

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE
PURSUANT TO ARTICLE 123-BIS OF ITALIAN LEGISLATIVE DECREE 58/1998

2017

**Approved by the Board of Directors of
Arnoldo Mondadori Editore S.p.A.
on 13 March 2018**

GRUPPO  MONDADORI

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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
Register of Companies of Milan-Monza-Brianza-Lodi and tax code 07012130584
www.mondadori.it

**Report on Corporate Governance
and Ownership Structure
pursuant to Article 123-bis of Italian Legislative Decree 58/1998
2017**

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 imprints Mondadori, BUR, Giulio Einaudi editore, Fabbri Editori, Frassinelli, Piemme, Rizzoli and Sperling & Kupfer. It is also a leading scholastic publisher with Mondadori Education and Rizzoli Education: art and illustrated books are published through the 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.

Finally, the book business comprises the operations of Mondadori Retail, which manages the largest network of bookshops in the country, with over 600 retail outlets (operated directly and as franchises) and the e-commerce websites mondadoristore.it and libreriarizzoli.it.

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.

Since 2006, the Mondadori Group has been present in France with Mondadori France, one of the main consumer magazine publishers in 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 operates internationally through its subsidiary Mondadori International Business, with numerous international editions of its brands published through joint ventures, directly, or under licensing arrangements 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

As at 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 par value of EUR 0.26. Shares are issued through a central securities depository in paperless form, and they are traded on the Electronic Share Market (MTA) – STAR segment which is organized and run by Borsa Italiana S.p.A.

Mondadori shares are registered, indivisible, and freely transferable shares which grant the holder the right to vote at Ordinary and Extraordinary Shareholders' Meetings in accordance with 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.

On 27 April 2017, the Shareholders' Meeting approved an amendment to Article 7 of the By-laws, which introduced "loyalty shares", as per Article 127-*quinquies* of Italian Legislative Decree 58/1998. Under the amendment, shares that are held by the same shareholder for a continuous period of no less than 24 months, starting from their entry in the special list established by the Company, are attributed double the voting rights of ordinary shares.

RESTRICTIONS REGARDING THE TRANSFER OF SHARES

There are no restrictions on the transfer or 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 58/1998 and other available information. As at the date of this Report, the major shareholders with significant equity interests 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 ⁽ⁱ⁾	32,324,094	12.363%

(i) Equity interests held in "discretionary asset management" portfolios.

Over the course of 2017, there was an increase in the market capitalization of the Company's shares by approximately 78%.

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.

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 58/1998, regarding the exercise of shareholders' rights or the transfer of shares.

CHANGE OF CONTROL CLAUSES

In the month of December 2017, a new loan agreement was made with a pool of banking institutions following the negotiation of credit facilities for a total amount of 450 million euro; the agreement 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 21 April 2016 and to ensure that the Board of Directors maintains the authorization to seize any opportunities for the investment and trading of treasury shares of the company, on 27 April 2017 the Ordinary Shareholders' Meeting resolved to renew the authorization to buy back shares. The Shareholders' Meeting furthermore authorised, pursuant to Article 2357-ter of the Italian Civil Code, for the reasons listed below, the use of treasury shares purchased.

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

1. Reasons

- ✓ to use bought back treasury shares as consideration for the acquisition of equity investments within the framework of the Company's investment policy guidelines;
- ✓ to use bought back treasury shares to satisfy the exercise of conversion rights or other options on financial instruments issued by the Company, subsidiaries or third parties, and to use the treasury shares for exchanges or conferrals of shares or to service extraordinary capital transactions or borrowing or incentives that involve the allotment or disposal of treasury shares;
- ✓ to carry out, directly or through brokers, investment transactions, also with a view to containing sharp swings in listed prices, normalizing trading and price trends and supporting the liquidity of stock on the market, in order to promote regular trading conditions independently of the normal variations tied to market trends, all in compliance with regulations in force;
- ✓ to seize any investment or divestment opportunities, when deemed to be to the strategic benefit of the Company, and in proportion to available liquidity;

- ✓ to use the treasury shares to service equity incentive plans, pursuant to Article 114-*bis* of Italian Legislative Decree 58/1998, and programmes for the bonus issue of shares to shareholders.

2. Maximum number of shares that may be bought back

Authorisation is requested for the purchase of a maximum number of treasury shares – taking into account the number of shares held, directly or indirectly, in portfolio from time to time – equal to no more than 10% of the share capital.

3. Buyback procedures and information on the minimum and maximum consideration

Purchases will be executed in compliance with (i) the combined provisions of Article 132 of Italian Legislative Decree 58/1998 and Article 5 of Regulation (EU) No. 596/2014, (ii) Article 144-*bis* of Consob Regulation 11971/1999, (iii) European and national regulations concerning market abuse, and (iv) accepted practice. Specifically, purchases will be made on regulated markets in a manner that does not permit the direct matching of bids with predetermined ask prices.

Bought back treasury shares may be used for their sale on regulated markets, following procedures in compliance with applicable regulations, or as consideration for the acquisition of equity investments within the framework of the Company' investment policy guidelines. Specifically, the treasury shares may only be used (i) to satisfy the exercise of conversion rights or other options on financial instruments issued by the Company, subsidiaries or third parties at a price corresponding to the relative exercise or conversion price, and (ii) to satisfy the exercise of options allocated to beneficiaries under equity incentive plans, at the price required by the relative plan regulations.

The minimum and maximum consideration that may be paid for the buyback of shares is based on the official share price on the day before the purchase, with the floor price set at the official price less 20%, and the ceiling price set at the official price plus 10%.

In terms of purchase prices and daily volumes: purchase transactions will be performed in compliance with the conditions set forth in Article 3 of Delegated Regulation (EU) 2016/1052, specifically:

- the Company will not purchase treasury shares 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 terms of volumes, daily trading volumes for the purchase of shares by the Company will not be more than 25% of the average daily volume of Arnoldo Mondadori Editore S.p.A. shares traded in the 20 trading days preceding the date of purchase.

Purchases concerning (a) activities to support market liquidity, and (b) the purchase of shares to establish a "treasury stock" will be carried out in accordance with accepted market practice, as per the combined provisions of Article 180(1)(c) of Italian Legislative Decree 58/1998 and Article 13 of Regulation (EU) No. 596/2014.

Specifically, the Board of Directors may use the treasury shares (a) for their sale on regulated markets, or as consideration for the acquisition of equity investments within the framework of the Company's investment policy guidelines, or to satisfy the exercise of conversion rights or other options on financial instruments issued by the Company or by third parties, providing that the price or unit value of the shares is no less than 80% of the reference price of the share in the trading session prior to each transaction; (b) to service equity incentive plans approved by the Shareholders' Meeting, as per the relative plan regulations. In accordance with the provisions laid down in Article 2357(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

Authorisation to purchase treasury shares is given until the approval of the financial statements as at 31 December 2017, whereas authorisation to trade in treasury shares is given without time limits.

BUYBACKS EXECUTED DURING THE YEAR

On 26 June 2017, the Company announced to the market the start of a treasury share buyback programme, as per Article 5 of EU Regulation No. 596/2014, in application of the Shareholders' Meeting resolution of 27 April 2017 authorising the buyback and trade of treasury shares up to a maximum amount of 0.96% of the share capital, aimed at furnishing the Company over the three-year period 2017–2019 with the 2.49 million shares needed to meet the obligations connected with the 2017–2019 Performance Share Plan approved by the same Shareholders' Meeting.

On 31 December 2017, the number of treasury shares held, directly or indirectly, by Arnoldo Mondadori Editore S.p.A. amounted to 920,000 (0.352% of the share capital), inclusive of the 80,000 treasury shares purchased between 30 November and 2 December 2016 under authorisation of the Shareholders' Meeting of 21 April 2016, held to service activities to support the market liquidity of stock by the specialised operator Sim S.p.A. for trading on the STAR segment.

As at the date of approval of this Report, the total number of treasury shares held by Arnoldo Mondadori Editore S.p.A. was unchanged with respect to 31 December 2017.

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

Though it holds a controlling stake pursuant to Article 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.

Finally, we report that:

- the disclosures required by point (i) of Article 123-bis(1) of Italian Legislative Decree 58/1998, concerning *“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”*, are provided in the Remuneration Report, prepared and published pursuant to Article 123-ter of Italian Legislative Decree 58/1998;
- the disclosures required by point (l) of Article 123-bis (1) of Italian Legislative Decree 58/1998, concerning *“the rules applicable for the appointment and replacement of directors... and for amendments to the by-laws, if different to the legislative and regulatory provisions applicable by default”*, are provided in section 4 “Board of Directors” of this Report.

3. COMPLIANCE

Arnoldo Mondadori Editore S.p.A. endorses the general principles of the Corporate Governance Code (“the Code”), in the version published in July 2015, accessible to the public on the website <http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/corporategovernance.htm>, as a model of reference for the outline of its own organisational structure and corporate governance practices.

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 of three years and thus concluding with the Shareholders' Meeting to approve the financial statements as at 31 December 2017.

At the end of the reporting year, 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 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. – a subsidiary operating in the retail sector through direct sales to consumers and 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:

Paolo Guglielmo Luigi Ainio

Pier Silvio Berlusconi

Pasquale Cannatelli

Alfredo Messina

Martina Forneron Mondadori

Danilo Pellegrino

Roberto Poli

Angelo Renoldi

Cristina Rossello

Marco Spadacini

Professional and personal biographies of each member of the Board of Directors can be found on the website at www.mondadori.it – Governance section.

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.

On April 27, 2017 the Shareholders' Meeting approved amendments to some of the Articles of the Bylaws, including, in particular, Article 17. The amendment in question did not concern the procedures or requirements for submitting slates and the minimum ownership stake for the submission of slates remained unchanged at the percentage identified by Issuers' Regulation, as established annually by Consob on the basis of the average market capitalisation of companies in the last quarter of each year. Under Consob Resolution No. 20273 of 24 January 2018, the current minimum ownership stake required to submit a slate of candidates for Arnoldo Mondadori Editore has been set 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.

Without prejudice, therefore, to the slate voting mechanism, the amendments concerned the nomination procedure, introducing a "closed slate" system to replace the quotient method previously adopted.

The amendments introduced nevertheless ensure the independence standards for Board members required by Italian Legislative Decree 58/1998, as well as by regulations, as in force from time to time, concerning gender balance (Italian Law 120 of 12 July 2011). The latter require 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 entry into force of the law, the 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 force 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.

Pursuant to Article 17(3) of the Bylaws, in identifying the directors to be elected, slates that do not obtain a percentage of votes equal to or above the percentage required for the submission of the slates are excluded, as permitted by Article 147-*ter* of Italian Legislative Decree 58/1998.

The provisions of the Bylaws governing the composition and appointment of the Board of Directors suitably guarantee compliance with the legislative provisions of Article 147-*ter* of Italian Legislative Decree 58/1998 and relative implementing rules, as stated in Article 17 of the Bylaws, reported below.

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 Italian Legislative Decree 58/1998 and referred to in Article 17 of the Bylaws, reported below.

Article 17 of the Bylaws:

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

17.2 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.

17.3. The Board of Directors is appointed by the Shareholders' Meeting on the basis of slates containing no more than fifteen candidates, with each one being attributed a progressive number. A candidate may only be named on one slate, otherwise s/he shall be ineligible for election. The shareholders with voting rights may submit slates, 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 (the "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 on which the slate is filed with the Company, with reference to the capital subscribed as of the same date. The relevant confirmation or certification may be communicated or produced also subsequent to the filing of the slate, provided that this is served to the Company within the term established for the disclosure of slates by the Company. The company hereby allows the shareholders who wish to submit slates 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 minimum equity interest required for the submission of slates 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. Each shareholder may not file nor vote for more than one slate, either directly or through nominees or 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 58/1998 referring to the Issuer's shares, may not submit nor vote more than one slate, either directly or through nominees or trust companies. Any slate 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 58/1998 for the independent directors of listed companies ("Independent Directors pursuant to Italian Legislative Decree 58/1998" or "Independent Director pursuant to Italian Legislative Decree 58/1998"). Any slate 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 58/1998. In order to ensure a balance in genders, in accordance with current regulations, each slate 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 one-third, rounded up if the number is fractional, of the candidates. Slates are to be 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 slates shall be 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 slates shall include: a) information relative to the identity of the shareholders who have submitted the slate with indication of the equity interest held. b) a declaration from the shareholders who have submitted the slate 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 (1) 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(3) of Italian Legislative Decree 58/1998. Slates submitted that do not comply with the foregoing 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 slates, to declare any possible relations as specified above. Should any individual having relations with one or more shareholders vote for a minority slate, 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, slates 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.

17.3-bis In the event that more than one slate obtains the percentage of votes required above, the directors shall be elected as follows: a) the candidates named on the slate obtaining the highest number of votes will be appointed directors: (i) for the number of directors to be elected, except for the last candidate, as named in progressive order on the slate, or (ii) where their number is lower than the number of directors to be elected, all the candidates will be appointed; b) the remaining director, or number of directors in the case of point (ii) above, shall be drawn from the slate obtaining the second highest number of votes and which is not linked, directly or indirectly, with the shareholders that filed or voted for the slate obtaining the highest number of votes. Where more than one director is drawn from the second slate, the candidates will be appointed as named in progressive order on the slate; in the event that two or more slates obtain the same number of votes, the slate filed by the shareholders representing the highest percentage of the share capital shall be chosen, or where even, the slate filed by the highest number of shareholders; the first named candidate on the slate obtaining the highest number of votes shall be appointed Chairman of the Board of Directors; If the number of independent directors, as per Italian Legislative Decree 58/1998, elected through the majority slate does not meet the minimum number required by laws and regulations in force, instead of the first candidate named on the slate obtaining the second highest number of votes, the first candidate named in

progressive order on that slate who meets the independence criteria requires shall be appointed. If the outcome of voting and the foregoing procedures delivers a Board of Directors that does not meet regulatory gender balance requirements, as in force from time to time, the candidates elected from the majority slate shall be excluded in the number necessary, in reverse order as named on the slate, and replaced by candidates satisfying the necessary gender requirements from the same slate, as named in progressive order, without prejudice to the minimum number requirement for independent directors under the provisions of Italian Legislative Decree 58/1998, as in force from time to time. If the procedures set forth in the foregoing subsections deliver a Board of Directors that does not meet the independent director requirements of Italian Legislative Decree 58/1998 and/or gender balance requirements, replacements shall be decided by resolution of the Shareholders' Meeting adopted by relative majority vote, from new nominations made of candidates satisfying the necessary independence criteria or belonging to the less represented gender.

17.4 If only one slate is presented, the Shareholders' Meeting shall express its vote on it and, if that slate obtains the majority required by Articles 2368 et seq. of the Italian Civil Code, the candidates, in progressive order, shall be elected directors up to the number of directors established by the Shareholders' Meeting. The first named candidate on the slate shall be appointed Chairman of the Board of Directors. If by these procedures for the appointment of a Board of Directors the regulatory requirements, as in force from time to time, concerning independent directors and/or gender balance are not satisfied, the procedure set forth in subsection 3-bis of this Article shall be adopted, the necessary changes having been made.

17.5 If no slates are presented or no slate obtains the required percentage of votes, or if the number of candidates elected through the slate voting procedure as per subsection 3 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.

17.6 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-optation pursuant to Article 2386 of the Italian Civil Code, without prejudice to the obligation to comply with the minimum number of independent directors pursuant to Italian Legislative Decree 58/1998 and regulations concerning gender balance, as in force from time to time. In particular: a) if the resigning director was drawn from a slate containing candidates not elected, the Board of Directors shall make the replacement by appointing the first candidate, as named in progressive order, not elected from the slate to which the resigning director belonged, providing that (i) the person is electable at the time and willing to accept the appointment, and (ii) regulations governing gender balance, as in force from time to time, are satisfied; b) if the resigning director is an Independent Director as per Italian Legislative Decree 58/1998, the Board of Directors shall make the replacement by appointing, where possible, the first named independent candidate not elected from the slate to which the resigning independent director belonged, providing, also in this case, that regulations governing gender balance, as in force from time to time, are satisfied; c) if there are no unelected candidates remaining on the slate, or if the replacement procedure does not deliver to the Board the minimum number of Independent Directors required by Italian Legislative Decree 58/1998 or does not satisfy regulations governing gender balance, as in force from time to time, or in the event that no slates were submitted at the time of the election, the Board of Directors shall replace the resigning directors without observing the provisions of the foregoing subsections (a) and (b), in accordance with regulations, as in force from time to time, governing independent directors and gender balance. The appointment, by the Shareholders, of directors to replace directors resigning from office, even after the co-optation 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 for the Shareholders' Meeting of 23 April 2015, the current Board of Directors does not include any directors nominated by minority shareholders.

Induction programme

At its meetings over the course of 2017, the Board of Directors discussed the main issues relating to the operations of the Mondadori Group and the performance of the Company. The meetings enabled the participants (directors and statutory auditors) to gain an adequate understanding of the sector in which the Company operates, Company dynamics, the principles of good risk management, and the legal and regulatory framework of reference.

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, in accordance with the provisions of the Corporate Governance Code:

- 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;
- 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, 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, 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, approves the action plan prepared by the Head of Internal Audit;
- 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, 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, 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 58/1998, particular focus is placed on subsidiaries that make a significant contribution to the Group's consolidated results;
- 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 impact on the economic performance, financial position and cash flow of the Company and 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 Italian Legislative Decree 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 economic performance, financial position, and cash flow.

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.

In 2017, the Board of Directors held seven meetings, which were regularly attended by the Board of Statutory Auditors. Each meeting lasted, on average, two hours and 30 minutes. Ugo Di Stefano, Attorney at Law and Director of Legal and Corporate Affairs regularly participated in all the meetings. Paolo De Benedetti, Head of Internal Audit and a member of the Supervisory and Oversight Body 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.

The Director of Central Group Human Resources, Daniele Sacco, attended the Board meeting in which the remuneration plans based on Mondadori equity instruments were examined.

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

At the time of this report, 2 meetings of the Board of Directors had already been held in 2018. As shown on the corporate events calendar disclosed to the market, the following additional events have been planned:¹

- 15 May 2018 (review of the interim report on operations as at 31 March 2018);
- 31 July 2018 (review of the half-year financial report as at 30 June 2018);
- 8 November 2018 (review of the interim report on operations as at 30 September 2018).

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

On the initiative of the Chief Executive Officer or the request of the Directors, the Chairman may ask managers of the Company or the subsidiaries in charge of individual Group divisions and, as applicable, consultants, to report at 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 section "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.

¹ As a company listed on the STAR segment since 29 November 2016, the Company is required to prepare and publish quarterly figures. If membership in this segment were to cease, the disclosure of the quarterly data would be optional.

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 three 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.

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, at the first meeting of the Board following its appointment, it was checked that the directors listed below satisfied independence requirements, based on the information provided by each person upon his or her nomination as a candidate and upon acceptance of appointment:

Martina Forneron Mondadori

Angelo Renoldi

Cristina Rossello

Marco Spadacini

This assessment of directors' independence is 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 Forneron 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.

The independent directors held a total of 5 meetings over the course of the reporting year.

The following table lists the positions held by the current members of the Board of 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, and, for the purposes of completeness, any other offices held in companies other than the aforementioned, including therein offices held within the Mondadori Group.

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	Chairwoman of Fininvest S.p.A. Director of Mediaset S.p.A. Director of Mondadori France S.a.s.
Ernesto Mauri	Chairman of Mondadori France S.a.s. Chairman of Mondadori Libri S.p.A. Director of Mondadori Retail S.p.A. Deputy Chairman of Mediamond S.p.A.
Paolo Guglielmo Luigi Ainio	Chairman of ePrice S.p.A.
Pier Silvio Berlusconi	Deputy Chairman and Chief Executive Officer of Mediaset S.p.A. Chairman and Chief Executive Officer of R.T.I. S.p.A. Director of Publitalia '80 S.p.A. Director of Fininvest S.p.A.

Pasquale Cannatelli	Deputy Chairman of Fininvest S.p.A. Director of Mediaset S.p.A. (until 25/01/2018) Director of A.C. Milan S.p.A. (until 13/04/2017) Chairman of Fininvest Gestione Servizi S.p.A. (until 28/04/2017) Chairman of Edilizia Alta Italia S.p.A. (until 28/04/2017)
Martina Forneron Mondadori	
Alfredo Messina	Director of Mediaset Espāna Comunicacion S.p.A. Director of Molecular Medicine S.p.A. Mr. Messina is also a director of the Mediolanum Foundation
Danilo Pellegrino	Chairman of Teatro Manzoni S.p.A. Chairman of ISIM S.p.A. Chairman of Mediolanum Assicurazioni S.p.A. (until 23/03/2017) Chairman of Mediolanum Vita S.p.A. (until 23/03/2017) Chief Executive Officer of Fininvest S.p.A.
Roberto Poli	Director of FIMITA S.r.l. Director of Fininvest S.p.A. Director of Coesia S.p.A. Director of Praesidium SGR S.p.A. Director of the San Raffaele Hospital Chairman of the Board of Istituto Ortopedico Galeazzi S.p.A. Director of Compagnia Generale Trattori CGT S.p.A.
Oddone Maria Pozzi	Deputy Chairman of Mondadori France S.a.s. Deputy Chairman of Mondadori International Business S.r.l. Director of Mondadori Libri S.p.A. Director of Giulio Einaudi editore S.p.A. Director of Mondadori Electa S.p.A. Director of Mondadori Education S.p.A. Director of Mediamond S.p.A. Director of Mondadori Retail S.p.A. Director of Mondadori Scienza S.p.A. Director of Mach 2 Libri S.p.A. Director of Press-di Abbonamenti S.p.A. Director of Rizzoli Libri S.p.A. Director of Rizzoli International Publications Inc. and Rizzoli Bookstores Inc.
Angelo Renoldi	Director of Banca Mediolanum S.p.A. Chairman of the Board of Directors of Mediolanum Assicurazioni S.p.A. Chairman of the Board of Directors of Mediolanum Vita S.p.A.
Mario Resca	Chairman of Mondadori Retail S.p.A. Chairman of Confimprese Chairman of Confimprese Servizi S.r.l. Private Equity Fund Advisor at Ergon Capital Investment Chairman of Nicotra Gebhardt Director of Vionnaire Director of Sausalitos Holding GmbH
Cristina Rossello	Director of Spafid S.p.A. Director of Branca International S.p.A. Director of Branca Real Estate S.r.l. Director of Fratelli Branca Distillerie S.r.l. Director of the De Mari Foundation Chairwoman of Centro Studi Fratelli Branca S.r.l. Member of the Training and Organisation Committee of Acri Associazione di Fondazioni and Casse di Risparmio S.p.A.
Marco Spadacini	Chairman of the Board of Auditors of Apple Italia S.r.l. Chairman of the Board of Auditors of Apple S.p.A. Chairman of the Board of Auditors of Cooperativa Palomar 3 a r.l. Chairman of the Board of Auditors of Almaviva S.p.A. Chairman of the Board of Auditors of Valtur S.p.A. Chairman of the Board of Auditors of Valtur Group S.p.A. Chairman of the Board of Auditors of Orogroup S.p.A. Statutory Auditor of Centurion Immobiliare S.p.A. Statutory Auditor of S.A.C.B.O. S.p.A. Statutory Auditor of Termomeccanica Ecologica S.p.A. Statutory Auditor of Sea Energia S.p.A. Statutory Auditor of Bonifiche Ferraresi S.p.A. Director of Compagnia Fiduciaria Nazionale S.p.A.

	Mr Spadacini also holds the post of Chairman of the Board of Auditors of Aspremare - Fondazione Buccianti ONLUS
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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 call, 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.
- is the liaison and coordinator for petitions and contributions from non-executive directors and, in particular, from independent directors, for the Board of Directors.

The independent directors held 5 meetings over the course of the reporting year, at which, inter alia, they examined the progress made in activities undertaken by the Company to adapt internal procedures to comply with new legislative and regulatory provisions concerning non-financial reporting, the protection of personal data, and the Market Abuse Regulation.

In addition, at its first meeting in 2017, the Committee adopted the regulation governing its operation and the organisation of its work.

SELF-ASSESSMENT OF THE BOARD OF DIRECTORS

In 2017 the Board of Directors carried out a self-assessment process of the Board and its appointed committees, with the support of the company Egon Zehnder International S.p.A. (a company specialised in the sector, which has no other professional or commercial dealings with the Company).

In general, the self-assessment process is conducted on an annual basis, as recommended by the Corporate Governance Code.

For 2017, the dual objective of the process was to provide an assessment of the effectiveness of how the Board works and to gather contributions in relation to the appointment of the new Board of Directors by the Shareholders' Meeting to be held on 24 April 2018.

The self-assessment process involved (i) a questionnaire addressed to all members of the Board of Directors, and (ii) individual interviews, with the Board of Statutory Auditors involved in the process.

The outcomes of the self-assessment process are reported in brief below.

The self-assessment was carried out according to procedure, with the questionnaires collected and confidential interviews conducted. The first impressions were positive for all the main aspects under assessment, with no critical elements or issues of note found.

In short, general appreciation was shown, from both a qualitative and quantitative view, of the experience and skills of the Board, as well as of how the Board works, in terms of the efficiency and effectiveness of the decision-making process.

As such, the Issuer, in view of the recommendations of the Corporate Governance Code and the provisions of point d-bis of Article 123-bis (2) of Italian Legislative Decree 58/1998, and given the assessment produced by Egon Zehnder, does not deem it necessary to initiate a process in 2018 to set guidelines identifying the professional expertise, managerial skills, and experience needed to ensure the optimal composition of the Board of Directors.

5. THE HANDLING OF CORPORATE INFORMATION

MANAGEMENT AND DISCLOSURE TO THE MARKET OF INSIDE INFORMATION

On 28 July 2016, following the entry into force of the new Market Abuse Regulation, introduced by Regulation (EU) No. 596/2014, the Board of Directors introduced a new "Inside Information Procedure" (the "Procedure"), for inside information as defined by Article 7 of Regulation (EU) No. 596/2014, which replaced the procedure in place since 1 April 2006. The Procedure places the responsibility for handling inside information with the Chief Executive Officer, who may enlist, as applicable, the services of the Central Finance, Administration and Control Department (Corporate and Legal Affairs Department 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 Regulation (EU) 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 – Governance section.

INTERNAL DEALING

The matter 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 (subsequently amended on 8 February 2018) following the entry into force of the new Market Abuse Regulation introduced by Regulation (EU) No. 596/2014.

This procedure concerns 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 managers identified as relevant persons who have regular access to inside information, or who have the power to make decisions that could influence the future growth and outlook of the Company.

The Internal Dealing Procedure: *(i)* identifies the individuals who are responsible for making internal dealing disclosures; *(ii)* provides to the individuals identified with information regarding their 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 Insider List.

BLACKOUT PERIODS

The Internal Dealing Procedure establishes a blackout period in which all individuals identified as relevant persons 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,² half-year and annual financial results and lasts until those results are disclosed to the market. An additional aim of the blackout period is to ensure uniformity of conduct.

The Board of Directors reserves the right to allow the individuals identified as relevant persons 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 are satisfied.

6. INTERNAL COMMITTEES OF 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 recommended by the Corporate Governance Code. The Related Parties Committee was established pursuant to the Consob regulation governing transactions with related parties.

There are no committees with less than three members, and the work of each committee is coordinated by a Chairperson.

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 three non-executive directors, the majority of whom are independent; The Chairperson of the Committee must be an independent director, chosen from the members:

Marco Spadacini – Chairman, independent non-executive director

Alfredo Messina – non-executive director

Cristina Rossello – independent non-executive director

The members of the Remuneration and Appointments Committee, specifically Marco Spadacini and Cristina Rossello, were appointed by resolution of the Board of Directors of 23 April 2015, and will remain in office until the end of Board's term, and hence until the meeting called to approve the financial statements as at 31 December 2017, unless there is a resolution to the contrary. The director Alfredo Messina was appointed to the Remuneration and Appointments Committee by resolution of the Board of Directors on 28 July 2016, following the resignation on that date of the Committee member Bruno Ermolli.

The Committee held four meetings in 2017, 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 one hour and 30 minutes.

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

The meetings dealt with the following issues:

- the report of the Director of Central Group Human Resources and Organisation on the practical application of policy in 2016;
- the proposal to adopt a new medium/long-term incentive plan (2017–2019 Three-Year Plan) and the proposed report on remuneration policy (implementation in 2016 and outlook for 2017);
- reports by the Director of Central Human Resources and Organisation regarding the role of a key manager;
- the 2014–2016 Three-Year Plan;
- reports by the CFO on economic performance in 2016;
- remuneration policy for 2017: update by the Director of Central Human Resources and Organisation on the application of the policy in practice in the first half of 2017;
- considerations on the voting trends of funds and proxies at the Shareholders' Meeting of 27 April 2017.

On 23 April 2015, the Board of Directors tasked the Remuneration and Appointments Committee with the following functions and duties:

- 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 Italian Legislative Decree 58/1998); the responsibility to carry out periodic checks – in conjunction with the Director of Central Group 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);

²Arnoldo Mondadori Editore S.p.A. is required to prepare and publish quarterly reports as it belongs to the STAR segment (since 29 November 2016). If membership in this segment were to cease, quarterly reporting would be optional.

- 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 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 capacity 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, at the recommendation and proposal of the Remuneration and Appointments Committee, has examined and approved guidelines for a general remuneration policy for Directors and Key Management Personnel.

Guidelines for Remuneration Policy

In general, remuneration policy is set with a view to attracting, motivating and retaining people with the professional skills needed for the Group's growth and, at the same time, to ensure delivery of strategic Company objectives, for the sustainable creation of value in the medium/long-term.

As such, the priority of remuneration policy is to maintain a strong link between remuneration and performance in order to ensure that the interests of management are aligned to those of shareholders, with a view to continuously improving both individual and company performance.

In accordance with the general purposes stated, remuneration policy envisages components of remuneration based on and consistent with the following criteria:

- fixed and variable components of both short-term and medium/long-term remuneration should be suitable balanced;
- performance objectives should be set in advance and should be measurable;
- maximum and minimum limits should be set for variable MBO and LTI components of remuneration.

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 for executive directors and key management personnel, any severance pay is determined solely in accordance with applicable legal provisions or with the relative collective bargaining agreements of reference, pursuant to Article 123-ter of Legislative Decree 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 Director of Central Group 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 findings of the Report, the Remuneration and Appointments Committee then monitors and verifies that the implementation of the Policy respects the principles set, and reports on this to the Board of Directors.

Equity incentive plans

Under Article 114-*bis* of Italian Legislative Decree 58/1998, equity incentive plans are to be submitted to the Shareholders for approval, and are subject to specific market disclosure requirements, in compliance with the regulations in force. The details and application procedures of such 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.

With regard to equity incentive plans, the Shareholders' Meeting of 27 April 2017 approved the adoption of a 2017–2019 Performance Share Plan, as proposed by the Board of Directors on 21 April 2017. Please refer to the description provided in the information document published pursuant to Article 84-*bis* of the Issuers' Regulation, available on the website www.mondadori.it – Governance section.

As of 2018, subject to its approval by the competent corporate boards, a "Rolling Plan" will be introduced. The new Rolling Plan will be targeted at Key Management Personnel of the Group and select second-line managers and will be based, subject to the approval of the competent corporate boards, on annual cycles and a three-year vesting period.

The Shareholders' Meeting called for 24 April 2018 will be asked to adopt a resolution approving the first cycle of the 2018–2020 Performance Share Plan (the "Plan"), reserved to the Chief Executive Officer, the CFO–executive director, and select Company managers.

For a description of the Plan, see the information document published pursuant to Article 84-bis of the Issuers' Regulation, available on the website www.mondadori.it – Governance section.

Referral to the Remuneration Report

The above-mentioned guidelines for Remuneration Policy have been developed and acknowledged in the Remuneration Report, prepared in accordance with Article 123-ter of Italian Legislative Decree 58/1998 and approved by the Board of Directors at the recommendation of the Remuneration and Appointments Committee. The Remuneration Report is available to the public the company's registered office and on the company website www.mondadori.it – Governance section.

Please refer to the Remuneration Report for:

(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 paid to directors and key management personnel for the reporting year (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 24 April 2018 (and if necessary, a second call on 26 April 2018), for the approval of the financial statements as at 31 December 2017.

RELATED PARTIES COMMITTEE

The Related Parties Committee is comprised of three non-executive and independent directors. Specifically:

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 by resolution of the Board of Directors on 23 April 2015, and will remain in office until the end of the Board's term, and hence until the Shareholders' Meeting called to approve the financial statements as at 31 December 2017, unless there is a resolution to the contrary.

Detailed information on related-party transactions conducted in 2017 is provided in the Report on Operations and in the notes to the Separate and Consolidated Financial Statements, all of which make up the Annual Financial Report as at 31 December 2017. The Annual Financial Report is available on the website www.mondadori.it – Governance section.

In 2017, no meetings were held by the Related Parties Committee.

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:

Angelo Renoldi – independent non-executive director, and 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 by resolution of the Board of Directors on 23 April 2015, and will remain in office until the end of the Board's term, and hence until the Shareholders' Meeting called to approve the financial statements as at 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.

The Committee coordinates its work with that of the Board of Statutory Auditors, the independent auditor, 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 Corporate Governance Code, the Committee has been tasked the following duties:

- (i) to 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) to 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) to monitor the independence, adequacy, effectiveness and efficiency of the Internal Audit function;
- (iv) to 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) to 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 Financial Report and the Half-Year Financial Report;
- (vi) to 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) to 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) to 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 2017, the Internal Control and Risk Management Committee met nine 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; the Committee also met with the independent auditor Deloitte & Touche S.p.A. and the managers of certain company departments.

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

In 2017 the Internal Control and Risk Management Committee carried out the following activities worthy of note:

- it approved the 2017 Annual Internal Audit Plan for the Company and its subsidiaries – prepared by the Head of Internal Audit – and it checked its implementation.

The 2017 Annual Internal Audit Plan for the Parent Company and its subsidiaries is structured around five 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 application of some operational guidelines on the part of the Parent Company and companies in the Group;
 - (iii) *Compliance 231 audit*: the application of Italian Legislative Decree 231/2001, in support of Supervisory Bodies in the Parent Company and its subsidiaries;
 - (iv) *Financial Audit*: the application of Italian Law 262/05, in support of the Financial Reporting Officer;
 - (v) *IT*;
- it examined the activities carried out by the Internal Audit department in 2017, agreeing with the recommendations made and proposing recommendations of its own; within this context, follow-ups to the Internal Audit inspections 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 methodology for the financial statements as at 31 December 2016 adopted by the company. 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 2016 annual report and the report for July 2017 prepared 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 focused on 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 on the self-assessment of the Internal Control and Risk Management system of the Mondadori Group;
 - it analysed the findings of the independent 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 discussed the document presented by the Head of Internal Audit concerning Italian Legislative Decree 254/2016 – Non-Financial Reporting;
 - it shared information with other Board committees and presented updates on projects coordinated by the Independent Directors Committee:
 - European General Data Protection Regulation No. 679/2016;
 - Non-Financial Reporting, Italian Legislative Decree 254/2016;
 - Update on training activities on the Law 231 Frameworks of the subsidiaries;

- it met with the Company's IT Director to discuss the issue of cyber security;
- it examined the acquisitions and the relative integration processes carried out by the Mondadori Group during 2017;
- it approved the updating of the operating provisions in force within the Mondadori Group.

Six committee meetings are scheduled to be held in 2018.

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

- during the meeting held on 29 January 2018, the Committee examined:
 - (i) the impairment testing methodology for the financial statements as at 31 December 2017 adopted by the Company and approved the measurement methods;
 - (ii) the work of the independent auditor Deloitte & Touche S.p.A. regarding the compliance of non-financial information provided with the requirements of Italian Legislative Decree 254/2016 and with reporting principles, methods, and practices;
 - (iii) the work of Internal Audit in December 2017, agreeing with the recommendations made and proposing recommendations of its own.

- During the meeting held on 8 February 2018, the Committee:
 - (i) having consulted with the Board of Statutory Auditors, approved the 2018 Annual Risk-Based Internal Audit Plan for the Company and its subsidiaries, prepared by the Head of Internal Audit.

The 2018 Plan calls for 52 audits to be carried out in six different categories:

 - a) Operational audits,
 - b) Compliance audits,
 - c) Law 231 compliance audits,
 - d) Financial audits,
 - e) Fraud audits,
 - f) IT audits;
 - (ii) examined the resources and organizational structure of the Internal Audit function and deemed them fit for purpose;
 - (iii) inspected the Internal Audit manual;
 - (iv) planned meetings and activities for 2018;
 - (v) took cognizance of the activities proposed for 2018 by the Internal Control Department (Compliance, Law 231 Compliance, and Risk Management).

- During the meeting held on 13 March 2018, the Committee:
 - (i) reviewed the findings of the 2017–2018 Risk Assessment process, presented by the Head of Internal Audit. The activity referred to the results of the Parent Company as well as those of the Italian and French subsidiaries;
 - (ii) having consulted with the Board of Statutory Auditors, approved the report prepared by the Head of Internal Audit on the self-assessment of the Internal Control and Risk Management system of the Mondadori Group for 2017;

- (iii) reviewed the Internal Control and Risk Management Committee's Annual Report for 2017, presented by the Head of Group Finance and Net Working Capital. No irregularities were revealed upon review of this documentation;
- (iv) took cognizance of the Supervisory Body's 2017 Report;
- (v) examined the Internal Control and Risk Management Committee's Report for 2017;
- (vi) took cognizance of the Independent Directors Committee's report on its activities in 2017;
- (vii) took cognizance of the presentation of the logistics project for the Company's Group Purchasing Department.

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 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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 takes into account the frameworks of reference and best practices at both the national and international levels.

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 areas 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

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 reporting 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 will then 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 over 2017.

The main risks and uncertainties that regard the Parent Company, its subsidiaries and its associate companies are included in a specific chapter of the Report on Operations for 2017.

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

At the recommendation of 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 section 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 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.

Audits targeting the Parent Company and its subsidiaries in 2017 involved six categories of audit:

- Operational: analysis of the company processes and their assessment in terms of efficacy and efficiency;
- Compliance: the application of some operational guidelines on the part of the Parent Company and companies in the Group;
- Law 231 Compliance: the application of Legislative Decree 231/2001, in support of Supervisory Bodies in the Parent Company and its subsidiaries;
- Financial: the application of Law 262/2005, in support of the Financial Reporting Officer;
- IT: in support of information systems;
- Fraud.

ORGANIZATION, MANAGEMENT AND CONTROL FRAMEWORK AS PER ITALIAN LEGISLATIVE DECREE 231/2001

On 11 December 2003, the Board of Directors adopted an Organisation, Management and Control Framework in compliance with Italian Legislative Decree 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 5 November 2015, the Board of Directors adopted an updated and integrated version of the Organization, Management and Control Framework. The new Framework takes into account developments in the legislative and regulatory framework, organisational changes in the Issuer, case law, and experience gained since the first introduction 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 Italian Legislative Decree 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 Italian Legislative Decree 231/2001.

The Organization, Management and Control Framework is available on the website www.mondadori.it – Governance section.

SUPERVISORY AND OVERSIGHT BODY

On 23 April 2015, the Board of Directors confirmed the Supervisory and Oversight Body required by the Organization Framework as per Italian Legislative Decree 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, unless there is a resolution to the contrary, 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 Italian Legislative Decree 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) to supervise 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) to supervise the actual efficiency and effectiveness of the Framework in terms of preventing the commission of the crimes covered in Italian Legislative Decree 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) to ensure that the conditions are in place such that the Framework enjoys stability and functionality over the long term;
- (iv) to oversee any opportunities to update the Framework, in the event that it requires adjustment due to regulatory changes or developments within the Company;
- (v) to access records and information from the various corporate functions in order to carry out periodic checks and monitor specific at-risk activities;
- (vi) to 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.

INDEPENDENT AUDITOR

In response to an informed proposal submitted by the Board of Statutory Auditors in accordance with Article 13(1) of Italian Legislative Decree 39/2010, on 27 April 2010 the Ordinary Shareholders' Meeting resolved to task the independent auditor Deloitte & Touche S.p.A. with conducting full-scope audits of the separate and consolidated financial statements – as well as the performance of additional services as per Article 14 of Italian Legislative Decree 39/2010 – for the nine years between 2010 and 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, confirmed the appointment of the director Oddone Maria Pozzi as "Financial Reporting Officer", pursuant to Article 24 of the Bylaws and Article 154–*bis* of Italian Legislative Decree 58/1998, until expiration of the mandate of the Board of Directors, therefore until the shareholders' meeting for the approval of the financial statements as at 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 Italian Legislative Decree 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, published on the Company website www.mondadori.it – 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. The internal control system must not only consider the management of risk in its entirety, but must necessarily 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*(2)(b) of Italian Legislative Decree 58/1998, 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 Law 262 certification.

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.

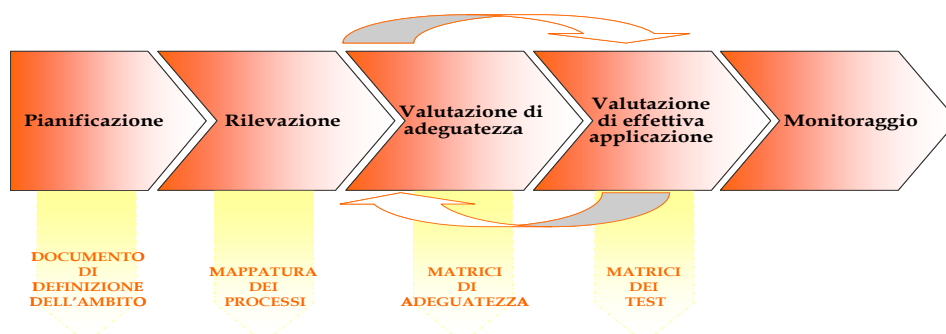
So as to best implement the internal control framework, the Financial Reporting Officer works in close contact with Heads of Operating Processes and Internal Audit.

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 – 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, as amended, "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 IAS 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 under Article 4(1)(f) of 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 – Governance section.

Detailed information on related-party transactions in 2017 can be found in the Report on Operations and in the notes to the Separate and Consolidated Financial Statements, all of which make up the Annual Financial Report as at 31 December 2017. The Annual Financial Report is available on the website www.mondadori.it – 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 as at 31 December 2017.

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

Ferdinando Superti Furga – Chairman
Francesco Antonio Giampaolo – standing statutory auditor
Flavia Daunia Minutillo – standing statutory auditor
Ezio Simonelli – substitute statutory auditor
Francesco Vittadini – substitute statutory auditor
Annalisa Firmani – 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 three 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 – Governance section.

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 in which it operates.

Among other activities over the course of the 2017 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 2017, 17 meetings were held by the Board of Statutory Auditors, averaging two hours and 15 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 Italian Law 120/2011. For details, please refer to the section on the Appointment Procedure for directors.

Regarding the appointment procedure, the following information is relevant:

- with regard to the minimum ownership stake required for the submission of slates, the Bylaws, as reported below, refer to the percentage established on annual basis 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 year. Under Consob Resolution No. 20273 of 24 January 2018, the current minimum ownership stake required to submit a slate of candidates for Arnoldo Mondadori Editore has been set 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 slates submitted by the shareholders with the procedure described hereinafter. The slates shall contain a number of candidates registered with a progressive number. Each slate shall have two sections: one for the candidates as Standing Statutory Auditor and the other for the candidates as Substitute Statutory Auditor. A candidate may only be named on one slate, otherwise s/he shall be ineligible for election.

Each slate 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 slate 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. Shareholders with voting rights may submit slates, when they represent, alone or together with other shareholders, at least that percentage of capital subscribed determined and published by Consob for the submission of the slates of candidates for the appointment of the Board of Directors pursuant to the Issuers' Regulation as of the date of submission of the slate.

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 slate is filed with the Company, with reference to the capital subscribed as of the same date.

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

The company hereby allows the shareholders who wish to submit slates 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 minimum equity interest required for the submission of slates of candidates for election to the Board of Statutory Auditors is specified in the relevant call for the Shareholders' Meeting to resolve upon the appointment of the same Board.

Each shareholder may not file nor vote for more than one slate, either directly or through nominees or 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 58/1998 referring to the Issuer's shares, may not submit nor vote more than one slate, either directly or through nominees or trust companies.

4. Slates are to be 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 slates shall be 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 slates shall include:

*a) information relative to the identity of the shareholders who have submitted the slate with indication of the equity interest held.
b) a declaration from the shareholders who have submitted the slate 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 (1) 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 slate has been filed, or the only slates submitted are by shareholders who have relations pursuant to Article 144-quinquies of the Issuers' Regulation, slates may be submitted until the third day subsequent to such date. In the latter case the threshold referred to in subsection 3 above is reduced by half.

6. Slates submitted that do not comply with the foregoing 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 slates, to declare any possible relations as specified above. Should any individual having relations with one or more shareholders vote for a minority slate, 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:

two Standing Statutory Auditors and two Substitute Statutory Auditors are drawn from the slate obtaining the highest number of votes, in the order in which they are named on the slate;

one Standing Statutory Auditor and one Substitute Statutory Auditor are appointed from the slate obtaining the second highest number of votes at the Shareholders' Meeting and which, in accordance with regulations in force, is presented by shareholders who are not linked, directly or indirectly, with the shareholders who filed or voted for the slate obtaining the highest number of votes, based on the progressive order in which they are named on the relevant slate;

In the event that more than one slate obtains 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 slate obtaining the highest number of votes.

9. the first named candidate on the second most voted slate for the office of standing statutory auditor will be appointed Chairman of the Board of Statutory Auditors.

10. If only one slate is submitted, the Shareholders will vote on it, and if the slate obtains the majority required by Articles 2368 et seq. of the Italian 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 first named person in the section of candidates for the office of Standing Statutory Auditor from the slate presented.

11. If there are no slates or in the case in which the number of candidates elected through the slate voting procedure is lower than the number established by the Bylaws, the Board of Statutory Auditors will be respectively appointed or supplemented by the Shareholders' Meeting according to the majorities established by law.

12. In the case of the replacement of an auditor, the place will be taken by a substitute auditor from the same slate 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 slate as the departing statutory auditor will be made or, alternatively, belonging to any other minority slates 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 slate need to be replaced, their successors are appointed by a relative majority without slate constraints; on the other hand, if Statutory Auditors from a minority slate are to be replaced, the Shareholders Meeting does so by a relative majority vote, choosing from among the candidates indicated on the slate to which the Statutory Auditors to be replaced belonged or, as a second option, from among the candidates contained in any additional minority slates.

If there are no candidates on the minority slate(s), in compliance with applicable provisions concerning gender balance the appointments are made by voting one or more slates, 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. Slates 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 on the slate that obtains the greatest number of votes will be elected.

If no slates are presented in compliance with the above, and in compliance with applicable provisions concerning gender balance appointments are made by a majority vote without slate 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 for election at the Shareholders' Meeting of 23 April 2015, the current Board of Statutory Auditors does not include any directors nominated by minority shareholders.

The Issuer, as stated in subsection 4 of the section “SELF-ASSESSMENT OF THE BOARD OF DIRECTORS”, considering the outcomes of the self-assessment process and in view of the recommendations of the Corporate Governance Code and the provisions of point d-bis of Article 123-bis(2) of Italian Legislative Decree 58/1998, and given the assessment produced by Egon Zenhnder, does not deem it necessary to initiate a process in 2018 to set guidelines identifying the professional expertise, managerial skills and experience needed to ensure the optimal composition of the Board of Directors.

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. INVESTOR RELATIONS

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 “Investor Relations” section to its website www.mondadori.it as a key channel for making public company information, 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 voting and submission of proxy votes by electronic means, in accordance with Article 135-novies (6) of Italian Legislative Decree 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(1) of the Italian Civil Code, or on multiple calls, pursuant to Article 2369(2) et seq. 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, as required by law, at the Company's registered office, on the "1info" (www.1info.it), and on the company's website.

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

Pursuant to Article 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 website www.mondadori.it – 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 THE REPORTING DATE

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

ANNEXES

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 meeting attendance rate **	****	% Committee meeting attendance rate **	****	% Committee meeting attendance rate **
		from	to (*)												
Chairperson	Marina Berlusconi	23/04/2015	31/12/2017	M	X			100	3						
CEO •	Ernesto Mauri	23/04/2015	31/12/2017	M	X			100	4						
Director	Berlusconi Pier Silvio	23/04/2015	31/12/2017	M		X		14.28	3						
Director	Danilo Pellegrino	23/04/2015	31/12/2017	M		X		100	5						
Director	Pasquale Cannatelli	23/04/2015	31/12/2017	M		X		85.72	5						
Director	Paolo Guglielmo Luigi Ainio	27/04/2017	31/12/2017	M		X		71.42	1						
Director	Martina Forneron Mondadori	23/04/2015	31/12/2017	M		X	X	-							
Director	Roberto Poli	23/04/2015	31/12/2017	M		X		85.72	7						
Director	Oddone Maria Pozzi	23/04/2015	31/12/2017	M	X			100	13						
Director	Angelo Renoldi	23/04/2015	31/12/2017	M		X	X	85.72	3	P	100			P	
Director	Mario Resca	23/04/2015	31/12/2017	M	X			100	7						
Director°	Cristina Rossello	23/04/2015	31/12/2017	M		X	X	100	8	M	89	M	100	M	
Director	Alfredo Messina	23/04/2015	31/12/2017	M		X		100	2			M	100		
Director	Marco Spadacini	23/04/2015	31/12/2017	M		X	X	100	13	M	100	P	100	M	

Quorum needed to present a slate of candidates at the last appointment: 2.5%

The minimum ownership stake applicable to the Company for shareholders to submit slates was determined by Consob Resolution No. 20273 of 24 January 2018

Number of meetings that took place during the fiscal year	Board of Directors: 7	Internal Control and Risk Management Committee: 9	Remuneration and Appointments Committee: 4
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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. On 27 April 2017, the Shareholders' Meeting confirmed the appointment of Paolo Ainio as non-executive director until the shareholders' meeting called for the approval of the financial statements as at 31/12/2017.
- * 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). 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 foreign markets, as well as in financial companies, banks, insurance companies, or other large companies including for part of the year. The number reported is inclusive of all director or statutory auditor positions held by the person concerned in companies other than those stated above, including therein offices held within the Mondadori Group. 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.

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 Board of Statutory Auditors meetings**	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	100	8
Standing Statutory Auditor	Francesco Antonio Giampaolo	23/04/2015	31/12/2017	M	X	88.24	27
Standing Statutory Auditor	Flavia Daunia Minutillo	23/04/2015	31/12/2017	M	X	94.12	13
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 year: 0

Quorum needed to present a slate of candidates at the last appointment: 2.5%

The minimum ownership stake applicable to the Company for shareholders to submit slates was determined by Consob Resolution No. 20273 of 24 January 2018

Number of meetings that took place during the fiscal year: 17

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 attendance rate of statutory auditors at Board of Statutory Auditors' 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, including therein the position held at Mondadori. 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	----	----	----	----

* It should be noted that as at the date of this Report, the Company directly or indirectly held a total number of 920,000 treasury shares with suspended voting rights in accordance with the law in force.

** See chapter 2, par. "Structure of share capital. Share structure and rights."

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 a 5.95% interest, and Silchester International Investors International Value Equity Group Trust, which holds a 3.23% interest)	12.363%	12.363%

Equity interests held in "discretionary asset management" portfolios.