



**Reply S.p.A.**  
Report on Remuneration

Pursuant to art. 123-ter CFL

## 1. Introduction

The following document (The Annual Report on Remuneration, the “Report”) has been drawn up according to article 123-ter of the Legislative Decree no. 58/1998 (for hereon “TUF”) and article 7 of the Corporate Governance Code promoted by the Borsa Italiana, from the 2010 version approved by the Corporate Governance Committee. The Report was approved by the Board of Directors on 15 March 2012.

The Report describes the Remuneration policy adopted by Reply S.p.A (hereon “Reply”) with reference to remuneration to (i) members of the Board of Directors and in particular to Executive Directors and Directors invested with special charges (ii) Directors with Strategic Responsibility.

## 2. Section I

### 2.1. Drafting, approval and implementation of the Remuneration Policy

The corporate bodies and persons responsible for drafting, approving and implementing the remuneration Policy are the following:

- Shareholders’ Meeting;
- The Board of Directors;
- Remuneration Committee;
- Executive Directors;
- Statutory Auditors.

#### Shareholders’ Meeting

With regard to remuneration, the Shareholders’ Meeting:

- establishes the remuneration to each member of the Board of Directors and Executive Directors, if elected in accordance to Article 2364, paragraph 1, no. 3 of the Civil Code; and shall establish, a total amount to all the Board. This amount is established in a concrete manner as to attract, retain and motivate the staff invested with high professional skills necessary to manage the Company with success;
- determines the participation in the profit of the present Company, dependent on the Gross consolidated margin, to directors invested with special charges in accordance to the Company bylaw;
- expresses itself annually, with non-binding vote, on the Annual Report on Remuneration approved by the Board of Directors which was proposed by the Remuneration Committee;
- receives adequate information with regards to the remuneration policy;
- resolves on the remuneration plans based on the allocation of shares or financial instruments to Directors, and employees, including key managers with strategic responsibilities, according to article 114- bis Tuf.

#### Board of Directors

The Board of Directors:

- establishes within the Board a Remuneration committee. One member shall have adequate knowledge and experience with regards to financial and remuneration policy; the persons competence is evaluated by the Board when he/she is elected;

- defines, with proposals made by the Remuneration Committee, the remuneration policy of the members of the Board. The remuneration policy defines guidelines which all company members involved must follow as to determine the remuneration of executive directors, directors invested with special charges and directors with strategic responsibilities. Such guidelines are illustrated in the present document;
- approves the Annual Report on Remuneration which shall be submitted to the General Shareholders' Meeting;
- determines the remuneration of Executive Directors and Directors invested with special charges, based on the guidelines of the Remuneration Policy and upon consultancy of the Statutory Auditors; draws up, together with the Remuneration Committee's proposal, the remuneration plans based on the allocation of shares or other financial instruments and submits it to the Shareholders' for approval in accordance to Article 114-bis Tuf;
- carries out the Remuneration plans based on shares or other financial instruments delegated by the Shareholders' meeting.

#### **Remuneration Committee**

Remuneration Committee:

- makes proposals and advises the Board of Directors in relation to the remuneration to Executive Directors and other directors with special charges, and furthermore advises on the identification and fixing of adequate performance objectives that enable the calculation of the variable components of the compensation;
- makes proposals to the Board of directors on the remuneration policy;
- assists the Board of directors in drawing up and implementing remuneration plans based on shares or other financial instruments;
- periodically evaluates the adequacy and correct application of the remuneration policy, making use of information provided by the Executive Directors when the evaluation is referred to a Director with strategic responsibility;
- provides the Board of Directors opinions and proposals about remuneration;
- monitors implementation of the decisions adopted by the Board of Directors regarding remuneration, evaluating that the performance target has been achieved;
- refers to the Shareholders' the methods of the Committee's functions; the presence of the Chairman of the Committee or another member of the Committee is recommended at the Shareholders' meeting;
- if it is deemed necessary or appropriate an external consultant with expertise in remuneration policy can be utilized to carry out such task; the independent expert must not carry out any form of activity in favor of Reply Human resource department, shareholders', executive directors and directors with strategic responsibilities. The external consultant's independence is verified by the Remuneration Committee before being appointed.

On 29 April 2009 the Board of Directors has internally constituted a Remuneration Committee. At the date of the present Report, the Remuneration committee is composed by:

- Fausto Forti, Chairman of the Committee and Lead Independent Director;
- Marco Mezzalama, Independent Director;
- Carlo Alberto Carnevale Maffé, Independent director.

The Chairman of the remuneration Committee has gained adequate knowledge and experience on the subject remuneration policy in the light of his experience and responsibility in companies of significant dimension.

In 2011 the Remuneration Committee has not relied on an independent expert for drawing up the remuneration policy.

For further information regarding operation and the activities of the Remuneration Committee in 2011 see the Report on Corporate Governance and Ownership Structure 2011.

### Executive Directors

Executive Directors:

- provide the Remuneration Committee useful information so to evaluate the adequacy and concrete application of the Policy, with particular regard to Directors with strategic responsibilities;
- establish the remuneration to Directors with Strategic Responsibilities based on the guidelines set out by the Remuneration Policy.

### The Board of Statutory Auditors

The Board of Statutory Auditors has the task of providing opinion in relation to the Remuneration Policy; in particular the Board provides opinions on the remuneration of Executive Directors and Directors invested with special charges; in expressing their opinion the Board verifies the consistency of the proposals with the Remuneration Policy.

## 2.2. Remuneration Policies

The Remuneration Policy has been drawn up- with reference to fiscal year 2012- by the Remuneration Committee on 15 March 2012 and consequently approved by the Board of Directors. The Remuneration Policy is intended to ensure the Company has the ability to attract, retain and motivate individuals who have professional skills and experience to pursue the achievement of the Company's objectives. With that intent, the Remuneration Policy is defined to align the interests of the Company's management with those of the shareholders through the creation of a strong link between rewards and individual performance.

## 2.3. Remuneration of Directors

In 2011 the members of the Board were as follows:

Mario Rizzante	Chairman
Tatiana Rizzante	Chief Executive officer
Sergio Ingegnatti	Chief Executive officer <sup>1</sup>
Oscar Pepino	Executive Director
Claudio Bombonato	Executive Director
Fausto Forti	Non Executive Director, Independent and Lead Independent Director
Marco Mezzalama	Non Executive Director and Independent
Carlo Alberto Carnevale Maffè	Non Executive Director and Independent

In 2011 remuneration of Directors not invested with operational proxies is as follows:

- 20,000 Euros for each member as resolved by the Shareholders' meeting of 29 April 2009.
- In 2011 the remuneration of members of the Internal Control Committee- with reference to Mr. Fausto Forti- is as follows:
- 1,000 Euros for each participation to the Internal Control Committee meeting.

A specific remuneration component in relation to the participation in the Committee meetings or to the execution of specific engagements not related to operational proxies is not foreseen, being the beneficiaries of the compensation only the Executive Directors that are also members of the Committee, the compensation to the Directors already takes into consideration the commitment deriving from the participation in the Committee meetings.

In line with best practice Non- Executive Directors are not eligible for any form of compensation tied to the achievement of financial targets.

In line with best practice, the Company has an insurance policy on third party liability for damage inflicted by the Board of Directors (apart from the General Manager, but also Directors with Strategic Responsibilities) in performing their duties, with the aim of safeguarding the beneficiaries and the Company from any connected indemnity, excluding cases of malice or gross negligence.

<sup>1</sup> Deceased on January 22, 2011.

With the approval of the Financial Statements of 2011 the Shareholders meeting will resolve the renewal of the Board of Directors and the annual remuneration of the Non-executive directors for the next three years.

#### 2.4. Remuneration of Executive Directors

Under a legal and statutory perspective, remuneration to the Executive Directors of the Company are established according to:

- Article 2389 paragraph 3 of the Civil Code – “the remuneration of Directors invested with special charges in accordance to the Company bylaw is determined by the Board of Directors after consultation with the Board of Statutory Auditors”;
- Article 22 of the Company bylaw Paragraph 2 –“Directors invested with special charges have the right to the participation in the profit of the Company, dependent on the consolidated Gross margin, which is resolved by the Annual General Shareholders’ Meeting approving the annual financial statements.

Remuneration policy, the remuneration of Executive Directors is composed by the following elements:

- **Gross annual fixed component;**
- **Variable component;** linked to objectives- having general characteristics- predetermined, measurable and connected to value creation for shareholders over the medium- long term, and are not inferior to 12 months.

In consideration of the nature of the activities carried out, a twelve month period allows to determine targets adequately consistent with the market trends in which the company operates and consistent with a prudent risk management policy.

The payment of the variable compensation is deferred in respect of when it has matured of approximately four to five months which enables a proper risk management within the Remuneration Policy of the Company.

The Board of Directors keeps in mind two factors when determining remuneration and its single components (i) the specific proxy that each Executive Directors holds and/or (ii) the function and the role concretely carried out by each executive Director within the Company, thus ensuring that the variable component is coherent to the tasks assigned.

**Under an accounting perspective,** the remuneration of the Executive Directors is posted to the financial statements in the year in which the services are rendered both for the fixed price component and the variable component although payment is made through the profit participation in accordance to article 22 of the Company’s by-laws. This is consistent with the International Reporting Standards in as much as the profit participation is considered as part of the remuneration and therefore is accrued for in the year in which the service is rendered, for this reason, the proposal to attribute the profit share is part of the Board of Directors resolutions together with the approval of the draft of the Annual financial statements.

**With reference to 2011:**

- During the meeting of 15 March 2011 The Board of Directors resolved the fixed component to the Executive Directors after consultancy with the Remuneration Committee;
- during the meeting of 15 March 2012 the Board of Directors, and with the proposals made by the Remuneration Committee, determined the variable component to the Executive Directors for 2011 and as a participation in the profits of present Company in accordance to Article 22 of the Company bylaws;
- on 27 April 2012 the Shareholders’ meeting shall be called to approve the proposal regarding the variable component of remuneration as described.

With reference to 2012, remuneration is based on the following criteria:

- the consistency between the elements as to determine remuneration and the objectives;
- the correct balance between the fixed and variable component based on the strategic objectives and risk management policy of the Company, keeping in mind the field in which it operates and the characteristics of the activities concretely carried out;
- the weight of the variable component is approximately 60% of the whole remuneration package, being understood that the fixed component must be sufficient to compensate the performance of Executive Directors in case the variable component is not paid out when performance objectives established by the Board of Directors are not achieved;
- pre-established performance targets, or rather financial results or other specific objectives linked to the payment of a variable component, are concretely measurable and correlated to value creation for shareholders over the medium to long term, fixed to 12 month period;
- the relationship between the variance of the results achieved is guaranteed through scaling of the variable compensation from a minimum (usually zero) and a maximum related to a scale of objectives;
- Several month deferral of payment of the variable component with respect to when the compensation matures in order to enable a proper risk management of the company within the Remuneration Policy requirements.

The Remuneration committee verifies – on a yearly basis- the achievement of the performance objectives established for the previous year and makes its recommendation to the Board of Directors- On such basis, the Board of Directors resolves on the variable component of Executive Directors.

The criteria utilized in defining remuneration to Executive directors for 2012 was established by the Board of Directors and is as follows:

- Accrual is subordinated to the achievement of one of the accessible terms represented by the capacity of the profits of the Company;
- fixing of the annual margin objective represented by the Consolidated Gross Operating Margin as shown in the consolidated financial statements, with the identification of a minimum threshold and maximum threshold;
- fixing of further objectives for the Executive Directors invested with special charges in the Company;
- quantification of the bonus up to a pre-established maximum amount linked to the achievement of assigned objectives;
- for the variable component, assigning to Directors invested with special charges, a participation in the profits of the Company correlated to the Consolidated Gross Operating Margin in accordance to Article 22 of the Company bylaws.

The Remuneration Committee and the Board of Directors can evaluate and approve any other compensation to the Executive Directors for any other engagement conferred in the Board of Directors of the subsidiary companies.

The Executive Directors can also be granted other types of benefits typical of the office held and recognized within the Group to Directors having strategic responsibilities and/or managers (i.e. company car).

At present post termination treatment has not been established as it is considered having analogous characteristics to severance indemnity ex Article 2120 of the Civil Code which is recognized to all Italian managers of the Group.

The Board of Directors can propose to the Shareholders the adoption of the incentive mechanisms through the attribution of financial options. Under this aspect, the General Shareholders' meeting approved on June 14, 2007 a stock option plan in favor of Directors, employees and managers of Reply and its subsidiaries that have a stra-

tegic role in achieving the overall goals of the group; at present, such plan to be executed through the a gratuity grant of ordinary shares is represented by ordinary shares of the Company and or the issuing of new shares in accordance to article 2349 of the Civil Cod, has not been activated.

The Company deems that the Remuneration Policy is consistent with the pursuit of the long-term interests of the company and its risk management.

## **2.5. General Managers and Directors with Strategic Responsibility**

As at 15 March 2012 the role of General Manager is non existent in the Company's organization.

Directors with Strategic Responsibility at 15 March 2012 are five.

Remuneration to Directors with Strategic Responsibilities is composed by a fixed and variable component and established with the same principles and criteria described above for the executive Directors. For further information see point 2.4 Remuneration to Executive Directors.

In accordance to ex Article 2120 of the Civil Code, Directors with Strategic Responsibilities have the right to severance indemnity (TFR) ex art. 2120 of the Italian Civil Code. Furthermore some Directors who cover strategic positions in subsidiaries have also been assigned post termination treatment determined in the same manner as severance indemnity.

The remuneration to the Director in charge of drawing up the accounting documents and the Internal Audit manager are in line with the tasks assigned.

## **2.6. Cessation of office or termination of employment**

At the date of the present Report no allowance has been set in event of cessation of office or termination of employment on behalf of Executives and Directors with Strategic Responsibilities apart from what is provided by the ex law and/or/ the Collective labor agreement in case the persons have a dependent work contract.

## 3. Section Two

## 3.1. Remuneration paid to members of the Board of Directors, Statutory Auditors, General Managers and Executives with Strategic Responsibilities

Remuneration paid to members of the Board of Directors, Statutory and other Executives with Strategic Responsibilities (thousand Euros)

(thousand Euros)

Name and Surname	Office held in Reply S.p.A.	Period of office	Term of office (*)	Fixed remuneration
Mario Rizzante	Chairman and Chief executive officer	1/01/2011-31/12/2011	31/12/2011	460 <sup>(1)</sup>
	Remuneration paid by subsidiaries			120
	Total			580
Tatiana Rizzante	Chief executive officer	1/01/2011-31/12/2011	31/12/2011	205 <sup>(2)</sup>
	Remuneration paid by subsidiaries			280
	Total			485
Sergio Ingegnatti	Chief executive officer	1/01/2011-22/01/2011	22/01/2011 (**)	20 <sup>(3)</sup>
	Remuneration paid by subsidiaries			3
	Total			23
Oscar Pepino	Executive Director	1/01/2011-31/12/2011	31/12/2011	295
Claudio Bombonato	Executive Director	1/01/2011-31/12/2011	31/12/2011	400
Fausto Forti	Non executive director and Independent	1/01/2011-31/12/2011	31/12/2011	24 <sup>(4)</sup>
C. A. Carnevale Maffé	Non executive director and Independent	1/01/2011-31/12/2011	31/12/2011	20
Marco Mezzalama	Non executive director and Independent	1/01/2011-31/12/2011	31/12/2011	20
Cristiano Antonelli	Chairman of the Board of Statutory Auditors	1/01/2011-31/12/2011	31/12/2011	44
	Statutory Auditors	1/01/2011-31/12/2011	31/12/2011	30
	Remuneration paid by subsidiaries			2 <sup>(5)</sup>
A.A. Garzino Demo	Total			32
Paolo Claretta-Assandri	Statutory Auditor	1/01/2011-31/12/2011	31/12/2011	30
Directors with Strategic Responsibility	Remuneration paid by Reply S.p.A.			160
	Remuneration paid by subsidiaries			1,213
	Total			1,373

To be noted that where no indication has been made, no compensation has been given to Reply S.p.A. subsidiaries.

(\*) Board of Directors will hold office until the Shareholders' meeting that will approve the December 31, 2011 financial statements.

(\*\*) Passed away on January 22, 2011.

Following a brief description of the emoluments of the individual operating Director:

(1) Gross emolument for the office of Chairman and Chief executive officer of the Board of Directors in Reply S.p.A.;

Remuneration for the participation to internal committees	Non equity variable remuneration		Non monetary benefits	Other remuneration	Total	Fair value of the equity remuneration	Post mandate Indemnity
	Bonus and other incentives	Profit Sharing					
-	-	400	-	-	860	-	-
-	-	-	-	-	120	-	-
-	-	400	-	-	980	-	-
-	-	400	-	-	605	-	-
-	-	-	-	-	280	-	-
-	-	400	-	-	885	-	-
-	-	-	-	-	20	-	-
-	-	-	-	-	3	-	-
-	-	-	-	-	23	-	-
-	-	400	-	-	695	-	-
-	-	288	-	-	688	-	-
-	-	-	-	-	24	-	-
-	-	-	-	-	20	-	-
-	-	-	-	-	20	-	-
-	-	-	-	-	44	-	-
-	-	-	-	-	30	-	-
-	-	-	-	-	2	-	-
-	-	-	-	-	32	-	-
-	-	-	-	-	30	-	-
-	-	-	-	-	160	-	-
-	-	2,000	-	-	3,213	-	-
-	-	2,000	-	-	3,373	-	-

(2) Gross emolument for the office of Chief executive officer of the Board of Directors in Reply S.p.A.;

(3) Gross emolument for the office of C Chief executive officer of the Board of Directors in Reply S.p.A to 22/01/ 2011;

(4) Gross emolument for the office of Independent Directors in 2011 equal to 20 (Euro/1000); the residual amount is referred to the presence tokens in 2011 for the participation in the Internal control Committee meetings.

(5) Gross emolument for the office of Chairman of the Board of Statutory Auditors in 2011 in subsidiaries

### 3.2. Stock options granted to members of the Board of Directors and Executives with Strategic Responsibility (in Euros)

		Shareholders' meeting resolution. of 10/06/2004
First name and Surname	Office held in Reply S.p.A.	(1)
Tatiana Rizzante	Chief executive officer	Plan 2004
Directors with Strategic Responsibility		Plan 2004

- |                              |                                     |
|------------------------------|-------------------------------------|
| (1) Plan                     | (5) Number of options               |
| (2) Number of options        | (6) Average exercise price          |
| (3) Average exercise price   | (7) Possible exercise period        |
| (4) Possible exercise period | (8) Fair value on the granting date |

### 3.3. Shares held by members of the Board of Directors and Executives with Strategic Responsibility in companies with listed shares and its subsidiaries

Shares held by members of the Board of Directors

First name and Surname	Position held	Shares held	No. of shares held at 31/12/2010	No. Of shares bought	No. of shares sold	No. Of shares held at 31/12/2011
Mario Rizzante	Chairman and Chief Executive Officer	Reply S.p.A.	11,381	-	-	11,381
Tatiana Rizzante	Chief Executive Officer	Reply S.p.A.	15,734	-	-	15,734
Sergio Ingegnatti	Chief Executive Officer	Reply S.p.A.	10,100	-	10,100(*)	-
Oscar Pepino	Executive Director	Reply S.p.A.	13,710	-	-	13,710
Claudio Bombonato	Executive Director	Reply S.p.A.	27,500	-	-	27,500
Fausto Forti	Non - Executive Director and Independent	Reply S.p.A.	-	-	-	-
C. A. Carnevale Maffé	Non - Executive Director and Independent	Reply S.p.A.	-	-	-	-
Marco Mezzalama	Non - Executive Director and Independent	Reply S.p.A.	250	-	-	250

(\*) Shares held until the date of decease on 22/01/2011.

At the balance sheet date the following members of the Board of Directors indirectly hold shares in the Company:

- Messer Mario Rizzante and Oscar Pepino hold 51% and 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin;
- Alika S.r.l. holds no. 4,936,204 Reply S.p.A. shares, equivalent to 53.5214% of the Company's share capital.

#### Stock Options granted to Members of the Board of Directors and Key Management

Number of Directors having strategic responsibility	Company	No. shares held at 31/12/2010	No. options bought	No. options sold	No. shares held at 31/12/2011
5	Reply S.p.A.	722,783	-	1,920	720,863

Number of options 01/01/2011			Options assigned in 2011							Options exercised in 2011			Options expired in 2011	Total Options held at 31/12/2011	Options relating to the current financial year
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	
15,000	21.339	12/5/2009 -12/5/2014	-	-	-	-	-	-	-	-	-	-	15,000	-	
75,000	21.339	12/5/2009 -12/5/2014	-	-	-	-	-	-	-	-	-	-	75,000	-	

(9) Granting date

(10) Market price of the underlying shares at the granting date

(11) Number of options

(12) Average exercise price

(13) Market price of the underlying shares at the granting date

(14) Number of options

(15) Number of options

(16) Fair value

## Definitions

In the present document the definitions of the words in upper case is as follows:

“**Board**”: means all the Board members of Reply, whether Executive, Non- Executive, Independent, etc;

“**Executive Directors**”: means, in accordance to the criteria of the Corporate governance Code for Listed Companies:

- Directors of Reply who have been nominated as Chief Executive Directors of the Company or subsidiaries which has strategic importance;
- Members of the Reply Board of Directors with management duties in the Company or subsidiaries which has strategic importance;
- The Directors of Reply, who may also be the Chairman of the Company, holder of specific individual proxies or having a specific role in the development of the company strategies;

Other **Directors invested with special charges** means Directors who are assigned special charges (i.e. Chairman, Vice-Chairman), different from the Executive Directors;

**Executives with Strategic responsibilities** means those who have power and responsibility in – directly or indirectly- planning, managing and controlling the activities of the Company, in accordance to the Consob Regulation no. 17221/2010 regarding Related Parties.