, so long as these do not permit direct matching of bids with predetermined ask prices. In addition, buybacks shall be executed in full compliance with any other applicable regulations.

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:

- treasury 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 until approval of the financial statements for the fiscal year ended 31 December 2016, 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 established without time limits.

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

During 2016 - in the period from 30 November to 2 December - the Company purchases on the MTA a total of 80,000 treasury shares as part of its authorisation to purchase pursuant to the resolution of the Shareholders' Meeting held on 21 April 2016, required to support liquidity of the share by the Specialised Operator Equita Sim S.p.A. for trading on the STAR segment. As at 31 December 2016, the total number of treasury shares held by Arnoldo Mondadori Editore S.p.A., whether directly or indirectly, totalled 80,000 (0.031% of the share capital).

On the date of approval of this Report, the total number of treasury shares held by Arnoldo Mondadori Editore S.p.A. remains unchanged in comparison to 31 December 2016.

#### **MANAGEMENT AND COORDINATION ACTIVITIES (PURSUANT TO ART. 2497 ET SEQ. OF THE ITALIAN CIVIL CODE)**

Though it holds a controlling stake pursuant to art. 2359 of the Italian Civil Code, Fininvest S.p.A. does not exercise management and coordination over Arnoldo Mondadori Editore S.p.A. pursuant to article 2497 et seq. of the Italian Civil Code. It limits its involvement to the financial management of the equity investment it holds in the company.

### 3. COMPLIANCE WITH THE CODES OF CONDUCT

Arnoldo Mondadori Editore S.p.A. considers the Code of Conduct (hereinafter the "Code") in the version published in July 2015, which is available to the public from the website of Borsa Italiana ([www.borsaitaliana.it](http://www.borsaitaliana.it)) for listed companies to be a reference for the definition of its own organizational structure and operating practices 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.

### 4. BOARD OF DIRECTORS

#### COMPOSITION OF THE BOARD OF DIRECTORS

The Board of Directors was appointed by the Shareholders' Meeting on 23 April 2015 – 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 2017.

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**, Chairperson.

Though the Chairperson 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 Riccardo 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**, the Chairman of Mondadori Retail S.p.A. since 2013. - a subsidiary which operates in "retail" direct sales to consumers - identified as a company that is strategically significant for the Group. Though Mario Resca's appointment as Chairman 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:

**Pier Silvio Berlusconi**



**Pasquale Cannatelli**  
**Danilo Pellegrino**  
**Paolo Guglielmo Luigi Ainio**  
**Martina Mondadori**  
**Roberto Poli**  
**Angelo Renoldi**  
**Cristina Rossello**  
**Alfredo Messina**  
**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 AND REPLACEMENT OF DIRECTORS**

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 particular, it is hereby specified that articles 14 and 27 of the Bylaws which refer to the appointment procedures through a slate voting system, for the Board of Directors and the Board of Statutory Auditors respectively, were amended in 2013 following the provisions introduced by Law 120 of 12 July 2011, concerning the balance between the genders in administrative and control bodies of listed companies, introducing the procedures according to which to compose the lists and distribute the votes so as to ensure that the composition of the bodies is compliant with the provisions of the law.

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". For the first renewal, subsequent to the first application of the law this proportion must be at least one fifth. During the first renewal of the administrative body, on 23 April 2015, one year after the entry into effect thereof, the Shareholders' Meeting appointed the members of the Board, ensuring that at least one fifth was composed of the less represented gender, ensuring furthermore that within the departing Board provision was already made for representation of the "less represented gender" equal to one fifth, pursuant to the requirements of the new 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. 19856 of 25 January 2017, 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 23 April 2015.

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 "Issuers' 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 nonexistence or the existence of relations with the latter, as per Article 144-quinquies, first paragraph, of the "Issuers' 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 individual 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 et seq. of the Italian Civil Code, the candidates, listed 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 Italian 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 23 April 2015, the current Board of Directors does not include any directors who were appointed by minority shareholders.

## **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, including in its valuations also the risks that could become significant insofar as sustainability of operations over the medium-long term; 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 2016 fiscal year, the Board of Directors held 9 meetings, which were regularly attended by the Board of Statutory Auditors. Each meeting lasted, on average, 1 hour and 57 minutes. Ugo Di Stefano, Attorney at Law -Director of Legal and Corporate Affairs has regularly participated in all the meetings. Paolo De Benedetti, Head of Internal Audit and a member of the Supervisory and Oversight Body has participated in the meetings in particular to report on the activities carried out to ensure the appropriateness of the internal control and risk management system.

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

At the time this report was drafted, 2 meetings of the Board of Directors had already been held during the 2017 fiscal year. The corporate events calendar which has been disclosed to the market has the following additional events:

- 11 May 2017 (review of the quarterly management report for the quarter ended 31 March 2017);
- 27 July 2017 (review of the semi-annual financial report for the first half ended 30 June 2017);
- 9 November 2017 (review of the quarterly management report for the quarter ended 30 September 2017).

It is hereby noted that the Bylaws do not indicate a minimum frequency for the Board meetings.

On the initiative of the Chief Executive Officer or the request of the Directors, the Chairman may request that managers of the Company or the Subsidiaries in charge of individual Group divisions and, as applicable, consultants to join the meetings 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.

## **DELEGATED BODIES**

### **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.



## **CHAIRMAN OF THE BOARD OF DIRECTORS**

In accordance with the Bylaws, the Chairman of the Board of Directors legally represents the Company before third parties and in court. 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.

## *EXECUTIVE COMMITTEE*

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

## *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.

## **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**

With regard to the Board currently in office, appointed by the Shareholders' Meeting held on 23 April 2015, the verification regarding the existence of the independence requirements was carried out at the time of the first Board meeting subsequent to the appointment, based on information provided by each party upon presentation of his or her candidacy and upon acceptance of appointment, for the directors:

**Martina Mondadori**

**Angelo Renoldi**

**Cristina Rossello**

**Marco Spadacini**

This assessment of directors' independence was carried out annually 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 judgement. 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 above.

\* “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.

In its meeting of 23 April 2015, as it had in the previous year, 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 and reviewed 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



Marina Berlusconi	Chairperson of Fininvest S.p.A., Director of Mediaset S.p.A. and Mondadori France S.A.S.
Ernesto Mauri	Chairman of Mondadori France S.A.S and of Mondadori Libri S.p.A., Director of Mondadori Retail S.p.A., Deputy Chairman of Mediamond S.p.A.
Berlusconi Pier Silvio	Deputy Chairman and CEO of Mediaset S.p.A., Chairman and CEO of R.T.I. S.p.A., Director of Medusa Film S.p.A. and Publitalia '80 S.p.A.,  Director of Fininvest S.p.A.
Paolo Aino (in office from 28 July 2016)	Chairman of ePrice S.p.A. (formerly Banzai S.p.A.)
Pasquale Cannatelli	Deputy Chairman of Fininvest S.p.A., Director of Mediaset S.p.A. and A.C. Milan S.p.A., Chairman of Fininvest Gestione Servizi S.p.A. and of Edilizia Alta Italia S.p.A.
Bruno Ermolli (in office until 28 July 2016)	Director 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: Chairman of Promos (Special Agency of the Milan Chamber of Commerce). Deputy Chairman of Fondazione Teatro alla Scala (resigned from office on 01/02/2016). Director of Bocconi University, the Politecnico di Milano, Milano per la Scala Foundation, and FAI. Member of Executive Committee and Board of the Milan Chamber of Commerce
Martina Mondadori	
Daniilo Pellegrino	Chairman of Teatro Manzoni S.p.A., ISIM S.p.A., Mediolanum Assicurazioni S.p.A. and Mediolanum Vita S.p.A. Chief Executive Officer of Fininvest S.p.A.
Roberto Poli	Chairman of Poli e Associati S.r.l., Director of FIMITA S.r.l., Fininvest S.p.A., Coesia S.p.A., Praesidium SGR S.p.A. and San Raffaele Hospital, Chairman of the Board of Directors of Istituto Ortopedico Galeazzi S.p.A.
Oddone Maria Pozzi	Deputy Chairman of Mondadori France S.a.s., Mondadori Libri S.p.A., Giulio Einaudi Editore S.p.A., Mondadori Electa S.p.A., Mondadori Education S.p.A., Mediamond S.p.A., Mondadori Retail S.p.A., Mondadori Scienza S.p.A. and Rizzoli Libri S.p.A.
Angelo Renoldi	Director of Mediolanum S.p.A. and Banca Mediolanum S.p.A.
Mario Resca	Chairman of Mondadori Retail S.p.A., Confimprese.  Private Equity Fund Advisor at Ergon Capital Investment. Chairman of I.W.B. Chairman of Nicotra Gebhardt Director of Vionnaire Director of Sausalitos Holding GMBH
Cristina Rossello	Director of Spafid S.p.A., Branca International S.p.A., di Branca Real Estate S.r.l. and Fratelli Branca Distillerie S.r.l. and Fondazione De Mari  Chairperson of Centro Studi Fratelli Branca S.r.l.  Deputy Chairperson of Veneto Banca S.c.p.a. (resigned from office on 04/05/2016)  Member of the Training and Organisation Committee of Acri Associazione di Fondazioni and Casse di Risparmio S.p.A.
Alfredo Messina	Director of Mediaset España Comunicacion S.p.A., Molecular Medicine S.p.A.

	Mr. Messina is also a director of the Mediolanum Onlus Foundation
Marco Spadacini	Chairman of the Board of Statutory Auditors of AMBI S.p.A., Apple Italia S.r.l., Apple S.p.A., Cooperativa Palomar 3 a r.l., Almaviva S.p.A., Valtur S.p.A., Valtur Group S.p.A. and Orogroup S.p.A. Statutory Auditor of Centurion Immobiliare S.p.A., SACBO S.p.A., Termomeccanica Ecologica S.p.A. and Sea Energia S.p.A. Director of AXA Assicurazioni S.p.A. (resigned from office on 26/04/2016) and of Metroweb S.p.A. (resigned from office on 20/12/2016). Director of Compagnia Fiduciaria Nazionale S.p.A.

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.

#### **LEAD INDEPENDENT DIRECTOR**

In line with the recommendation of the Code of Conduct and the Borsa Italiana Stock Exchange Guidelines and Regulation, on 8 November 2016, the Board added the position of Lead Independent Director who acts as the contact and coordination point for the requests and contributions of the independent directors, and the non-executive directors in general.

With the unanimous consent of all board members, the attorney at law Cristina Rossello was appointed as the Lead Independent Director and shall remain in office until the shareholders' Meeting held to approve the financial statements as at 31 December 2017.

The Lead Independent Director:

- shall collaborate with the Chairman of the Board of Directors to ensure the good operation of the Board of Directors and to ensure that the board members receive complete information in a timely manner;
- where necessary, she will use the corporate structures for the discharge of the duties assigned to her and collaborate with the Secretary of the Board of Directors;
- she will convoke, independently or upon the request of other board members, meetings to be attended by independent directors only on issues regarding the operation of the Board of Directors or the corporate governance system.

#### **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; (i) 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); (i) 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.

## **5. THE HANDLING OF CORPORATE INFORMATION**

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

On 28 July 2016, following the entrance into effect of the new Market Abuse Regulation, introduced by (EU) Regulation no. 596/2014, the Board of Directors introduced the new "Inside Information Procedure" (the "Procedure"), as inside information is defined in art. 7 of the (EU) Regulation no. 596/2014, which replaced the procedure that was applicable from 1 April 2006. The Procedure places the responsibility for handling of inside information with the Chief Executive Officer who shall enlist, as applicable, the services of the Central Department of Finance, Administration and Control (Department of Corporate and Legal Affairs and the Investor Relations function), the Communications and Media Relations Department and any other functions involved in relation to the contents and type of information.

The Procedure aims to:

- regulate the ways in which corporate documents and information concerning Arnoldo Mondadori Editore S.p.A. are monitored, managed and circulated within the Company, especially with regard to inside information as per article 7 of (EU) Regulation no. 596/2014;
- regulate the ways in which inside information is disclosed to the market and the public, in accordance with applicable laws and regulations pertaining to inside information;
- regulate and maintain the Register of persons with access to inside information.

The procedure is published on the website [www.mondadori.it](http://www.mondadori.it), in the Governance section.

### ***INTERNAL DEALING***

The subject of internal dealing falls under the procedures for the management and disclosure of corporate documents and information. These procedures were adopted by the Board of Directors on 28 July 2016 following the entrance into effect of the new Market Abuse Regulation introduced by the (EU) Regulation no. 596/2014.

This procedure refers to the disclosure obligations to Consob, the Company and the public regarding transactions involving financial instruments issued by the Company, derivative instruments and the connected financial instruments 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 inside information, or who hold management authority and decision-making power that could influence the future growth and outlook of the Company.

The Internal Dealing Procedure: (i) identifies the individuals who are responsible for the internal dealing disclosures; (ii) provides to the individuals identified the information regarding the identification, connected obligations and terms and conditions for the required disclosure obligations; (iii) identifies the company department (the Legal and Corporate Affairs Department) in charge of receiving, managing and disclosing to the market the information above, and also filing the communications which are received and made pursuant to these disclosure obligations and the establishment and updating of the Internal Dealing Register.

### **BLACKOUT PERIODS**

The Internal Dealing procedure 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 quarterly and semi-annual results<sup>1</sup>, and lasts until those results are disclosed to the market. An additional aim of this blackout period is to ensure uniform conduct.

The Board of Directors reserves the right to allow the individuals identified through this procedure to carry out all or some of the Significant Transactions even during a Blackout Period, provided the circumstances and terms and conditions applicable to derogation from the procedures were satisfied.

## **6. INTERNAL COMMITTEES WITHIN THE BOARD OF DIRECTORS**

### **INTRODUCTION**

To facilitate the operation of the Board of Directors, the Remuneration and Appointments Committee and Internal Control and Risk Management Committee were established, as per the recommendation of the Code of Conduct. The Related Parties Committee was established pursuant to the Consob regulation governing transactions with related parties.

There are no committees the members of which are less than three and the work of each committee is coordinated by a Chairman.

The duties and functions of each committee are established upon the resolution of the Board of Directors. Minutes of the committee meetings are kept by the secretary. In pursuing its activities, the committee has access to all the corporate information and functions necessary to carry out its duties.

Although the Board of Directors has not approved a specific budget for each committee, the Committees may, from time to time, avail themselves of the financial resources required for the execution of their duties.

### **REMUNERATION AND APPOINTMENTS COMMITTEE**

The Remuneration and Appointments Committee is made up of 3 non-executive directors, the majority of whom are independent; The Chairman of the Committee must be one of the independent directors:

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

**Alfredo Messina** - non-executive director

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<sup>1</sup> Arnoldo Mondadori Editore S.p.A. is required to draft and publish the quarterly data as it belongs to the STAR segment since 29 November 2016. If membership in this segment were to cease, the disclosure of the quarterly data would be optional.

**Cristina Rossello** - independent non-executive director

The members of the Remuneration and Appointments Committee, specifically Marco Spadacini and Cristina Rossello, were appointed upon the resolution of the Board of Directors of 23 April 2015, and 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 2017, unless there is a resolution to the contrary. The director Alfredo Messina was appointed to sit on the Remuneration and Appointments Committee pursuant to the resolution of the Board of Directors on 28 July 2016, following the resignation on that date of Bruno Ermolli, a Committee member.

The Committee held 2 meetings in 2016, 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 2 hours and 15 minutes.

The attendance rate at the meetings for each member of the Committee is indicated in table 1 attached.

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 2015 and forecasted figures for 2016;
- updating on the remuneration of the board members holding particular offices;
- the remuneration policy 2016: updating of the Head of Human Resources and Organisation regarding actual application in the first half of 2016;
- the considerations regarding the votes of the Funds and proxies in the Shareholders' Meeting of 21 April 2016.

With regard to 2016, on 28 February 2017, the Committee also met to discuss actual application of the Policy during 2016.

On 23 April 2015, the Board of Directors 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;
- to make recommendations to the Board of Directors regarding the remuneration of Directors holding 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 incentive plans featuring the granting of financial instruments in accordance with article 114-bis of Legislative Decree no. 58/1998;
- 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 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, and in any case with the frequency that is required for carrying out its functions.

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.

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

The Board of Directors, who are supported by the counsel and recommendations of the Remuneration and Appointments Committee, has examined and approved the guidelines for a general Policy on the remuneration of Directors and Key Management Personnel.

### 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.

- contractual agreements provide that the company is entitled to request the partial or full return (or to withhold any amounts that have been deferred) of components of variable pay which have been calculated on the basis of information that was found to be manifestly incorrect.
- 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.

#### 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 Organisation 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 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.

Regarding the Stock Option Plans which had previously been set up by the Shareholders' Meeting, for which there are residual exercise periods (from between 22 July 2013 to 21 July 2016), no options were exercised. Therefore, these lapsed during the period under review.

With regard to the compensation plans based on the allocation of financial instrument, in its meeting of 21 March 2017, upon the proposal of the Remuneration and Appointments Committee made on 16 March 2017, the Board of Directors approved the proposal to adopt the Performance Shares Plan (the "Plan") which will be submitted for the approval of the Shareholders' Meeting convoked for 27 April 2017 (28 April in the event of a second call).

Please refer to the description provided in the information document published pursuant to art. 84-bis of the Issuers' Regulation, which is available from [www.mondadori.it](http://www.mondadori.it), under the Governance section.



#### 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 27 April 2017 (and if necessary, a second call on 28 April 2017), for the approval of the financial statements for the fiscal year ended 31 December 2016.

#### **RELATED PARTIES COMMITTEE**

The Related Parties Committee is comprised of 3 non-executive and independent directors. In particular:

**Angelo Renoldi** – Chairman, independent non-executive director

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

**Cristina Rossello** - independent non-executive director

The members of the Related Parties Committee were appointed upon the resolution of the Board of Directors of 23 April 2015, and 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 2017, unless there is a resolution to the contrary.

In 2016, the Committee had 1 meeting of 30 minutes for which minutes were taken regularly and during which it examined one transaction with a related party "of Minor Significance" pursuant to the Procedure, expressing its opinion in favour.

The attendance rate at the meeting for each member of the Committee is indicated in table 1 attached hereto. The Chairman of the Committee invited the Head of Corporate and Legal Affairs to attend the meeting.

Detailed information on the related-party transactions regarding the 2016 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 2016. The Annual Financial Report is available on the website at [www.mondadori.it](http://www.mondadori.it) - under the "Governance" section.



## 7. 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 accounting, financial and management experience to perform this duty.

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

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

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

**Cristina Rossello** - independent non-executive director

The members of the Internal Control and Risk Management Committee were appointed upon the resolution of the Board of Directors of 23 April 2015, and 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 2017, unless there is a resolution to the contrary.

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 Financial Reporting Officer.

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 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 Financial Reporting Officer, 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, to be done 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 2016, the Internal Control and Risk Management Committee met 9 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 Body and the Director of Legal and Corporate Affairs, and it also met with the audit firm Deloitte & Touche S.p.A. and the manager of certain company departments. In particular, the Chief Financial Officer – Finance, Procurement and IT Systems regarding impairment testing in relation to the financial statements as at 31/12/2015, the Group Finance and Current Assets Director regarding financial policy, Director of Legal and Corporate Affairs in regard to legal issues and the Head of Human Resources and Organisation of the Mondadori Group. The attendance rate at the meetings for each member of the Committee is indicated in table 1 attached hereto.

As far as the 2016 fiscal year is concerned, the Internal Control and Risk Management Committee carried out the following activities worthy of note:

- it approved the 2016 Annual Internal Audit Plan for the Company and its subsidiaries – prepared by the Head of Internal Audit – and it made sure of its implementation.  
The 2016 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 on the part of the Parent Company and companies in the Group;
  - iii. Compliance 231 audit: the enforcement of Legislative Decree no. 231/2001, 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 Financial Reporting Officer;
- it examined the activities carried out by the Internal Audit department in 2016, 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 examined the activities and structure of the Internal Control Department, not only insofar as the internal audit as per the point above, but also to support the Supervisory Bodies of the Parent Company and the subsidiaries, risk management activities and operating processes;
- 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 31/12/2015. It took cognizance of 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 on the part of the Board of Directors.
- it reviewed the annual report 2015 and that of July 2016 drawn up by the Risk Management Committee, which did not contain any irregularities;
- it analysed 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 took cognizance of the report prepared by the Head of Internal Audit, Mr. Paolo De Benedetti, on the Self-assessment of the System of Internal Control and Risk Management within the Mondadori Group;

- it analysed 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 examined the acquisitions and the relative integration processes carried out by the Mondadori Group during 2016;
- it approved the updating of the operating provisions in force within the Mondadori Group.

Six committee meetings are scheduled to be held in 2017.

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 30 January, the Committee reviewed the impairment testing adopted by the Company relative to the financial statements for the fiscal year ended 31/12/2016, and it approved the method used to calculate impairment.
- During the meeting of 9 February, the Committee:
  - i. reviewed the Internal Audit activity carried out in December 2016. It agreed with the proposed suggestions, and made recommendations of its own;
  - ii. having consulted with the Board of Statutory Auditors, it approved the 2017 Annual Risk-Based Internal Audit Plan for the Company and its subsidiaries, which was prepared by the Head of Internal Audit.  
The 2017 Plan calls for 60 audits to be carried out in five different categories:
    - a) Operational audits,
    - b) Compliance audits,
    - c) Compliance 231 audits,
    - d) Financial audits,
    - e) IT audits.
  - 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 21 March, the Committee:
  - i. reviewed the findings of the 2016-2017 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, Mr. Paolo De Benedetti, on the Self-assessment of the System of Internal Control and Risk Management within the Mondadori Group, relevant to the 2016 fiscal year.
  - iii. reviewed the Risk Management Committee's 2016 Annual Report, presented by the Head of Financial Reporting and Net Working Capital. No irregularities were revealed upon review of this documentation;
  - iv. It examined the 2016 report of the Supervisory and Oversight Body.

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

## 8. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

### 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 also by its specific duty to "determine a risk appetite that is consistent with the issuer's strategic objectives, including within its own assessments the risks that can become significant in terms of long-medium term sustainability". 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 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" 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***

Each enterprise faces risks in its pursuit of strategic objectives and the relative operations objectives that follow: the implementation of a system of internal control and risk management provides reasonable assurance that an enterprise will be protected from such risks. In particular, it helps the enterprise achieve its objectives, which can be divided into the following categories:

- 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;
- identification and assessment of risks that can become significant in terms of the issuer's long-medium term sustainability;
- 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.

In addition, the system of internal control and risk management that is put in place to fulfil the three categories of objectives listed above must achieve the following:

- 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, 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.

What follows 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.

The valuation is based on two parameters: 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 analyses 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 2016 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 2016 fiscal year.



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

Upon recommendation by the Internal Control and Risk Management Committee, on 23 April 2015 the Board of Directors appointed Chief Executive Officer Mr. Ernesto Riccardo 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 Arnoldo Mondadori Editore S.p.A. 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 Internal Control and Risk Management 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 Director in charge of the Internal Control and Risk Management System ensures that the Department has resources appropriate for the performance of its duties and establishes the remuneration of the Head of Internal Audit, in line with the compensation level set for corporate management.

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:

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

The activities in 2016 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: the enforcement of Legislative Decree no. 231/2001, in support of Supervisory Bodies in the Parent Company and its subsidiaries;
- Financial: the enforcement of Law no. 262/2005, in support of the Financial Reporting Officer;
- IT: in support of information systems.

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

On 11 December 2003, the Board of Directors adopted an Organisation, Management and Control Framework in compliance with Legislative Decree no. 231/2001 which 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 05 November 2015, 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 23 April 2015, the Board of Directors confirmed the Supervisory and Oversight Body based on the Organization Framework of Legislative Decree no. 231/2001 in the form of a Board, the duration of which is until expiration of the board's mandate and therefore until the shareholders' meeting held to approve the financial statements as at 31 December 2017, or as otherwise resolved, and it is composed as follows:

**Ferdinando Superti Furga** - Chairman of the Board of Statutory Auditors

**Angelo Renoldi** - independent director

**Paolo De Benedetti** - Head of 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. 231/2001 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. 231/2001 and subsequent amendments, with a view towards specific operational areas within the Company and the tangible results achieved "on the front lines";
- (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.

## **EXTERNAL AUDITORS**

In response to an 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.

## **FINANCIAL REPORTING OFFICER**

In its meeting of 23 April 2015, 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 the title of "Financial Reporting Officer", pursuant to art. 24 of the Bylaws and art. 154-bis of Legislative Decree no. 58/1998, 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 2017.

Furthermore, the Board of Directors granted the Financial Reporting Officer 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 Financial Reporting Officer, 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 Financial Reporting Officer 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 Financial Reporting Officer 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 Financial Reporting Officer, which establish procedural and organizational terms for the following:

- roles and functions of the Financial Reporting Officer, 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 Financial Reporting Officer, 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.

### **COORDINATION OF THE INDIVIDUALS INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

An effective internal control and risk management system must contribute to management of the company that is in line with the corporate objectives through assumption of informed decisions. Therefore, the internal control system must not only consider the management of risk in its entirety, but this must also be integrated.

This presupposes that its components are coordinated and interdependent and that the system, overall, is in turn integrated into the general organizational, administrative and accounting structure of the company.

To this end, the Internal Control and Risk Management Committee provides for the participation of the Board of Statutory Auditors, the Financial Reporting Officer and, if additional information is required on the management and operation of the business, the appropriate company management will also be asked to attend.

Furthermore, the activities carried out by the Committee are duly and regularly reported to the Board of Directors.

### **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, the Company has appointed a Financial Reporting Officer 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 Financial Reporting Officer, 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 Financial Reporting Officer 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 is 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 Financial Reporting Officer 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 Financial Reporting Officer works in close contact with Heads of Operating Processes and Internal Audit.

In particular:

- the Operating Processes function assists him mainly with preparing documents that will be used to analyse 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 year under review:

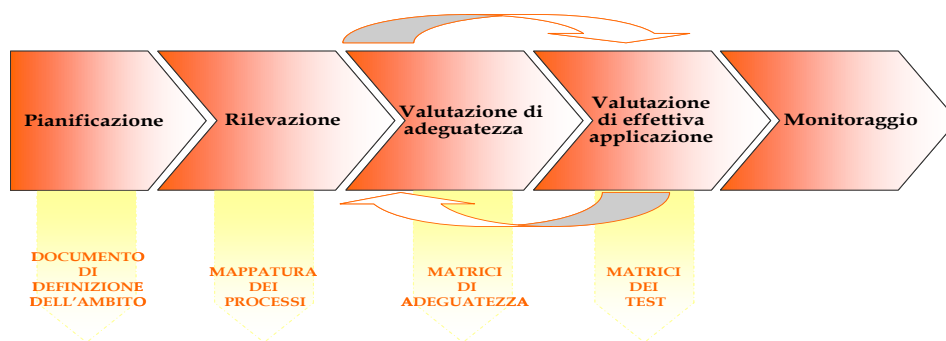
Planning;

Recording;

Assessment of adequacy;

Assessment of actual implementation;

Establishment and monitoring of corrective measures.



#### Planning

The Company 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 analysed 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 Financial Reporting Officer – which are used to update the documentation regarding the processes and to put any corrective measures in place.

### **Establishment and monitoring of corrective measures**

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.

## **9. 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, Cristina Rossello 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 adopted by the Board of Directors:

- 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 [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 2016 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 2016. The Annual Financial Report is available on the website [www.mondadori.it](http://www.mondadori.it) - under the "Governance" section.



## 10. THE BOARD OF STATUTORY AUDITORS

### COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS

In accordance with the Bylaws, the Board of Statutory Auditors is composed of three statutory auditors and three substitutes. It was appointed by the Shareholders on 23 April 2015 and its term will expire with the meeting to approve the financial statements for the fiscal year ended 31 December 2017.

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>Flavia Daunia Minutillo</b>	- standing statutory auditor
<b>Ezio Simonelli</b>	- substitute statutory auditor
<b>Francesco Vittadini</b>	- substitute statutory auditor
<b>Annalisa Firmani</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
Ferdinando Superti Furga	
Francesco Antonio Giampaolo	
Flavia Daunia Minutillo	Statutory Auditor of Banca Generali S.p.A. and Molmed 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 [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.

The remuneration of the statutory auditors, as resolved by the Shareholders' Meeting on 23 April 2015, is commensurate with the commitment that is required, the significance of the office held, the size of the company and the sector it belongs to.

Among other activities over the course of the 2016 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;
- verified that the independence requirements incumbent upon its members and with regard to the directors continue to apply, except for the nine year term of office;

- 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 2016, 14 meetings were held between the Board of Statutory Auditors, averaging 1 hour and thirty minutes per meeting, 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 OF THE BOARD OF STATUTORY AUDITORS**

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 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 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. 19856 of 25 January 2017, 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 23 April 2015.

#### **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 has 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 Issuers' 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 "Issuers' 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 Bylaws 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 Issuers' 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 even that several 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' Meeting needs to appoint Statutory and/or Substitute Auditors in order to supplement the Board of Statutory Auditors, the procedure is as follows to ensure compliance with applicable laws regarding gender equilibrium: should 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 23 April 2015, 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.

## 11. 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 policy of the Company is to make disclosures regarding the corporate strategies and initiatives to financial market operators that are complete and correct, in compliance with the rules set by Consob and Borsa Italiana and the confidentiality requirements applicable to some information, with particular attention paid to ensuring that the information provided is transparent and timely, supporting the relations with the financial community.

The Head of Investor Relations is Ms. Nicoletta Pinoia, who can be reached at the following e-mail address: invrel@mondadori.it or nicoletta.pinoia@mondadori.it.

The Company has added a specific section - named Investor Relations - on its website [www.mondadori.it](http://www.mondadori.it) which is a key instrument for channelling company information to the public, including financial results, corporate developments, stock exchange listings and a schedule of events.

## 12. 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, subject 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 compliance 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.

Pursuant to art. 2365 of the Italian Civil Code, 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.

#### **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 inside information.

### **13. OTHER CORPORATE GOVERNANCE PRACTICES**

There are no comments with regard to the contents of this report.

### **14. CHANGES AFTER BALANCE SHEET DATE**

There are no comments with regard to the contents of this report.

## ATTACHMENTS

### SUMMARY TABLES

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

Board of Directors										Internal Control and Risk Management Committee		Remuneration and Appointments Committee		Related Parties Committee		
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 **	****	% Committee attendance rate **	Executive Committee (a)
		from	to (*)													
Chairperson	Marina Berlusconi	23/04/2015	31/12/2017	M	X			100.00	3							
CEO *	Ernesto Mauri	23/04/2015	31/12/2017	M	X			100.00	4							
Director	Berlusconi Pier Silvio	23/04/2015	31/12/2017	M		X		33.33	5							
Director	Danilo Pellegrino	23/04/2015	31/12/2017	M		X		100.00	5							
Director	Pasquale Cannatelli	23/04/2015	31/12/2017	M		X		88.88	5							
Director	Paolo Ainio	28/07/2016	31/12/2016	C		X		100.00	1							
Director	Martina Mondadori	23/04/2015	31/12/2017	M		X	X	11.11								
Director	Roberto Poli	23/04/2015	31/12/2017	M		X		88.88	7							
Director	Oddone Pozzi	23/04/2015	31/12/2017	M	X			100.00	9							
Director	Angelo Renoldi	23/04/2015	31/12/2017	M		X	X	77.77	2	C	100.00			C	100.00	
Director	Mario Resca	23/04/2015	31/12/2017	M	X			100.00	7							
Director*	Cristina Rossello	23/04/2015	31/12/2017	M		X	X	100.00	8	M	100.00	M	100.00	M	100.00	
Director	Alfredo Messina	23/04/2015	31/12/2017	M		X		66.66	2			M	100.00			
Director	Marco Spadacini	23/04/2015	31/12/2017	M		X	X	100.00	15	M	100.00	P	100.00	M	100.00	
DIRECTORS WHO RESIGNED DURING THE FISCAL YEAR																
Director	Bruno Ermolli	23/04/2015	28/07/2016	M		X		85.71	3			X	100.00			
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. 19856 of 25 January 2017.											
Number of meetings that took place during the fiscal year			Board of Directors: 9				Internal Control and Risk Management Committee: 9			Remuneration and Appointments Committee: 2				Related Parties Committee: 1		

#### NOTES

- ° This symbol indicates the Lead Independent Director (LID).
- \* This symbol indicates a Director in charge of the system of internal control and risk management
- (°) 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 2017. It is hereby specified that in its meeting of 28 July 2016, the Board of Directors co-opted Paolo Ainio as a new non-executive member of the Board, replacing the departing director.
- Bruno Ermolli The co-opted Director will remain in office until the Shareholders' Meeting held to approve the financial statements as at 31/12/2016.
- \* 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). FURTHERMORE "C" indicates whether the Board of Directors appointed the director by co-optation.
- \*\* 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., including for part of the year. These positions are described in more detail in this Report.
- \*\*\*\* This column indicates the position of the director within the Committee: "C": Chairperson, "M": Member.
- (a) It should be noted that no "Executive Committee" has been formed.



**TABLE 2: STRUCTURE OF THE 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 (*)				
Chairman of the Board of Statutory Auditors	Ferdinando Superti Furga	23/04/2015	31/12/2017	M	X	92.86	7
Standing Statutory Auditor	Francesco Antonio Giampaolo	23/04/2015	31/12/2017	M	X	92.86	26
Standing Statutory Auditor	Flavia Daunia Minutillo	23/04/2015	31/12/2017	M	X	71.43	10
Substitute Statutory Auditor	Ezio Simonelli	23/04/2015	31/12/2017	M			
Substitute Statutory Auditor	Francesco Vittadini	23/04/2015	31/12/2017	M			
Substitute Statutory Auditor	Annalisa Firmani	23/04/2015	31/12/2017	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. 19856 of 25 January 2017					
Number of meetings that took place during the fiscal year 14							

**NOTES**

(\*) 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 2017.

\* 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 indicates the percentage of participation of the auditors at the meetings (no. of attendances/no. of meetings during the term of office of the individual in question).

\*\*\* 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**

STRUCTURE OF SHARE CAPITAL				
	Number of shares	% of share capital	Listed (markets)	Rights and obligations
Ordinary shares	261,458,340*	100	MTA – STAR SEGMENT	**
Shares with limited voting rights	----	----	----	----
Shares without voting rights	----	----	----	----
<p>* It should be noted that on the date of this Report, the Company directly or indirectly held a total number of 80,000 treasury shares with suspended voting rights in accordance with the law in force.</p> <p>** See chapter 2, par. "Structure of share capital. Share structure and rights."</p>				

MAJOR SHAREHOLDERS			
Declarant	Direct shareholder	% of ordinary share capital	% of voting share capital
Silvio Berlusconi	Fininvest S.p.A.	53.299	53.299
Silchester International Investors LLP *	Silchester International Investors LLP (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%)	11.49	11.49
* Equity participation held in "discretionary asset management" portfolios			