



Reply S.p.A.
Report on Corporate Governance
and ownership structure 2011

Approved by the Board of Directors on March 15, 2012

www.reply.eu

Pursuant to art 123 bis Legislative Decree no. 58/198

Report on Corporate Governance and ownership structure 2011

Contents

- **1. Corporate Governance System**
- **2. Shareholding information (art. 123-bis legislative decree 58/1998) as at March 15, 2012**
 - A. Capital Structure
 - B. Restriction on the transfer of shares
 - C. Significant Shareholdings
 - D. Shares granting special rights
 - E. Employee Shareholdings: mechanism exercising voting rights
 - F. Restrictions on voting rights
 - G. Agreements with Shareholders
 - H. Change of control clause
 - I. Proxies to increase the share capital and authorization to buy treasury shares
- **3. Management and coordination activities**
- **4. Compliance**
- **5. Board of Directors**
 - A. Nomination and substitution of directors
 - B. Members
 - C. Role of the Board of Directors
 - D. Chairman of the Board of Directors
 - E. Chief Executive Officers and Executive Directors
 - F. Independent Directors
 - G. Lead Independent Director
- **6. Processing of confidential information**
- **7. Committees within the Board of Directors**
- **8. Remuneration Committee**
- **9. Remuneration of Directors**
- **10. Internal Control Committee**
- **11. Internal Control System**
 - A. Risk management and internal control over financial reporting
 - B. Executive Officer in charge of supervising the internal control system
 - C. Organization, management and control model pursuant to legislative decree 231/2001
 - D. Independent Audit Firm
 - E. Director in charge of drawing up the financial statements
- **12. Directors' interests and transactions with related parties**
- **13. Appointment of Statutory Auditors**
- **14. Board of Statutory Auditors**
- **15. Relations with Shareholders**
- **16. General Shareholders' meeting**
- **17. Other corporate governance practices**
- **18. Changes subsequent to the year end under review**

1. Corporate Governance system

The *Corporate Governance system* adopted by the company, that is, the set of laws and bylaws adopted in order to ensure the efficient and transparent functioning of the corporate bodies and of the control systems, adheres to the Corporate Governance Code issued by Borsa Italiana in March 2006.

The Company is incorporated under Italian law and listed on the stock exchange on the MTA market, STAR segment. The *Governance* structure of Reply S.p.A. – based on the traditional model, is made up of the following bodies: The General Shareholders' Meeting, the Board of Directors (that carry out its function through executive directors and is advised by an Internal Control Committee and a Remuneration Committee), the Board of Statutory Auditors and Independent Auditors.

The General Shareholders' Meeting is the corporate body which expresses the requests of the shareholders through its resolutions. Resolutions passed in compliance with the law and the by-laws are binding on all shareholders independently whether they agree or disagree unless the latter draw out, in the cases allowed. The Shareholders are convened according to the rules set out for listed companies.

The Board of Directors has the function to define and approve the company's strategic, operating and financial plans in addition to the corporate structure it heads. The Board is invested with the broadest powers of management of the company in order to perform all the actions held to be most appropriate in the pursuit of the company object, with the exception of those reserved to the Shareholders' meeting.

The Board of Statutory Auditors is responsible for the supervision of compliance with the law and by-laws and more specifically:

- Supervision of proper management by verifying:
 - The respect of good management principles;
 - The adequate structure of the company;
 - The implementation of the rules of corporate governance;
 - The adequacy of information disclosed by the subsidiaries in relation to mandatory information to the market and concerning privileged information.
- Role of committee for internal control and audit responsible for overseeing:
 - The financial reporting process;
 - The effectiveness of the internal control, internal audit and risk management systems;
 - The audit of the annual separate and consolidated accounts;
 - The independence of the independent auditors.

The Board of Statutory auditors is not responsible for the legal audit which is a function performed by an independent company appointed by the Shareholders' meeting.

The independent audit firm is responsible for checking that the company's accounts are properly kept and that managerial operations are correctly reflected in the accounting records. The auditors also verify that the separate and consolidated accounts correspond to the accounting records and to verifications performed and that they are in compliance with the applicable regulations. The Independent Auditors can also perform other services upon request of the Board of Directors, if not incompatible with the legal audit engagement.

Governance also includes the Internal Control System, the Organizational and management Model pursuant to Article 6 of Legislative decree 231/2001 and the structure of the powers and proxies, as presented herein.

The following Report includes the governance structure examined by the Board of Directors on 15 March 2012 and it accounts for the recommendations of the Code that the Board of Directors has decided not to adopt, providing related motivations.

The Report on Corporate Governance, that is an integral part of the Report on Operations, along with the company's by-laws, are available on the company's website (www.reply.eu – Investors – Corporate Governance).

2. Ownership structure (ex art. 123-bis, paragraph 1, of Legislative Decree 58/1998) as at 15 March 2012

A. Capital structure

The share capital structure of Reply S.p.A. is summarized below.

The share capital fully paid and subscribed at 15 March 2012, amounts to 4,795,885.64 Euros, divided in 9,222,857 ordinary shares having nominal value of 0.52 Euros- no other form of shares exist.

The share capital can further be increased for a maximum of 75,400.00 Euros following the exercise of stock options, with underlying Reply ordinary shares undersigned at established prices and existing at December 31, 2011, and not yet exercised, as already specified in the Report on Operations at paragraph "Stock options" and summarized at the following table:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	Number of options
2004	11/06/2004	12/05/2006	9	21.339	12/05/2009 – 12/05/2014	135,000
2006	15/06/2006	08/08/2006	1	18.662	08/08/2009 – 08/08/2014	10,000

B. Restrictions on the transfer of shares

The by-laws do not foresee restrictions on the transfer of shares.

C. Significant shareholdings

According to the Shareholders' Ledger, to the notifications received in compliance to the laws and according to other available information as at 15 March 2012, the shareholders that directly or indirectly hold stakes greater than 2% of the share capital having the right to vote are the following:

Shareholder	Direct Shareholder	Ownership % over share capital	Ownership % over voting capital
Rizzante Mario	Alika S.r.l.	53.5214	53.5214
	Rizzante Mario	0.1095	0.1095
	Total	53.6309	53.6309
Kairos Partners Sgr S.p.A.	Kairos Partners Sgr S.p.A.	4.7598	4.7598
Anima Sgr S.p.A.	Anima Sgr S.p.A.	4.0534	4.0534
Highclere International Investors Limited	Highclere International Small Companies Fund	3.5656	3.5656
Lodigiani Riccardo	Lodigiani Riccardo	2.0991	2.0991
BNY Mellon Service Kapitalanlage	BNY Mellon Service Kapitalanlage	2.0565	2.0565
Reply S.p.A.	Reply S.p.A.	2.0093	2.0093

D. Shares granting special rights

No shares have been issued that grant special rights of control.

E. Employee shareholdings: mechanism for exercising voting rights

In the case of employee shareholdings, a system by which the voting right can be exercised directly by someone else does not exist.

F. Restrictions on voting rights

The company by-laws have not established restrictions on voting rights.

G. Agreements with shareholders

At present the Company has the following lock-up agreements in compliance to art. 122 of Legislative Decree no. 58/1998 in which shareholders have more than 2% of the share capital:

1. Agreement dated 9 November 2004, tacitly renewed for a further three year period and until 9 November 2010, and tacitly renewed for a further three-year period until 9 November 2013, by which the shareholders of Alika S.r.l., with headquarters in Torino Corso Francia n. 110, share capital of 90,600.00 Euros entirely called up, fiscal code and Torino company registration no. 07011510018, for a stake of 46,206.00 Euros equivalent to 51% of the share capital and more specifically:
 - Mr. Mario Rizzante holder of 5,706.00 Euros, equivalent to approximately 6.3% (six point three percent) of the share capital;
 - Mrs. Maria Graziella Paglia holder of 17,100.00 Euros equivalent to approximately 18.87% (eighteen point eighty-seven percent) of the share capital;
 - Mrs. Tatiana Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;
 - Mr. Filippo Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;have signed a lock up agreement according to article 122 of TUF for a three year period and renewable for equal periods as long as one of the shareholders does not communicate the cancellation with a six months written notice, having the right to vote in the company Alika S.r.l., holding of Reply S.p.A.
2. Agreement dated 21 May 2009, between Mr. Luigi Luoni, Mr. Fabrizio Alberton, Mr. Nicola Angelina, Mr. Nicola Canepa, Mr. Marco Cossutta and Mr. Carlo Gotta and the Company, holders of 81,505 (eighty one thousand five hundred five) Reply shares equivalent to approximately 0.88% of Reply's share capital by which they cannot directly or indirectly, or publicly announce the intention of, directly or indirectly executing the following actions: offer, sell and in general not to dispose by any means the shares owned and the rights attributed to the same, with the exceptions under art. 123 of Leg. Dec. 24/02/1998 no. 58 and subsequent amendments as outlined below:
Mr. Luigi Luoni:
 - after 36 months following 21 May 2009, the lock-up period shall expire in relation to 35,195 (thirty-five thousand one hundred and ninety-five) equivalent to approximately 0.38% (zero point three eight percent);
Messers: Fabrizio Alberton, Nicola Angelina, Nicola Canepa, Marco Cossutta, Carlo Gotta:
 - after 36 months following 21 May 2009, the lock-up period shall expire in relation to 9,262 (nine thousand two hundred and sixty two) equivalent to approximately 0.10% (zero point one zero percent).

H. Change of control clause

With reference to agreements that could be cancelled in relation to a change of control in Reply S.p.A., the following is noted.

Financing contracts

Reply S.p.A., on March 31, 2009 undersigned a Loan Agreement with Intesa San Paolo S.p.A. for a total of 50,000,000 Euros.

This contract, having the scope of financing the Group for acquisitions on the Italian or European market, allow the funding banks the faculty to call off the contract in case of a change of control directly or indirectly in Reply S.p.A., in accordance to 2359 of the Italian Civil Code.

Business agreements and contracts

Within some business agreements and contracts undersigned by Reply S.p.A. it is mandatory to notify the change of control, the Company has also undersigned contracts in which the clause “Change of control” implies immediate cancellation of the contract.

Such agreements, which are not very significant when compared to the whole of Group activities, are subject to confidentiality clauses.

Public Offers

Reply's by-laws does not provide any regulations in relation to the passivity rule provided for by art. 104, paragraph 1 and 2 of TUF nor does it foresee the application of the neutralization rules contemplated in art. 104-bis, paragraphs 2 and 3 of the TUF.

Proxies to increase the share capital and authorization to buy treasury shares

The General Shareholders' meeting has given proxy to the Board of Directors to increase the share capital, pursuant to article 2443 of the civil code.

The information regarding the current proxies is detailed in the table below:

Shareholders' Resolution	Proxy	Expiry date	Amount authorized		Proxy executed	
			Euros	Shares	Euros	Shares
14/06/2007	The Board of Directors has the proxy to increase the share capital in accordance to art. 2429 of the Italian Civil Code and to assign shares to employees, directors of the Parent Company and subsidiaries having a key role in achieving the Group's objectives.	14/06/2012	104,000.00	200,000	-	-
28/04/2011	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, payable in different forms and to be executed separately against payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	28/04/2016	312,000	600,000	-	-

The Shareholder's, following resolution passed on 28 April 2011, have authorized the acquisition of treasury shares in accordance to art. 2357 of the Italian Civil Code as follows:

number of shares: considering the treasury shares already held by the Company at the said date, a maximum number of 743,759 ordinary shares at 0.52 Euros, corresponding to 8.0643% of the existing share capital within the maximum spending limit of 30,000,000 Euros;

duration: for a period of 18 months, that is from 28 April 2011 to 28 October 2012, in substitution of the previous authorization resolved by the shareholders' meeting of 29 April 2010;

minimum purchase price: nominal value of the ordinary shares (presently 0.52 Euros);

maximum purchase price not greater than the official trade price on the MTA Market the day prior to the purchase applying a spread of 15%, and a disbursement of maximum 30,000,000 Euros;

authorization to sell: (i) on the market or in blocks, through a public bid, (ii) sale, transfer, or trade of shares for investment acquisitions or negotiations with strategic *partners* (iii) following agreements made with individual directors, employees and or collaborators of the Company or with directly or indirectly controlled companies, that do not meet the requirements of Stock granting pursuant to ex. Art. 114 bis of the TUF (iv) against payment in kind pursuant to the regulations of the Stock Granting plans.

At the reporting date the company held 210,914 treasury shares.

On June 14, 2007 the Company approved a share based incentive plan in favor of directors, employees and managers of the Company and its subsidiaries that cover a strategic role in achieving the overall objectives of the group; the plan is to be executed through Stock Granting represented by treasury shares of the company or newly issued shares pursuant to article 2349 of the Italian Civil Code. The Shareholders' have attributed proxy to the Board of Directors to resolve, even more than once and for a five year period, a free capital increase, pursuant to article 2349 of the Italian Civil Code for a maximum amount of 104,000 Euros corresponding to 200,000 ordinary shares. At present, the share based incentive plan of Stock Granting has not been activated.

On 28 April 2011 the Company resolved to grant the Board of Directors, pursuant to Article 2443 of the Civil Code, the powers to increase the share capital in one or more tranches for a period of five years, for a maximum nominal value of 312,000 Euros through the issue of 600,000 Reply S.p.A ordinary shares with a par value of 0.52 Euros each, to be executed in one or more tranches and therefore separable, for a maximum five year period.

The Board of Directors pursuant to Article 2441, paragraph 6 of the Civil Law, shall determine the price of the shares with reference to the trend of the stock market for the operation in the increase of share capital, and subordinated to the best practice methods of evaluation at an international level that take into consideration the market multipliers of comparable companies and to financial economic models commonly recognized and used in the respect of the minimum share price calculated as the single value of the share of the consolidated net equity resulting in the most recently approved financial statements by the Board of Directors prior to the resolution of the increase in share capital.

It is to be noted that:

- the information requested by art. 123-bis, first paragraph letter i) of TUF is disclosed in the Directors' report at the paragraph disclosing director's remuneration;
- the information requested by art. 123-bis, first paragraph letter l) of TUF is disclosed in the Directors' report at the paragraph disclosing information on the Board of directors.

3. Management and coordination activities

Reply S.p.A. is not subject to management and coordination activities pursuant to article 2497 and subsequent of the civil code.

The Parent company does not exercise control and coordination activities over Reply S.p.A. inasmuch as it qualifies as a holding, lacking an autonomous organizational structure and consequently does not carry out management activities for Reply S.p.A.

All the Italian subsidiaries held, directly or indirectly, by Reply S.p.A. have accurately disclosed the control and coordination to which they are subject by Reply S.p.A. in accordance to art. 2497 – bis of the Italian Civil Code.

4. Compliance (ex art. 123-Bis, paragraph 2, letter a, tuf)

The Report herein reflects and illustrates the corporate governance structure that the Company has adopted in compliance to the requirements of the Code, available on Borsa Italiana's website www.borsaitaliana.it and to which the Company has adhered.

The Board of Directors is always inclined at evaluating any new views and orientations that the Corporate Governance Code could consider and eventually integrate and amend the Company's Corporate Governance only if, and compatible with the company's reality, and that such integration enables the Company to further strengthen its reliability with investors.

Reply S.p.A. and its key strategic subsidiaries, to the Board of Directors knowledge, are not subject to foreign laws that have an influence on the corporate governance structure of the Issuer.

5. Board of Directors

A. Nomination and substitution of directors and amendments to the bylaws

The nomination and substitution of directors is disciplined by art. 16 (Nomination of Directors) of the by-laws, and is available on the Company's website (www.reply.eu under Investors – Corporate Governance).

Article 16 of the Company's by-laws has been revised under the General Meeting's resolution of June 14, 2007, in order to comply to the changes made to the laws and regulations recently introduced, even in relation to the "voting list" mechanisms, under Principle 6.P.1 of the Code that regulates that the nomination of the directors must follow transparent procedures that guarantee the timeliness of adequate information concerning the personal and professional characteristics of the candidate. The same article has been further amended by the Board of Directors resolution passed on October 26, 2010 following mandatory amendments to the regulation introduced by Legislative Decree no. 27/2010 (exercising of rights of the shareholders of listed companies).

Art. 16 of the Company by-laws, regulates that:

- The list of candidates running for director, shall be deposited at the company's registered office twenty-five days prior to the date of the first call for the Annual general Shareholders' meeting; at least twenty-one days prior to the Shareholders' meeting, the list together with the information and declarations required, shall be made available to the public;

- Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or the minimum minority voting share required in accordance to binding laws or regulations;
- The lists that do not reach the percentage of votes equivalent to at least half of those required for the presentation of the same, cannot be considered when apportioning the directors to be elected;
- The voting mechanism appoints the directors from the list having obtained the majority votes by the shareholders and following the order on the list, five sevenths of the Directors will be selected from the eligible candidates, while the remaining Directors will be selected from the other lists, guaranteeing in any case, that at least one candidate has been voted by the minority list that has received the most number of votes and that is not connected in any way, not even indirectly, to the shareholders that presented or voted the list that reached the greatest number of votes;
- In case the minimum number of Independent Directors have not been nominated according to the procedure mentioned above, the last candidate elected from each list which has been nominated by at least one Director and who has received the most votes will be substituted by the candidate immediately following until the minimum number of Independent Directors have been elected.
- The company by-laws regulate that Independent directors not only must meet the requirements established for Statutory Auditors in accordance to art. 148, paragraph 3, of Legislative decree dated 24 February 1998, no. 58, but must also meet requirements established by the Corporate governance code adopted by the Company. The Board of Directors have not adopted a succession plan for executive Directors.

B. Members

The Company's Board of Directors is made up of a variable number of members from a minimum of 3 to a maximum of 11. The number of members is resolved by the Annual General Shareholders' Meeting.

As required by the Corporate Governance Code the Board of Directors is made up of executive and non executive directors, the number, competence, authority and time availability of non-executive directors shall be such as to ensure that their judgment may have a significant impact on the taking of board's decisions.

At present the Board of Directors is made up of seven (7) Directors of which four (4) executive:

- Mr. Mario Rizzante Chairman and Chief executive officer
- Mrs. Tatiana Rizzante Chief executive officer
- Mr. Oscar Pepino Executive Director
- Mr. Claudio Bombonato Executive Director

and three (3) non Executive and Independent Directors:

- Mr. Fausto Forti (Lead Independent Director)
- Mr. Marco Mezzalama
- Mr. Carlo Alberto Carnevale Maffè

The non Executive and Independent Directors bring about their specific competencies in the meetings contributing in taking decisions of company interest.

The above mentioned directors have been appointed under shareholders' resolution of April 29, 2009 based on the list presented by the major shareholder, Alika S.r.l.

The above mentioned directors will hold office until approval of the year end December 31, 2011 financial statements. The General Shareholders' meeting, which will be held on first call on 27 April 2012, must resolve the renewal of the Board of Directors.

The Directors operate and take decisions in an informed and unconditioned matter, pursuing the primary objective of creating value for the shareholders. They hold office with the awareness of being able to dedicate the necessary time in order to carry out their actions diligently.

The Chairman coordinates the activities and conducts the Board of Directors Meetings and takes the necessary actions so as to inform the members well in advance on significant points and useful items in order to participate in a profitable manner with the exception of urgent and confidential matters.

The Chairman furthermore, by means of the operational members of the company, makes sure that the Directors participate in initiatives aimed at increasing knowledge of the company reality and its evolution and that they are informed about the major new legislation and regulations that concern the Company and its governing bodies.

On January 22, 2011 Sergio Ingegnatti, Chief executive officer deceased; the Board of Directors on January 24, 2011 resolved the cooption of the office and reduced the number from eight to seven.

The table below discloses the main information related to the Board of Directors in compliance to Article 144- decies of *Regolamento Emittenti Consob*.

Name	Office	Board of Directors								Internal control committee		Remuneration committee	
		In office	L(**)	E	N.E	I. code	I. TUF	% Other offices	Attendance	%	Attendance	%	
Mario Rizzante	Chairman and Chief executive officer	From 29/04/09	M	X	-	-	-	100.00%	1	-	-	-	-
		To 31/12/11 ^(*)											
Sergio Ingegnatti	Chief executive officer	From 29/04/09	M	X	-	-	-	-	N/A	-	-	-	-
		To 22/01/11 ^{(**)(***)}											
Tatiana Rizzante	Chief executive officer	From 29/04/09	M	X	-	-	-	100.00%	2	-	-	-	-
		To 31/12/11 ^(*)											
Oscar Pepino	Executive Director	From 29/04/09	M	X	-	-	-	80.00%	N/A	-	-	-	-
		To 31/12/11 ^(*)											
Claudio Bombonato	Executive Director	From 29/04/09	M	X	-	-	-	100.00%	1	-	-	-	-
		To 31/12/11 ^(*)											
Fausto Forti	Lead Independent Director	From 29/04/09	M		X	X	X	80.00%	1	X	100%	X	100%
		To 31/12/11 ^(*)											
Marco Mezzalama	Non-Executive independent Director	From 29/04/09	M		X	X	X	100.00%	N/A	X	100%	X	100%
		To 31/12/11 ^(*)											
Carlo Alberto Carnevale Maffé	Non-Executive independent Director	From 29/04/09	M		X	X	X	100.00%	1	X	100%	X	100%
		To 31/12/11 ^(*)											
Number of meeting held in 2011					Meetings of the BoD.: 5					Meetings of the Internal control committee: 2		Meetings of the Remuneration committee: 2	

(*) in office until the Shareholders' meeting for the approval of December 31, 2011 financial statements

(**) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favorable votes equal to 56.718% of the share capital.

(***) deceased on January 22, 2011; office no longer held

Legend:

L: list

M/m: M/majority list m/minority list

E: Executive

N.E.: non executive

I: independent

I.TUF independent pursuant to art. 148 of TUF

Following is a brief description of personal and professional characteristics of the members of the Board of Directors of the Company.

Mario Rizzante (Chairman, Chief Executive Officer and founder of Reply S.p.A.)

Mr. Rizzante received a graduate in Science of Informatics at the University of Turin. In the 70's, within the Fiat Group, Mr. Rizzante worked on several projects for manufacturing automation. In 1981 Mr. Rizzante left Fiat and founded Mesarteam S.p.A., a System Integration company that in a few years became one of the leading Italian companies in the ICT sector. In 1990 Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais and Mr. Rizzante contributed as Chairman and strengthened relations with important international clients. In 1994 Mr. Rizzante joined Digital (now HP), as Southern Europe Territory Manager of System Integration and Consulting. In June 1996, together with other partners Mr. Rizzante decided to undertake a new entrepreneur endeavor: constructing a system integration and consulting company specialized in new internet technologies. Reply comes to life. Within only four years since its constitution, in December 2000, Mr. Rizzante leads Reply to the Stock market, listing it on the market in Milan.

In 2006 he became member of the Reply Deutschland AG (Germany) Supervisory Board and holds the position of Chairman.

Tatiana Rizzante (Chief Executive Officer of Reply S.p.A.)

Tatiana Rizzante received a Bachelor degree in Informatics Engineering at the Polytechnics of Turin. Immediately after having graduated, in 1995 Mrs. Rizzante begins working in the field of experimental and research activities on the Internet in collaboration with the Polytechnics of Turin and Cselit. In 1996 within Technology Reply S.r.l., she participates actively in projects involving the realization of Intranet websites, network computing and information retrieving. She continues her career within the Reply Group covering the role of Technical Director in Sytel Reply S.r.l. with the task of developing a competence center related to Internet services for Telecommunication operators. In 2002 Mrs. Rizzante is appointed Senior Partner of Reply with the mission of pursuing the business line Technological Architectures and Portals, along with marketing, communication and partnership activities. In 2003 Mrs. Rizzante was appointed Director of the Board of Directors of Reply and carries out activities of Sales & Marketing in Italy for the entire Group. In 2006 Mrs. Rizzante is appointed Chief Executive Officer of Reply and in the same year becomes member of the Supervisory Board of Reply Deutschland AG (Germany), a company listed on the Frankfurt stock market and controlled by Reply S.p.A.

Since April 2011 she has held the position as Independent Director at Ansaldo Sts S.p.A. (Finmeccanica Group company).

Oscar Pepino (Executive Director and founder of Reply S.p.A.)

Mr. Pepino received a graduate degree in Science of Informatics at the University of Turin in 1977, in 1981 he founded Mesarteam S.p.A., a System Integration company covering the role of in charge of the headquarters in Milan. After Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais in 1990, Mr. Pepino joins Digital (now HP), covering the role of informatics consultant. In June 1996 he participates in the foundation of Reply and covers the role of Chief Executive Officer with the task of Technical and Quality Director of the Reply Group. Mr. Pepino within the Reply Group is currently in charge of the Operations Office which heads: the informatics system, quality, the operational quarters, PM Academy and Cmmi; supervision of the internal control system and tasks associated to this role in accordance to the Procedures for Operations with Related Parties.

Claudio Bombonato (Executive Director of Reply S.p.A.)

Mr. Claudio Bombonato graduated in Aeronautics Engineering from the Polytechnics of Turin. He holds Doctorate in Philosophy in Aerospace Engineering from the Turin University, and also Masters degree in Business Administration from *Università Commerciale Luigi Bocconi*.

After a 10 year professional experience in Fiat Aviation Division and IBM Italy, he started working at McKinsey (in 1981) where he was mainly involved in the banking sector and Ict. In 1986 he became Partner and leader in financial institutional practices and Ict in Italy. In 1990, he was appointed Director of the company by McKinsey and was a member of the European leadership group on Financial Institutions. Mr. Claudio Bombonato was the European Responsible of Commercial Banking practices for a number of years.

In 2006 he left Mckinsey and was appointed European Senior Advisor Morgan Stanley (Financial Institution sector in Italy). He has published many articles on strategic thematic, organization and technology both for the financial and public sectors. He was Member of the Board at SI Holding and at present he is the Member of the Board at Fonspa.

Fausto Forti (Independent Director and Lead Independent Director of Reply S.p.A.)

Mr. Forti has a graduate degree in mathematics. From 1974 to 1983 he held several positions in Inveco S.p.A. (Fiat Group) among which: IS and in charge of Spare parts for the Brazilian affiliate; from 1983 to 1994 in Fiat S.p.A. held the position of Director of Logistics. From 1994 to 2004 joins the TNT Group – Logistics division – where he covers the role of Chief Executive Officer of the Italian Business Unit and South America. In 2005 he joins DHL Express Mediterranean (Italy, Greece, Cyprus, Malta and Israel), Deutsche Post Group World Net, and is appointed Chairman and Chief Executive Officer, position that he currently holds. From 2000 to 2006 he was Chairman of Assologistica (*Associazione Italiana delle Aziende di Logistica*). Since April 2010 he is Chairman of Confetra (*Confederazione italiana delle Associazioni di Trasporto e Logistica*).

Marco Mezzalama (Independent Director of Reply S.p.A.)

Mr. Mezzalama received a graduate degree in Science of Informatics at the Polytechnics of Turin in 1972 where he is currently Professor of System Elaborations. Since 2005 he holds office of Vice-Chancellor at the Polytechnics of Turin for the informatics systems. From 2001 to 2005 he was substitute of the Chancellor. From 1993 to 2001 Mr. Mezzalama held office as Vice Chancellor for informatics systems and member of the Turin Science Academy. As a representative of the Polytechnics he also covers other roles in research and/or ICT institutions.

Carlo Alberto Carnevale Maffè (Independent Director of Reply S.p.A.)

Mr. Maffè is a professor of Business Strategy at the Strategy Institute and the School of Business Administration at the Bocconi University and was the founder and coordinator of Master in Business Strategy (MISA). He is head of the Business Strategy course for Bachelor in International Economics and Management. At present he teaches the course Media MBA at Steinbeis University of Berlin and the Master in Intelligence at the University of Malta. He has also worked as professor at the Graduate School of Business of Columbia University and Stern School of Business of New York University.

He is a member of the Steering Committee “E-business Policies” of the European Commission. He is columnist for MF- Milano Finanza and he collaborates on a regular basis with newspapers and national and international television such as CNCB International/Class CNCB and IL Sole 24 Ore. Mr. Maffè is a member of Assodigitale scientific committee and the editorial review board of “Economia & Management”. He is independent director of listed companies in the Technology, Media and Telecommunications segments and strategic advisor for important international companies. He has published many articles, books and business cases and often has released interviews and comments on the most important international economic- financial newspapers.

The criteria in evaluating the requisites of independence of the Board of Directors has not been integrated or modified. The Board of Directors has verified, at the date of approval of the Report herein, the offices of Directors and Statutory auditors, held by the Directors in other listed companies, finance, bank, and insurance companies or big enterprises.

The following arose:

- Mr. Mario Rizzante, is Chairman of the Supervisory Board of Reply Deutschland AG., a German company held by Reply S.p.A. and listed on the Frankfurt stock Market;
- Mrs. Tatiana Rizzante is a member of the Supervisory Board of Reply Deutschland AG., a German company held by Reply S.p.A. and listed on the Frankfurt stock Market and independent Director of Ansaldo Sts S.p.a (Finmeccanic group company);
- Mr. Claudio Bombonato is Chairman of the Board of Directors' of Fonspa S.p.A.
- Prof. Marco Mezzalama is member of the Board of Directors of CSI Piemonte of San Paolo, CSP Innovazione in Ict and Consorzio Topix,
- Prof. Carlo Alberto Carnevale Maffè is a member of the Board of Directors' of Poligrafica San Faustino S.p.A.,
- Mr. Fausto Forti is Chairman and Chief executive officer of DHL Express Italy S.r.l..

Although recommended by the Code, the Board of Directors has preferred not to express an opinion in relation to the maximum number of offices compatible with the execution of the directors' role, as it believes that such assessment firstly should be made by the shareholders when appointing the directors and secondly by the individual director when accepting the office.

C. Role of the Board of Directors

The Board of Directors is the statutory managing body vested with the broadest powers for the ordinary and extraordinary management of the Company.

The Board of Directors primarily carry out a management and control function with relation to the general activities of the company and the subsidiary companies.

More specifically the Board of Directors, in compliance to the Code:

- a) examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it heads, if any;
- b) evaluate the adequacy of the organizational, administrative and accounting structure of the issuer and its subsidiaries having strategic relevance, as established by the managing directors, in particular with regard to the internal control system and the management of conflicts of interest;
- c) delegate powers to the managing directors and to the executive committee and revoke them; it shall specify the limits on these delegated powers, the manner of exercising them and the frequency, as a rule no less than once every three months, with which the bodies in question must report to the board on the activities performed in the exercise of the powers delegated to them;
- d) determine, after examining the proposal of the special committee and consulting the board of auditors, the remuneration of the managing directors and of those directors who are appointed to particular positions within the company and, if the shareholders' meeting has not already done so, determine the total amount to which the members of the board and of the executive committee are entitled;

- e) evaluate the general performance of the company, paying particular attention to the information received from the executive committee (when established) and the managing directors, and periodically comparing the results achieved with those planned;
- f) examine and approve in advance transactions carried out by the issuer and its subsidiaries having a significant impact on the company's profitability, assets and liabilities or financial position, paying particular attention to transactions in which one or more Directors hold an interest on their own behalf or on behalf of third parties and, in more general terms, to transactions involving related parties; to this end, the board shall establish general criteria for identifying the transactions which might have a significant impact;
- g) evaluate, at least once a year, the size, composition and performance of the Board of Directors and its committees, eventually characterizing new professional figures whose presence on the board would be considered appropriate;
- h) provide information, in the report on corporate governance on the number of meetings of the board and of the executive committee, if any, held during the fiscal year plus the related percentage of attendance of each director.

In accordance to the *Corporate Governance Code* (art. 1.C.1, letter f), the company has granted to the Board of Directors the examination and the approval of the operations deemed "significant" and some specific operations with related parties, fully detailed in this Report at the section dedicated to the topic.

The Board of directors meet on a regular basis, at least every three months, as established by the Company by-laws, or when deemed necessary.

The Directors report to the Statutory auditors on a quarterly basis with regards to the activities carried out during the year, to significant operations carried out by the company or its subsidiaries and with regards to operations that could be of potential conflict of interest.

During 2011 the Board of Directors met five (5) times and the average duration was approximately two hours (2).

The Board of Directors are scheduled to meet at least five (5) times in 2011.

The Board of directors have held no meetings at the present date of this Report.

The participating members of the Board are also allowed to intervene through audiovisual connection.

In order to facilitate the participation of a greater number of Managers and Statutory auditors, a calendar of the annual meetings scheduled is drafted.

Prior to the meetings, the Directors and Statutory auditors are provided with the Agenda of the meeting.

D. Chairman of the Board of Directors, Chief Executive Officers and Executive Directors

The Board of Directors currently holding office comprises one Chief Executive Officer, two Executive Directors and has empowered the Chairman with the broadest operational delegations, in light of the resolutions passed on April 29, 2009. Mr. Mario Rizzante, Chairman of the Board of Directors, is empowered with the ordinary and extraordinary administration of the company with the exception of those specifically empowered by law to the Board of Directors and excluding the operations empowered to the Board of Directors, as set out by the *Regulation on Significant Operations and with related parties*.

The Chairman, is responsible for the management of the Company and is also major shareholder, as illustrated here within.

Mrs. Tatiana Rizzante, Chief Executive Officer, has the following main powers:

- ordinary administration of the company, including the activities related to purchase, sales, trade-in of products, goods and automobiles, real estate and any other asset related to the company's activities;
- undersign rent and lease contracts for no longer than a nine year period establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions;
- carry out any type of operation with the offices of the public debt, banking institutions, post offices, administration and finance authorities, customs agents and transport institutions in general, governmental authorities whether federal, provincial or local, with ministries and in general with any public or private office, including the undersigning of any acts or declarations pursuant to fiscal laws;
- to represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- request, accept and use short term or long term lines of credit, with no sum limitation, according to the necessary conditions and terms with any banking or credit institution;
- hire, appoint or suspend employees, undersign the related labor contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labor unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 Euros; and can:
 - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
 - confer or receive the related mandate in the event of a temporary group enterprise participation;
 - undersign the contracts following the assignment of the bid;
 - grant to third parties, to the extent foreseen by the law, the execution of the contracts.

Mr. Oscar Pepino, Executive Director, has the following main powers:

- sign rent and lease contracts for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 Euros; and has the power to:
- draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
- negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 Euros for each operation from an asset side and 500,000.00 Euros for operations from a liability side;
- to represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- hire, appoint or suspend employees, undersign the related labor contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labor unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts.

The main proxies empowered to the Executive Director, Ing. Claudio Bombonato, with the scope of supporting the Company in the development of activities, are the following:

- individual powers:
 - a) represent the Company Reply S.p.A. with external contacts and business negotiations and authorize the issuing of the related business offer with a limit of 5,000,000 Euros per transaction;
 - b) negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 Euros for each operation;
 - c) participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 Euros; and can:
 - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
 - confer or receive the necessary mandate in the case of temporary joint ventures;
 - undersign contracts following the awarding of the bid;
 - allow third parties the execution of the contracts awarded;
 - d) to carry out in the interest of the Company whatever is necessary or convenient within his powers;
- joint powers, with another director having the necessary powers, the powers outlined at letters a), b) and c) in the case the limits defined above are exceeded.

Mr. Claudio Bombonato in capacity of Executive Director, has been assigned further powers related to activities under Network Finance & Security within the Reply Group.

The Chairman, the Chief Executive Officers and the Executive Director, during the Board of Director meetings, and at least on a quarterly basis, report to the Board of Directors and to the Board of Statutory Auditors with regards to the activities carried out during the fiscal year and provide adequate information on atypical, unusual or with related party transactions, that are not subject to the Board of Directors approval.

The Chairman, under the company's by-laws, has the power to convene the Board of Directors' meetings.

In preparing the Board of Directors' meetings, the Chairman informs the Directors and Statutory Auditors about the agenda and provides the necessary documentation and information for an effective participation in the Board's work.

The Chairman coordinates the activities of the Board of Directors and runs the meetings.

In order to have a better management of the Group activities, the Board of Directors of Reply S.p.A. has the possibility to attribute specific delegation powers to several key managers of the Group Companies that can act in name and on behalf and interest of the Company.

E. Independent Directors

As previously stated, the three Directors member of the Board of Directors qualifying as being independent are:

- Mr. Fausto Forti (*Lead Independent Director*)
- Prof. Marco Mezzalama
- Prof. Carlo Alberto Carnevale Maffè

The independent directors constitute as a whole the Remuneration Committee and the Internal control Committee.

The same Independent directors also qualify as, in capacity of members of the Internal Control Committee, members of the Related party transaction committee established by the related procedure.

The Independent non Executive Directors have the same characteristics as the Independent Directors, in compliance to paragraph 3.C.1. of the 2006 edition of the Corporate Governance Code that provides that a director usually does not appear independent in the following events, to be considered merely as an example and not limited to:

- a) if he/she controls, directly or indirectly, the issuer also through subsidiaries, trustees or through a third party, or is able to exercise over the issuer dominant influence, or participates in a shareholders' agreement through which one or more persons may exercise a control or considerable influence over the issuer;
- b) if he/she is or has been in the previous three accounting periods a key person of the issuer, of one of its subsidiaries having a significant strategic relevance or of a joint venture of the issuer, or a company that together with others or under special agreements control the issuer or is able to exercise a notable influence;
- c) if he/she has, or had in the preceding fiscal year, directly or indirectly (e.g. through subsidiaries or companies of which he/she is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:
 - with the issuer, one of its subsidiaries, or any of its significant representatives;
 - with a subject who, jointly with others through a shareholders' agreement, controls the issuer, or
 - in case of a company or an entity – with the relevant significant representatives; or is, or has been in the preceding three fiscal years, an employee of the abovementioned subjects;
- d) if he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer, a significant additional remuneration compared to the "fixed" remuneration of non-executive director of the issuer, including the participation in incentive plans linked to the company's performance, including stock option plans;

- e) if he/she was a director of the issuer for more than nine years in the last twelve years;
- f) if he/she is vested with the executive director office in another company in which an executive director of the issuer holds the office of director;
- g) if he/she is shareholder or shareholder or director of a legal entity belonging to the same network as the company appointed for the accounting audit of the issuer;
- h) if he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

The Board of Directors, in its entirety, verified, in the meeting held March 13, 2009, also being the first meeting following its renewal on April 29, 2009, and subsequently on an annual basis, with positive results, the independence of the abovementioned Directors, by drawing on information provided by each of the Directors in accordance with the definition provided by the Corporate Governance Code, resolving not to apply the criteria stated in point e) in view of the Directors' authority, reputation and moral statute. This was limitedly verified with regards to Prof. Marco Mezzalama since the month of September 2009.

The Board of Statutory Auditors verifies the proper application of the assessment criteria and procedures adopted by the board in order to annually assess the independence of its members, communicating the outcome of such controls in its report to the shareholders.

In 2011 it was not necessary for the independent Directors to convene in specific individual meetings as they periodically meet when the Internal Control Committee and Remuneration Committee meetings are convened representing as a whole such bodies.

F. Lead Independent Director

The Code requires that, in case the Chairman of the Board of Directors is the key person in charge of the running of the company, and even when office is held by the person that controls the Company, the Board must designate a "*Lead Independent Director*", that represents a reference and coordination point of the motions of the non executive Directors and more specifically the independent ones; for this scope, should these circumstances occur, in accordance to article 2.C.3 of the Code, the role of *Lead Independent Director* is held by the non Executive and Independent Director, Mr. Fuasto Forti.

6. Processing of confidential information

The Chief Executive Officer, Mr. Sergio Ingegnatti, until January 22, 2011 and *ad interim* the Chairman and Chief Executive Officer, Mr. Mario Rizzante together with the Investor Relator Mr. Riccardo Lodigiani, handle the processing of confidential information in order to avoid the spreading of such information through means not in compliance with law, provisions or rulings or by means that are not timely, or that are incomplete or inadequate.

More specifically, all company communication to outsiders and all press releases are accurately drawn up and under the strict supervision of the abovementioned persons that verify the correctness and compliance, in terms of content and means of diffusion, to the existing laws.

Furthermore, all employees, and in particular those having a managing position, have been instructed as to their duties concerning confidentiality of information of a listed company and must verify that the chief executive officer's directions are followed.

Following the so called regulation "market abuse" enacted by Community Law 2004 (Law 18, April 2005 no. 62) and endorsed by the corresponding Consob regulation a law was passed concerning the obligation to notify the public about any transactions carried out by "key persons" and people strictly associated to them in relation to financial instruments of the company.

Consequently, the Internal Conduct Code on Internal Dealing already adopted by Reply S.p.A. since January 2003, was abolished as of April 1, 2006 date in which the new Consob Regulation no.11971/99 was implemented.

In execution of the new regulation of April 1, 2006, a new Conduct Code was implemented aimed at disciplining the flow of information from "Key persons" and "Parties connected to them" with respect to the Company and the corresponding obligations and informative and communication means with respect to Consob and to the market related to operations carried out by these parties.

The new Corporate Governance Code was enacted starting April 1, 2006 following the Board of Directors' resolution of March 31, 2006.

More specifically, the new Corporate Governance Code, with reference to Internal Dealing concerning operations on financial derivative instruments issued by Reply S.p.A. executed by the so called "key persons", disciplines the information to provide the Company, Consob and the market when purchase, sales, undersigning and negotiating of shares or financial derivative instruments connected to the shares, are executed for personal reasons by "Key Persons", that is those being close to the Company that can legitimately negotiate his shares having access to information concerning the parent Company's or its subsidiaries financial-economic trends.

The new code comprises nine paragraphs that define the conduct in terms of "internal dealing" and the ways of applying the same. The code disciplines more specifically, the identification of the so called "key" parties, the types of operations subject to mandatory communication, identification of the party in charge of receiving such information and the notification to Consob and to the market, timing and the means of communication that must be carried out by the so called "Key persons".

The complete version of the Corporate Governance Code is available on the Company's website (www.reply.eu – Investors – Corporate Governance).

7. Committees within the Board

The Board of Directors has set up consulting committees within the Board, The Internal Control Committee and the Remuneration Committee.

The Board of Directors, as allowed by the Code, have not deemed necessary to constitute within its members a Director nomination Committee. More specifically, the definition of the professional characteristics of the candidates and the selection of the candidates is carried out through sharing of the shareholders knowledge of the moral requisites and professional competencies of the persons involved.

8. Remuneration committee

With reference to what has been stated reference shall be made to the Report on Remuneration published in accordance to Article 123-ter of TUF.

The Board of Directors has internally constituted a Remuneration Committee composed by Prof. Marco Mezzalama and Prof. Carlo Alberto Carnevale Maffè, non Executive and Independent Directors and by Mr. Fausto Forti, *Lead Independent Director*.

In 2011 the Remuneration Committee, as to carry out its duties, met twice (2) with the presence of all members.

In 2012 two (2) meetings have been planned, of which one already held.

At present the Committee has not utilized external consultants.

In accordance to art. 7.C.4 of the Corporate Governance Code, no director shall participate in meetings of the Remuneration Committee in which proposals are submitted to the Board of directors relating to his/her remuneration.

9. Remuneration of Directors

With reference to what has been stated reference shall be made to the Report on Remuneration published in accordance to Article 123-ter of TUF.

Remuneration of Directors not invested with operational proxies, for each year in office, was resolved by the Shareholders' Meeting of 29 April 2009, upon nomination, and equal to 20,000.00 Euros gross of any withholding amounts foreseen by law.

Remuneration of directors invested with special roles, was established by the Board of Directors upon proposal of the remuneration Committee, authorized by the Board of Statutory Auditors.

In compliance to article 20 of the Company by-laws, amended by the Shareholders meeting of 28 April 2011, the total amount of remuneration to Directors, including those invested with strategic powers, can also be determined by the Annual General Shareholders meeting.

In compliance to article 7.C.1 of the Code of the March 2006 release, article 22 of the Company by-laws provides the possibility to attribute a variable fee to the Directors invested with special powers, as participation in the profits of the parent Company, and dependent of the economic trends of the Group and more specifically to the Consolidated Gross Margin, which is resolved by the Annual General Shareholders' Meeting approving the annual financial statements.

Such a possibility, that has already been adopted since allocation of the 2004 net result (with the exception of 2009),

considering that this alternative does not exclude the distribution of dividends to the shareholders, will be once again applied in relation to December 31, 2011.

Keeping in mind the legislative and regulatory reference regarding remuneration to Directors which is always in evolution, only in December 2011 the Company defined a general policy on compensation to directors and the mandatory communication to the Shareholders, and in March 2012 has adapted to the recommendations contained in Article 7 of the Ethic Code of March 2006 and the modified version of March 2010.

10. Internal control committee

In accordance to art. 8.P.4 of the Corporate Governance, the Board of Directors established an Internal Control Committee composed by Mr. Carlo Alberto Carnevale Maffè and Mr. Marco Mezzalama, non-executive independent directors and by Mr. Fausto Forti, *Lead Independent Director*.

The Internal Control Committee:

- evaluates together with the director responsible for the preparation of the company's accounting documents and the auditor, the correct utilization of the accounting principles and, in the event of groups, their consistency for the purpose of the preparation of the consolidated balance sheet;
- upon request of the executive director, expresses opinion on specific aspects relating to the identification of the principal risks for the company as well as on the design, implementation and management of the internal control committee;
- review the work plan prepared by the officers in charge of internal control as well as the periodic reports;
- perform any additional duties that are assigned by the Board of Directors;
- report to the board, at least on a half yearly basis, on the occasion of the approval of the balance sheet and the half yearly report, on the activity carried out, as well as on the adequacy of the internal control system.

The Committee meets when deemed necessary, and in any case, at least twice a year, when the half year report and the annual report is approved.

The Chairman of the Board of Statutory Auditors or another auditor designated by the Chairman, participates in the works for the Internal Control Committee and at the end of each meeting the minutes are drawn up with the Committee's proposals.

In order to carry out its duties, the Committee can request information and data from head of internal controls, the Board of Statutory Auditors and the independent auditors.

During 2011 the Internal control committee met twice (2) and once (1) in 2012, all members were present and examined the following:

- the separate financial statements and the consolidated financial statements of 2010-2011, and half-year report of 2011;
- updates concerning activities in relation to Law 262/2005 (*Legge sul Risparmio*) and other related internal improvement projects;
- revision of the Impairment Test policy – Impairment (IAS 36).

With reference to this last point, the Committee requested the participation, not only of the Director responsible for drawing up the accounting documents but also that of Mr. Conti, who represents the Auditing firm Reconta Ernst & Young S.p.A.

The Committee reported two times to the Board of Directors in relation to the activities carried out and with reference to the adequate functioning of the internal control System.

Furthermore, within the regulations of transactions with related parties, on August 5, 2010 the Board of Directors empowered the Internal Control Committee with the functions pursuant to art. 4 of Consob Regulation no.

17221/2010. The Internal Control Committee must also express its opinion in relation to transactions with related parties when required by the Procedures (available on internet: www.reply.eu).

11. Internal control system

The internal control system is a set of procedures that contributes to safeguard the company's assets, the efficiency and effectiveness of business transactions, the reliability of financial information and the compliance with laws and regulations.

The Board of Directors is responsible for the internal control and defines the guide-lines of the internal control system and the company's risk management.

In relation to the company's objectives, whether business or compliance and reporting the Company has adopted the following key instruments:

Instruments monitoring business objectives

- Budgeting and management control - Reply S.p.A. has implemented a structured and periodic system in order to forecast and monitor company activities, aimed at defining the company's objectives/strategies and defining a budget;
- Operational procedure system - In order to properly apply the company directives and to limit the risks connected to the achievement of the company's objectives, Reply S.p.A. has implemented a group of procedures that regulate internal processes, regulating the activities executed within a function and those with other areas. In 2007 a specific procedure for "Bid Authorization" was adopted by the Group and is applicable to the bids tendered by all the Group companies and for all Public Bids, providing that the issuing of a "Bid" is subject to approval at an adequate organizational level dependent on the value of the bid and, if the bid exceeds 5,000,000.00 Euros it must be approved by the Reply Approval Board (RAB; this procedure has been approved by the Internal Control Committee.

Instruments monitoring compliance objectives

Law 262/2005 in relation to accounting and financial disclosures - Following the coming into force of law 262/2005 concerning the protection of savings, Reply S.p.A. has terminated the project related to the upgrading of procedures and has adopted other initiatives to monitor and improve them. The objective of the initial project was to revise the administrative and accounting procedures in relation to the reliance of the economic-financial information disclosed to the market and more specifically:

- mapping of the main sub-processes within the administration and relevant accounting procedures;
- assessment of the adequacy of the existing controls and proposal of further areas of control in view of compliance and greater reliance of the processes considered;
- drafting of a series of procedures and consequently the drafting of an Administration Procedures Manual;
- creation of future control and monitoring instruments.
- Legislative Decree 231/2001 – see related paragraph.

- Security, environment and quality - Reply has established a procedure system and an organizational structure dedicated to the management of data security (also in accordance to the laws on Privacy), protection of the environment, security of equipment and personnel and the quality of services carried out (Iso certification 9001:2000).
- Other laws and regulations - Monitoring the evolution and compliance to new laws and regulations is carried out internally.

Instruments monitoring reporting objectives

- **Accounting disclosures** – the drafting of disclosures within the consolidated and separate financial statements, is regulated by the Group accounting Manual and by the administrative-accounting procedures recently upgraded/integrated within the Project related to Law no. 262/2005, previously illustrated.
- **Processing of confidential information:** see relevant paragraph;
- **Internal information** – Reply S.p.A. has an internal communication system, aimed at facilitating and promoting internal communication within the company and the Group, this is also achieved through a structured Committee system and through the management and coordination structure.

The Internal Control Committee has evaluated the adequacy of the internal controls adopted by the Reply Group and has expressed a positive opinion.

A. Risk management and internal control over financial reporting

Reply has put in place a system of risk management and internal control over financial reporting based on the COSO Report model, according to which the internal control system is defined as a set of rules, procedures and tools designed to provide, through an adequate identification process of the major risks related to disclosure of financial data, reasonable assurance of the achievement of corporate objectives.

In relation to the financial disclosure process, the objectives are the reliability, accuracy, completeness and timeliness of the information.

The objective of the internal accounting control system is to assure that the financial information disclosed provides a correct representation of management.

The approach adopted by Reply for the evaluation, monitoring and continuous updating of the System of Internal Control over financial reporting, is based on a 'top-down, risk-based' process consistent with the COSO Framework. This enables focus on areas of higher risk and/or materiality, that is, where there is risk of significant errors, including those attributable to fraud, in elements of the financial statements and related documents.

The key components of the process are:

1. identification and evaluation of the source and probability of significant errors in elements of financial reporting;
2. identification of the key controls aimed at covering the risks;
3. assessment of the adequacy of key controls in enabling ex ante or ex post identification of potential misstatements in elements of financial reporting;
4. verification of the operating effectiveness of controls.

Identification and evaluation of the risk of misstatements which could have material effects on financial reporting is carried out through a risk assessment process, under the supervision of the Director in charge of drawing up the financial statements along with the Chief Executive Officer, that identify the organizational entities, processes and the related accounts, in addition to specific activities which could potentially generate significant errors. Under the methodology adopted by Reply, risks and related controls are associated with the accounting and business processes upon which accounting information is based.

Significant risks identified through the assessment process require definition and evaluation of key controls that address those risks, thereby mitigating the possibility that financial reporting will contain any material misstatements.

According to international best practice, the controls which the Group has in place are of two principal types:

- controls that operate at Group or subsidiary level, such as: the delegation of authorities and responsibilities, separation of duties and assignment of privileges and rights for access to IT systems;
- controls that operate at process level, such as authorizations, reconciliations, verification of consistencies, etc. This category includes controls for operating processes and controls for closing processes. Such controls can be preventive (i.e., designed to prevent errors or fraud which could result in misstatements in financial reporting) or detective (i.e., designed to reveal errors or fraud which have already occurred). They may also be defined as manual or automatic, such as application-based controls relating to the technical characteristics and configuration of IT systems supporting business activities.

The assessment of the design and operating effectiveness of key controls has led to the elaboration of control matrixes (RCM - Risk Control Matrix) that identify, for each significant process, the potential impact of financial reporting:

- risks subsequent to not having reached the "financial statement assertion" control objectives, (existence, occurrence, completeness, rights and obligation, evaluation and accounting, presentation and disclosures) and other control objectives such as authorization, segregation of tasks, data security, documentation and traceability of operations, etc;
- the related "*best practice*" (i.e. *CoSO Framework*)
- the standard control activities (key controls) over these processes/procedures, and their principal characteristics (preventive/detective manual/automatic) and the related process owners;
- the assessment of the aforesaid controls in relation to the adequacy of mitigating the risks identified;
- suggestions to improve shortages identified in the assessment of control activities.

The control activities related to significant processes of financial reporting are fully detailed in Reply Group's Manual of administration and accounting procedures, recently updated/integrated within the Project of the updating of Law no. 262/2005, previously commented.

As Reply S.p.A.'s shares are listed and negotiated on the Italian stock market, it is mandatory for the Board of Directors to nominate a Director in charge of drawing up the financial statements and all other corporate documents, the Director is responsible for setting up adequate administrative and accounting procedures enabling to disclose financial information to the market, and to monitor upon the proper application of the procedures.

The Administration and accounting procedures manual defines the guidelines that must be applied within Reply and more specifically with reference to obligations under art. 154-bis of legislative decree 58/1998 governing company's financial statements and related attestation obligations.

More specifically the Administration and accounting procedures manual has:

- defined roles and responsibilities of the single Organizational Units involved in the general activities of drafting, communication and control of the financial information disclosed to the market;
- defined the operational means of managing the necessary activities to comply with the aforementioned legal obligations;
- introduced, in order to support the drafting of the legal attestation of the Director in charge and the Chief Executive Officer, the obligation, headed by the Compliance department, to internally assess, through the internal communication processes, the correct functioning of the Accounting Control System law 262/2005 related to the accounting processes/flows disciplined by such law, the completeness and reliability of the information and the adequateness and effective application of key controls summarized in the control matrixes.

The company processes, the administrative-accounting procedures and the related control matrixes, along with the list of persons in charge of the operational units enacting the control, are subject to periodic assessments and if the case are updated.

The administrative-accounting procedures and the related control matrixes are co-shared with the related process owners who ascertain the framework and carry out the control, with the process owners, Management, with the support of the Compliance department agree upon the implementation of any necessary corrective measures.

The Compliance department carries out periodic assessments with regards to the adequacy and effective application of key controls on the annual financial statements and half year financial statements through audit procedures performed on specific areas defined by the Director in charge.

The Chief executive officers and administration directors of the foreign companies undersign an attestation on a periodic basis confirming the adequacy of the accounting procedures in relation to any underlying risks and is sent to the Director in charge and the Chief Executive Officer of the Parent company.

The company process owners, as defined by Law 262/2005, issue an attestation letter addressed to the Director in charge of drawing up the financial statements, confirming the effective application of the administrative-accounting procedures within their functions.

The audit plan is aimed at identifying a number of processes to be tested in order to cover the major processes during the year. The audit is performed on several Group companies, selected according to quantitative parameters, (material thresholds with respect to the consolidated financial statements) and qualitative ones.

In order to carry out the monitoring controls check lists are prepared according to the different processes being controlled which summarize the ways of testing the key controls included in the Procedures Manual and in the RCM, the sample to be tested and the outcome of the test.

Sample testing is the criteria used and the data and assessments included in the check lists are supported by the documentation gathered during the monitoring activities, that are an integral part of the same check lists.

The outcome of the tests performed and any suggestions made concerning the opportunity of implementing further controls where shortages were identified, are summarized by the Compliance Officer in a report and addressed to the Director in charge and to the Chief Executive Officer. The report is discussed and two flows are activated:

- the attestation process addressed externally based on the declarations made by the Director in charge in compliance to art. 154-bis of legislative decree 58/1998, in occasion of the drafting of the annual financial statements or the half-year financial report, as described above.
- the internal process of sharing with the related process owners the outcome of the control assessments, the compensation controls, corrective measures or improvement plan proposals.
- The Compliance Officer, in capacity of person responsible of internal controls, periodically refers to the Internal Control Committee, the Board of Statutory Auditors and to the Compliance Committee with reference to the activities carried out within the assessment process of the internal control system.

B. Executive officer in charge of supervising the internal control system

On 24 January 2011 the Board of Directors appointed Mr. Oscar Pepino in charge of supervising the internal control system substituting Mr. Sergio Ingegnatti, Chief Executive Officer who held this role in 2010; on 29 April 2009 Mrs. Celestina Massenzio was appointed head of internal controls.

Head of internal controls reports her activities to the members of the Board of Directors, top management, Internal Control Committee and to the Board of Statutory Auditors.

C. Organisation, management and control model pursuant to legislative decree 231/2001

The Board of Directors approved in November 2004, the “Ethic Code” representing an important step towards the constitution of a sound internal control system and transparency principles that guide the company’s internal and external activities, and outlining the fundamental principles necessary to guarantee legality, loyalty and correctness in conducting Reply’s relations.

In 2007 the project to adopt a new organization, management and control model pursuant to Legislative Decree 231/2001 (the Model) was put in place, in relation to the responsibilities of enterprises, in order to prevent the execution of illicit. The model was approved by the Board of Directors on 28 March 2008 and updated with the resolution of 13 March 2009 and 4 August 2011.

The Model adopted, starting from an accurate analysis of the company activities with the objective of identifying the potential activities at risk, is the set of general principles, rules of conduct, control instruments and organizational procedures, formation and informational activities and disciplinary system finalized at assuring, the prevention of offences.

The types of offences contemplated by Legislative Decree 231/2001 and that have been considered at risk for the Group, as outlined in the attached Model, are the following:

- (i) relations with the Public Administration;
- (ii) enterprise obligations;
- (iii) privileged information;
- (iv) security, prevention, health and hygiene on the work site.
- (v) IT crimes and illegal use of personal data;
- (vi) Laundering crimes.
- (vii) Offences related to violation of copyright laws.

The Model was adopted during 2008 and updated in 2009 and 2011 by all the Italian Group companies.

The Organizational Model of Reply S.p.A is available on the company website (www.reply.eu – Investors – Corporate Governance).

The Model and the Code of Ethics have been distributed to all Group employees and collaborators through the company Intranet. The Code of Ethics is also supplied to newly hired employees of the Group.

The Board of Directors has nominated a Compliance Committee which has the duty to verify the correct functioning of the Model and to update it accordingly. The Compliance Committee refers to the Board of Directors and to the Internal Control Committee. The Compliance Committee comprises external members (Eng. Franco Gianolio) as Chairman, Lead Independent Director (Mr. Fausto Forti) and a member employed in the company (Mrs. Celestina Massenzio) that will hold office until the approval of December 31, 2011 financial statements.

The Italian Group companies have entrusted the function of the Compliance Committee to their Directing body, which performs the functions of compliance through resources within the Compliance Committee of the Parent Company, on the basis of specific agreements.

In 2011 the Compliance Committee met four (4) times and referred to the Board of Directors and to the Statutory Auditors in relation to their activities and the state of the art concerning the Model.

D. Independent audit firm

The Shareholders' General meeting held on 29 April 2010, approved the appointment of Reconta Ernst & Young S.p.A. as the Company's independent auditors for the nine-year period 2010-2018 which includes the audit of the separated financial statements, the annual consolidated financial statements and the half-year condensed consolidated financial statements.

E. Director in charge of drawing up the financial statements

The Board of Directors on 29 April 2009, pursuant to 262/2005, has confirmed upon proposal of the Chief executive officer, in capacity of *Director in charge of drawing up the accounting and legal documents*, with approval of the Board of Statutory Auditors, Mr. Giuseppe Veneziano in view of qualified experience in the last three-year period. On 3 July 2009 a specific proxy was conferred in order to enable him to execute his powers.

Pursuant to article 24 of the Company by-laws, the Director must set up adequate administration and accounting procedures for the drawing up of the statutory financial statements, the consolidated statements and any other financial communication.

The Director, together with the other executive organs, must undersign an attestation, annexed to every financial statement and to any other financial communication in accordance to specific laws and regulations.

With reference to his tasks, the *Director in charge of drawing up the accounting and legal documents* has the same responsibilities and liabilities as those foreseen by law for the Directors, with the exception of those executed under work relations with the company.

12. Director's interests and transactions with related parties

In compliance with the Corporate Governance Code transactions carried out with related parties are preformed in a transparent manner and meet criteria of substantial and procedural fairness. Directors who have an interest, even if only potential or indirect with related parties shall:

- promptly inform the board in detail of the existence of the interest and of the related circumstances;
- abandon the board meeting when the issue is discussed.

The Board of Directors can however, under certain circumstances, allow the directors to participate and/or vote.

Since June 15, 2006 the Company has adopted a Regulation on Significant Operations with related parties.

In accordance to Consob regulation 17221 of 12 March 2010, the Company has adopted, effective 1 January 2011, procedures for transaction with related parties (the "Procedures") to ensure full transparency and substantial and procedural fairness in transactions with related parties and is available on the Company website www.reply.eu – Investors – Corporate Governance).

Recalling the definition of Consob Regulation no. 17221 of 12 March 2010, the Procedures establish "significant transactions" those requiring the prior approval of the Board of Directors, with the exception of those subject to law and/or the General Shareholders, "minor transactions" (unless pertaining to the residual category of non significant transactions) those that can be delegated to one or more member of the Board and "exempt transactions" those falling under the types disciplined by Consob regulations.

The Company has exercised the option to apply the procedures related to minor transactions to significant transactions, as it is a smaller sized company.

Under a procedural perspective, when a transaction with a related party is deemed probable, the Designated Director (that is the Director in charge of supervising the internal control system) timely provides the Committee (identified within the Internal Control Committee) written communication with a brief description of the transaction.

If the transaction falls under the significant transaction category and the Designated Director has proposed the application of the specific procedures, the Committee must express a motivated and binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction. Should the Committee express an unfavorable opinion, the Board of Directors could choose to submit to the General Shareholders' Meeting the decision concerning the transaction, in this case, the transaction cannot be approved unless the majority of the non Related Shareholders express a favorable vote, provided that they represent at least 10% of the voting share capital.

If the transaction falls under the minor transaction category, the Committee submits to the director its non binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction prior to the presentation of the contractual proposal, or, in case the decision is taken by the Board of Directors of the Company, at least three days prior to the board's meeting.

If the transaction falls under the General Shareholders' competencies or must be authorized by the latter, in addition to what has been described above, depending on whether the transaction is significant or minor, the Committee must express a motivated opinion in relation to the Company's interest in carrying out the transaction along with the convenience and substantial correctness of the terms and conditions of the transaction when the Board of Directors is called to approve the motion to submit to the General Shareholders' Meeting the decision.

If, in relation to a significant operation the motion to submit to the General Shareholders' Meeting the decision is approved by the Board of Directors despite an unfavorable opinion expressed by the Committee, the transaction – having respected the constituent and voting quorum requested for the adoption of ordinary and extraordinary

resolutions by the General Shareholders' Meeting – cannot be approved unless the majority of the non Related Shareholders express a favorable vote, provided that they represent at least 10% of the voting share capital. In case there is an urgency, the operation, as long it is not competence of the Shareholders and does not need their authorization, may be concluded in derogation of the procedures as long as all mandatory information has been provided to the public and under the condition that:

- Should the transaction fall under the Chief financial officer's powers, the Chairman of the Board of Directors must be informed the reasons of the urgency prior to the transaction being executed;
- The transactions are subsequently approved in a following Shareholders' meeting;
- The body convening the Shareholders' meeting must draw up a report with adequate motivations of the urgency and the Board of Statutory Auditors must refer to the Shareholders their opinion in relation to the reasonableness of the urgency;
- The report and valuation of the previous point must be made available to the public at least 21 days prior to the Annual Shareholders' meeting and in accordance to the means set out by Consob;
- Within one day following the Annual Shareholders' meeting, the Company must make available to the public the information regarding the results of the voting.

The Designated Director, on at least a quarterly basis, submits to the Committee, to the Board of Directors and to the Board of Statutory Auditors, a detailed report concerning transactions previously approved by the Board of Directors and/or carried out by the Chief Executive Officer.

Head of internal controls periodically carries out – in any case at least on a half-year basis – control activities over the fulfillment of obligations of the Procedures herein by the competent company departments and refers to the Committee and Board of Statutory Auditors.

During 2011, the Committee for transaction with related parties, identified within the Internal Control Committee, met one time to resolve on a minor transaction in relation to which the Committee deemed the existence of an interest of the Company to execute the transaction and expressed a favorable opinion in regards to the convenience and correctness of the related conditions.

13. Appointment of Statutory Auditors

The appointment and the substitution of statutory auditors is disciplined by Article 23 (Statutory Auditors) of the Company by-laws, and can be consulted on the company's internet website (www.reply.eu – Investors – Corporate Governance).

Article 23 of the Company by-laws has been amended by the Board of Directors' resolution on 26 October 2010 and the resolution of the Extraordinary Shareholders' meeting on 28 April 2011 to encompass the mandatory amendments following the coming into force of Legislative Decree no.27/2010 (exercise of some rights pertaining to Shareholders of listed companies).

Article 23 of the bylaws regulates, among other, the following:

- the lists of the candidates for the office of Statutory Auditor must be deposited at the Company's offices at least twenty-five days prior to the date set for the Shareholders' Meeting on first call; at least twenty-one days prior to the date set for the Shareholders' Meeting, the lists, together with the requested information, must be made available to the public;
- only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or any other minimum number requested by other laws and regulations; should at the expiry date stated above, only one list be presented, or only lists presented by shareholders that are inter-related in accordance to the regulations in force, lists can be presented up to five days following such date. In this case the above threshold is reduced by half.
- the voting mechanism foresees that the votes obtained from each list, with separate sections for Statutory Auditors and Alternate Auditors, will be divided by one, two, three for the Statutory Auditors and one, two for the Alternate Auditors, according to the progressive number of auditors to be appointed. The ratios will then be progressively assigned to the candidates on each list and ranked in descending order. The candidates with the highest ratio will be appointed, being that one Statutory Auditor and Alternate Auditor have been elected from the second list according to the number of votes obtained and must not be connected, neither indirectly, to the Shareholders which presented or voted the list which obtained the highest number of votes;
- if candidates obtain the same percentage of votes, the candidate will be selected from the list which has not elected a Statutory Auditor, whereas if all the lists have elected the same number of candidates, the Statutory Auditor will be chosen from the list which obtained the most votes. If the result in percentage and vote is the same the Shareholders vote once more and the candidate with the highest percentage will be appointed;
- the office of President of the Board of Statutory Auditors is held by the statutory auditor which was elected from the minority list that obtained the highest number of votes.
- in the event of a statutory auditor being replaced, the first alternate auditor belonging to the same list as the auditor will take his place. Where this is not possible, the alternate auditor will be replaced by the non elected candidate having the highest percentage of votes among the list that the leaving auditor has chosen.

14. Board of Statutory Auditors

The Board of Statutory Auditors is made up of three standing auditors and two alternate auditors and the Board is comprised as follows:

- Prof. Cristiano Antonelli	President
- Dott.ssa Ada Alessandra Garzino Demo	Statutory auditor
- Dott. Paolo Claretta – Assandri	Statutory auditor
- Dott. Alessandro Mikla	Alternate auditor
- Dott. Alessandro Pedretti	Alternate auditor

The Board of statutory auditors was appointed during the Shareholders' meeting on 29 April 2009 based on the list which was presented by the majority shareholders of Alika S.r.l., the office expires on December 31, 2011 with the approval of the financial statements.

The table below summarizes the Board of Statutory Auditors with the main information requested in accordance to Article 144-decies of the Consob Regulation of Issuers.

Name	Office held	Period of office	List(*)	Independent from Code	% of attendance in meetings	Other offices held ⁽¹⁾
Cristiano Antonelli	President	From 29.04.09 to 31.12.11	M	X	100%	2
Ada Alessandra Garzino Demo	Statutory auditor	From 29.04.09 to 31.12.11	M	X	100%	17
Paolo Claretta-Assandri	Statutory auditor	From 29.04.09 to 31.12.11	M	X	100%	33
Alessandro Mikla	Alternate auditor	From 29.04.09 To 31.12.11	M	X	NA	NA
Alessandro Pedretti	Alternate auditor	From 29.04.09 To 31.12.11	M	X	NA	NA

Legend:

M/m: M/list majority list, m/list minority list

(1) A list of all positions held has been annexed, according to art 144-quinquies decies of RE, to the Statutory Auditors' report in compliance to art. 153 paragraph 1 of the TUF.

(*) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favorable votes equal to 56.178% of the share capital.

Following is a brief description of personal and professional characteristics of the members of the of the Statutory Auditors of the Company:

Cristiano Antonelli President of the Board of Statutory Auditors

Mr. Cristiano Antonelli is a professor of political economics, Director of the Economic Department Salvatore Cognetti de Martiis, and Director of the Bachelor degree in Institution and Business Communication at the University of Turin, director of BRICK (Bureau of Research in Innovation Complexity and Knowledge) at Carlo Alberto College. He is the editor of the 'Economics of Innovation and New Technology' magazine and along with Bo Carlsson edits the column 'Economics of Science Technology and Innovation' of Springer. He is member of the Board of *Fondazione CRT*, *Pirelli&C* and President of the Statutory Board of *Transalpina di Energia*. His education background includes a Master in Economics at ISTAO of Ancona. During 1978 and 1979 he was a junior economist of the Science and Technology department of the OCSE and Rockefeller Fellow in the Sloan School of Massachusetts Institute of Technology from 1983 to 1985. He has taught in the universities of Sassari, Calabria, the Polytechnic of Milan and in the universities of Manchester, Nice, Lione, Lumiere, Aix-en-Provence, Paris XIII and Paris XII. During the academic year 1999-2000 he taught in the university of Dauphine Paris IX.

In the past Mr. Antonelli was: member of the Board of Directors of Telecom Italia in the two-year period 1998-99 and of Pirelli&C for the three-year period 2008-2011; member of the Science Committee of Confindustria in 1999 and 2000; Techno-scientific Committee of ENEA from 2000-2004. Furthermore he held office as Chairman of ICER (International Center for Economic Research from 2008 to 2011 and was Vice-president of the International Schumpeter Society from 1999 to 2004.

Ada Alessandra Garzino Demo Statutory Auditor

Mrs. Ada Alessandra Garzino Demo graduated in Economics at the University of Turin in 1987. She is registered in the Registry of Qualified Accountants and Bookkeepers since 1991 and Registry of Auditors since 1995. She works as a Chartered accountant and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals. Mrs. Ada Alessandra Garzino Demo is specialized in Telecommunication tax matters and fiscal planning. She covers the role of both statutory auditor and president in other companies.

Paolo Claretta Assandri Statutory Auditor

Mr. Paolo Claretta Assandri received a graduate degree in Economics and Commerce at the University of Turin in 1978, is registered in the Registry of Qualified Accountants and Bookkeepers since 1981 and Registry of Auditors since 1983. He works as a Chartered accountant for *Studio Zunino Associazione Professionale* and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals.

In 2011 the Statutory Auditors met six (6) times.

The compensations paid to the Statutory Auditors is disclosed in the Report on Remuneration pursuant to Article 23-ter of TUF.

Legislative decree 39/2010 assigns the Board of Statutory Auditors the role of committee for internal control and audit responsible for supervising: (i) the financial disclosure process, (ii) the effectiveness of the internal control, internal audit and risk management systems, (iii) the audit of the annual separate and consolidated accounts, (iv) the independence of the independent auditors.

15. Relations with Shareholders

The Board of Directors ensures that a person in charge of relations with investors is identified and periodically assesses the need to constitute a structural function within the company.

Mr. Riccardo Lodigiani has been appointed, under resolution made 29 April 2009 the person in charge of relations with Institutional Investors and with Shareholders (*Investor relator*) in order to create an ongoing dialogue with the market.

The abovementioned person must exclusively and periodically inform the Chairman and the designated member of the board of his activities.

On the Company's website (www.reply.eu, Investors – Corporate Governance), the following documents are available:

- Company by-laws;
- Annual calendar of company events;
- Organizational Model pursuant ex art. 6 Legislative Decree no. 231/01 and the ethic Code;
- Code of conduct for internal dealing;
- Corporate Governance Code;
- Report on Remuneration;
- Procedures on Related party transactions.

16. General Shareholders' meetings

The company encourages and facilitates the participation at the Annual General Meetings providing any necessary information or explanation in order to guarantee a smooth and conscientious participation of the Shareholders.

The Company, with the resolution by the Board of Directors on 26 October 2010 and by the Extraordinary Shareholders' meeting on 28 April 2011, has introduced the amendments to the Company's by-laws required by Legislative Decree no. 27 of 27 January 2010 enacting the Community Directive no. 2997/36/EC in relation to the Shareholders' rights in listed companies (Record date).

Amended article 12 of the Company by-laws establishes that shareholders are entitled to intervene during the General Shareholders' Meeting if they are shareholders at the end of the seventh accounting day of open markets preceding the General Shareholders' Meeting and have provided written notice pursuant to art. 2370, paragraph two of the Italian Civil Code.

The Company can designate for each general meeting one or two persons to whom confer the voting rights with specific instructions for one or more proposals on the agenda. The designated persons, the means and terms of the conferred delegation are communicated on the notice calling the general meeting.

The company does not deem necessary the adoption of an Annual General Meeting legislation (aimed at regulating the running of the meetings), as the Company's by-laws provide adequate provisions concerning the matter.

17. Other Corporate Governance practices

System of company's operational procedures – in order to properly apply the company's regulations and to reduce risks connected to the fulfillment of company objectives, Reply S.p.A. has adopted a set of procedures that regulate internal processes, ruling the activities carried out by the single functions and relations with other departments; please refer to what has been described at the paragraph Internal Control System.

18. Changes subsequent to the year end close

Following the year end close no significant changes have been made to the structure of the Corporate Governance, other than what has been disclosed above.

As mentioned in the section Remuneration to Directors, in March 2012 the Company has adapted the recommendations contained in Article 7 of the Ethic Code of March 2006 and later modified in March 2010.

Turin, March 15, 2012

For the Board of Directors
The Chairman
Mario Rizzante