



Reply S.p.A.

Report on Corporate Governance
and Proprietary Assets 2012

Approved by the Board of Directors on 14 March 2013

www.reply.eu

Pursuant to art.123 bis Legislative Decree no. 58/1998.

Report on Corporate Governance and ownership structure 2011

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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, updated in December 2011 (hereinafter "the Code").

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 and Risks Committee and a Remuneration and Appointments 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 Organisational and management Model pursuant to Article 6 of Legislative Decree no. 231/2011 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 14 March 2013 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 Italian Legislative Decree 58/1998) at 14 March 2013

A. Capital structure

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

The share capital fully paid and subscribed at 14 March 2013, amounts to 4,803,685.64 Euros, divided in 9,237,857 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 67,600.00 Euros following the exercise of stock options, with underlying Reply ordinary shares undersigned at established prices and existing at 31 December 2012, and not exercised to date, as already specified in Note 24 of the Financial Statements under paragraph "Stock options" and summarised in the following table:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2004	10/06/2004	12/05/2006	8	21.339	12/05/2009 – 12/05/2014	120,000
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 14 March 2013, 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.	53.4345	53.4345
	Rizzante Mario	0.1093	0.1093
	Total	53.5438	53.5438
BNY Mellon Service Kapitalanlage	BNY Mellon Service Kapitalanlage	5.2413	5.2413
Highclere International Investors Limited	Highclere International Small Companies Fund	3.5598	3.5598
Lodigiani Riccardo	Lodigiani Riccardo	2.1006	2.1006
Reply S.p.A.	Reply S.p.A.	2.5527	2.5527

D. Shares granting special rights

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

E. Employee shareholdings: mechanism 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. Agreement with shareholders

At present, the Company has the following lock-up agreements in compliance to art. 122 of Legislative Decree n. 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 Alike S.r.l., with headquarters in Torino Corso Francia no. 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% (fifty-one percent) 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 Alike S.r.l., holding of Reply S.p.A.

H. Change of control clause and statutory rulings in public tender offers

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., has entered into the following loan agreements with Intesa San Paolo:

- On 31 March 2009 a contract was signed for 50 million Euros.
- On 25 September 2012 a contract was signed for 2,500,000 Euros.
- On 24 December 2012 a contract was signed for 1,500,000 million Euros.

The company has also signed on 15 September 2012 a loan agreement with Unicredit SpA for 15 million Euros. These contracts, 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 with Art. 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.

I. 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:

Resolution The General Shareholders' meeting	Proxy	Expiry date	Amount Proxy		Proxy executed	
			Euros	Shares	Euros	Shares
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 27 April 2012, have authorized the acquisition of treasury shares in accordance with 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 1,608,758 ordinary shares at 0.52 Euros, corresponding to 17.4432% 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 27 April 2012 to 27 October 2013, in substitution of the previous authorization resolved by the Shareholders' meeting of 28 April 2011;

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;

authorisation to sell: 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 235,813 treasury shares.

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 pursuant to art. 2441 paragraph 4, 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 new shares will be issued separately against payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.

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. in as much 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 with art. 2497 – bis of the Italian Civil Code.

4. Compliance (ex Art. 123-bis, para 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

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).

Art. 16 of the Company's by-laws has been revised under the General Meeting's resolution of 14 June 2007, in order to comply with 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 26 October 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 with 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 the case where 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 with art. 148, paragraph 3, of Legislative Decree 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 nine (9) Directors of which six (6) Executive:

- Mr. Mario Rizzante Chairman and Chief Executive Officer
- Ms. Tatiana Rizzante Chief Executive Officer
- Mr. Oscar Pepino Executive Director
- Mr. Claudio Bombonato Executive Director
- Mr. Daniele Angelucci Executive Director
- Mr. Filippo Rizzante 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 the 27 April 2012 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 31 December 2014 Financial Statements.

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.

With regard to the application of the criterion of apportionment in relation to the election of Directors, pursuant to Art. 147 ter, paragraph 1 ter of the TUF, the law no. 120 of 2011 established that the above provisions shall apply from the first renewal of the Board one year from the date of entry into force of the above-mentioned law; such rules will apply to Reply to S.p.A. as from the renewal of the corporate bodies on the approval of the Financial Statements at 31 December 2014, upon the adoption of the necessary statutory changes.

The table below discloses the main information related to the Board of Directors in compliance with Article 144-duodecies issued by Consob

Name	Office	Board of Directors							Internal control and risks committee		Remuneration and Appointments committee		
		In office	L(**)	E	N.E	I. code	I. TUF	%	Other offices	Attendance	%	Attendance	%
Mario Rizzante	Chairman and Chief Executive Officer	From 1/1/12	M	X	-	-	-	100,00%	1	-	-	-	-
		To 31/12/14(*)											
Tatiana Rizzante	Chief Executive Officer	From 1/1/12	M	X	-	-	-	100,00%	2	-	-	-	-
		To 31/12/14(*)											
Oscar Pepino	Executive Director	From 1/1/12	M	X	-	-	-	100,00%	N/A	-	-	-	-
		To 31/12/14(*)											
Claudio Bombonato	Executive Director	From 1/1/12	M	X	-	-	-	83,33%	1	-	-	-	-
		To 31/12/14(*)											
Daniele Angelucci	Executive Director	From 27/04/12	M	X	-	-	-	100,00%	1	-	-	-	-
		To 31/12/14(*)						from appointment					
Filippo Rizzante	Executive Director	From 1/1/12	M	X	-	-	-	80,00%	1	-	-	-	-
		To 31/12/14(*)						from appointment					
Fausto Forti	Lead Independent Director	Dall'1/1/12	M		X	X	X	83,33%	1	X	100%	X	100%
		To 31/12/14(*)											
Marco Mezzalama	Non-Executive independent Director	From 1/1/12	M		X	X	X	66,67%	N/A	X	100%	X	100%
		To 31/12/14(*)											
Carlo Alberto Carnevale Maffé	Non-Executive independent Director	From 1/1/12	M		X	X	X	100,00%	1	X	100%	X	100%
		To 31/12/14(*)											
Number of meetings held in 2012		Meetings of the BoD.: 6							Meetings of the Internal control committee: 3		Meetings of the Remuneration and Appointments Committee: 2		

(*) in office until the Shareholders' meeting for the approval of 31 December 2014 Financial Statements
 (**) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous with votes in favour amounting to 52.21% of share capital.

Key:

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 endeavour: 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 centre 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 Sales & Marketing activities 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 graduated in Science Informatics at the University of Turin in 1977. In 1981 he founded Mesarteam S.p.A., a System Integration company fulfilling his management role from 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 fulfils the role of Chief Executive Officer with the task of Technical and Quality Director of the Reply Group. Mr. Pepino is currently in charge of the Reply Group Operations Office which runs the informatics system, quality management, the management of operational quarters, PM Academy and Cmmi; Safety at work and Privacy, supervision of the Internal Control System and tasks associated to this role in accordance with 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 a Doctorate in Philosophy in Aerospace Engineering from the Turin University, and also a 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 Supervisor overseeing Commercial Banking practices for a number of years. In 2006 he left McKinsey and was appointed European Senior Advisor for 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. At present he is a Member of the Board at Fonspa and at Whysol S.p.A, a financial holding company active in the energy sector.

Daniele Angelucci (Executive Director of Reply S.p.A.)

worked from 1976 to 1986 at the Centre of Study & Laboratories of Telecommunications (CSELT, now Telecom Italy Lab) as a researcher; From 1986 to 1995 he worked in Mesarteam S.p.A. fulfilling various roles including Technical Director of the Rome office, Head of Technical Software and then Technical Director of Turin. He joined Reply as a Senior Partner in 1996. In 1996 he became President and founding member of Cluster Reply, a group company focused on e-business solutions using Microsoft technology. From 2000 to 2002 he was Director of operations in the Turin area. In 2003 he became CEO of Santer S.p.A., a company specialised in the health market and local government. From 2006 to 2010 he was Chief Financial Officer of the German syskoplan AG. Since 2011 he has been Chief Financial Officer of Reply S.p.A.

Filippo Rizzante (Executive Director of Reply S.p.A.)

A computer engineering graduate from the Polytechnic University of Turin, whom has always been fascinated by new technologies. He began his career with Reply in 1999. In the early years, he worked within the Group mainly in consultancy and projects for the web division, focusing in particular on the development of B2B and B2C portals. In 2003 he held the position of Technical Manager of Technology Reply Rome, and then continued his career within YH Reply (now Whitehall Reply) as CEO. In 2006 Filippo became Executive Partner of the Reply Group, overseeing the Group companies that deal with Oracle technologies, Safety, Information Lifecycle Management, Web 2.0 and Open Source. Over the years his responsibilities within the Group grew and he assumed direct responsibility for various business lines, including Architecture and Technologies, Digital and Mobile Media – in addition to contributing to the success of the Reply offer in the context of Cloud Computing, Digital Media and Social Media for significant Italian and foreign clients. Since 2012, in the capacity of Reply CTO, he led the development of new offer elements associated with technological innovation and assumed Group responsibility for all partnerships.

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. he 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 graduate cum laude 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. He is a member of the Turin Science Academy. He is the author of more than 150 scientific publications. He also holds various positions at research institutions and/or organisations in the ICT sector.

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 teaches the Business Strategy course for the BA in International Economics and Management and the MAFED M.A.. He has taught the Media MBA course 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 collaborates on a regular basis with newspapers and national and international television such as CNCB International/Class CNCB and Bloomberg. Mr. Maffè is a member of Assodigitale scientific committee and the editorial review board of "Harvard Business Review Italy". He is a member of the Steering Committee "E-business Policies" of the European Commission DG Enterprise. He is independent Director of listed companies in the Technology, Media and Telecommunications segments, as well as industrial companies, for which he is Director of US and India branches. He is a strategic advisor for leading Italian and international companies He is economic advisor for the Marisa Bellisario Foundation and scientific Director at ABI Lab of the Innovation Award for Banking Services. He has published many articles, books and business cases and often has released interviews and comments for 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;
- Ms. 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 Fonspa Bank and a Director of Whysol S.p.A., a financial holding company active in the energy sector;
- Professor Marco Mezzalama is member of the Board of Directors of CSI Piemonte of San Paolo, CSP Innovazione in ICT and Consorzio Topix;
- Professor 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 with the Code:

- a) Examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it heads periodically monitoring its implementation; defines the corporate governance system and the structure of the group;
- b) Defines the nature and level of risk compatible with the issuer's strategic objectives;
- c) Evaluates 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 risk management;
- d) 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;
- e) Evaluates 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) Decides on operations carried out by the issuer and its subsidiaries when said operations have significant strategic, economic or financial relevance to such issuer; to this end, the board shall establish general criteria for identifying the transactions which might have a significant impact;
- g) At least once a year, it performs an evaluation of the work of the Board itself as well as of its committees including their size and composition, also taking into account elements such as the professional characteristics, (managerial) experience and general qualities of its members, including their length of time in office;
- h) Taking account of the outcome of the evaluation under point g), before a new Board is appointed, it advises shareholders with regard to the types of professionals it deems advisable to have represented on the Board;
- i) Provides information in the report on corporate governance: (1) on its composition of the board, indicating for each member the qualification (Executive, Non-Executive, or independent) the role within the Board, his or her main professional features and seniority as a member of the Board; (2) the methods of application of Art. 1 of the Code and, 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; (3) on the modalities of the evaluation process referred to under point g);
- j) In order to ensure the proper management of corporate information, adopted, on the proposal of the Chief Executive Officer or Chairman of the Board of Directors, a procedure for the internal management and external communication of documents and information concerning the issuer, with particular reference to privileged information.

In accordance with 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 in 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, the significant operations carried out by the company or its subsidiaries and with regards to operations that could be of potential conflict of interest.

During 2012 the Board of Directors met six (6) times and the average duration was approximately two hours (2).

The Board of Directors are scheduled to meet at least four (4) times in 2013. 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, four Executive Directors and has empowered the Chairman (who also fulfils the role of Chief Executive Officer) with the broadest operational delegations, in light of the resolutions passed on 27 April 2012.

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.

Ms. 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 labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour 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;
 - Negotiate and undersign contracts following the awarding of the bid;
 - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
 - Represent the Company in relation to all such matters, issuing the relevant powers of attorney.The main proxies empowered to the Executive Director, Mr. Oscar Pepino:
- 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;
 - Grant guarantees and sureties of up to a maximum of 1,000,000 Euros;
- 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;
 - Negotiate and undersign contracts following the awarding of the bid;
 - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
- 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 labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour 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, Mr. Claudio Bombonato, with the scope of supporting the Company in the development of its 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;

→ subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;

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.

Executive Director, 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 main proxies empowered to the Executive Director, Mr. Daniele Angelucci:

→ 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 1,000,000.00 Euros for operations from a liability side;

→ Sign rent and lease contracts for a maximum value of 1,000,000.00 Euros 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;

→ Grant guarantees, sureties in the limit of 5,000,000 Euros;

→ To sign insurance policies covering risks pertaining to its premises, as well as the products owned by or dealt in by the company, as well as automotive insurance policies and other insurance contracts all subject to a maximum limit of 500,000.00 Euros;

→ Request, accept and use bank credit in the short, medium and long term to a maximum of 10,000,000 Euros;

→ Sign factoring contracts, negotiating conditions, carry out any operation connected including the sale of receivables, the provision of guarantees, warrants for collection, discount operations and advance payments with commitment of shares all in the limit of 10,000,000 Euros;

→ 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;

- To employ, appoint and dismiss employees with annual gross salaries (including any supplemental compensation) of up to 100,000.00 Euros; to grant salary supplements to employees as a result of which the beneficiaries do not exceed a gross annual salary (including any supplemental compensation) of 100,000.00 Euros;
- Within the maximum spending limit of 300,000 Euros, retract from contracts with middle and senior managers, compromise the related controversies, representing the Company before the labour unions;
- 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;
 - Negotiate and undersign contracts following the awarding of the bid;
 - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
 - Represent the Company in relation to all such matters, issuing the relevant powers of attorney.

The main proxies empowered to the Executive Director, Mr. Filippo Rizzante:

- 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 1,000,000.00 Euros for each operation from an asset side and for operations from a liability side with Reply Group subjects and a value not greater than 150,000 Euros for each operation and from a liability side for subjects outside the Reply Group;
- 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 1,000,000.00 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;
 - Confer or receive the related mandate in the event of a temporary group enterprise participation;
 - Negotiate and undersign contracts following the awarding of the bid;
 - Subcontract to third parties within the law, the contracts awarded as well as signing subcontracts with companies, who have been awarded contracts;
- Undersign rent and lease contracts for no longer than a nine year period to a maximum of 150,000 Euros 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;
- Sign insurance policies covering risks pertaining to the premises where the company carries out its business, as well as the products owned by or dealt in by the company, as well as automotive insurance policies and other insurance contracts deemed to be necessary and expedient; all subject to a maximum limit of 50,000.00 Euros.
- Hire employees with annual salaries of up to 40,000 Euros, modify or retract from work contracts up to a maximum fee of 100,000 Euros and settle the related disputes, representing the Company in front of trades unions;

The Chairman, the Chief Executive Officers and the Executive Director, during the Board of Directors 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. and the Chairman have 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 members of the Board of Directors qualifying as being independent are:

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

The independent Directors constitute as a whole the Remuneration and Appointments Committee and the Internal Control and Risks Committee.

The same Independent Directors also qualify as, in the capacity of members of the Internal Control and Risks 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 with paragraph 3.C.1. of the 2011 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 and compensation for participation in committees recommended by the Code, 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 external 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 27 April 2012, also being the first meeting following its renewal on 14 March 2013, 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 accruing from 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 2012 it was not necessary for the independent Directors to convene in specific individual meetings as they periodically meet when the Internal Control and Risks Committee and Remuneration and Appointments 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; and cooperate with the chairman of the Board of Directors in order to ensure that Directors receive adequate information in good time; for this scope, should these circumstances occur, in accordance with article 2.C.3 of the Code, the role of Lead Independent Director is head by the Non-Executive and Independent Director, Mr. Fausto Forti.

6. Processing of confidential information

The Chairman and Chief Executive Officer, Mr. Mario Rizzante and the *Investor Relator*, Mr. Riccardo Lodigiani, handle the *processing* of internal and external communication of confidential company 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.

It is also acknowledged that, following the introduction in Italy of the so-called "*market abuse*" directive 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. ever since 1 January 2003, was abolished as of 1 April 2006 date in which the new Consob Regulation no. 11971/99 was implemented. In execution of the new regulation of 1 April 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 1 April 2006 following the Board of Directors' resolution of 31 March 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"; all in accordance with the regulations issued by Consob.

Executive Director, Mr. Daniel Angelucci, is the person responsible for the handling of confidential information. The complete version of the Corporate Governance Code is available on the Company's website (www.reply.eu – Investors – Corporate Governance).

Aside from the above, the Board of Directors of the Company has not, for the moment, adopted additional resolutions of adoption of procedures for the internal management and external communication of documents and information concerning the issuer.

7. Committees within the Board of Directors

The Board of Directors has set up consulting committees, The Internal Control and Risks Committee and the Remuneration and Appointments Committee (previously Remuneration Committee).

During 2012, the Board of Directors decided to set up an internal committee to propose candidates for appointment to the position of Director, identified by the Remuneration Committee. As of today no issues related to the appointment of Directors have been submitted to the Committee.

8. Remuneration Committee

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

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

In 2012 the Remuneration and Appointments Committee, in order to carry out its duties, met twice (2) with the presence of all members.

In 2013 one (1) meeting has been planned, and already held.

At present the Committee has not utilized external consultants.

In accordance with art. 6.C.6 of the Corporate Governance Code, no Director shall participate in meetings of the Remuneration and Appointments Committee in which proposals are submitted to the Board of Directors relating to his/her remuneration; meetings will be attended by the Chairman of the Board of Statutory Auditors.

9. Remuneration of Directors

With reference to what has been stated reference shall be made to the Annual Report on Remuneration published in accordance with 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 27 April 2012, upon nomination, and equal to 30,000.00 Euros gross of any withholding amounts foreseen by law.

Remuneration of Directors invested with special roles, was established by the Board of Directors in line with the Remuneration and Appointments Committee, upon proposal of the Committee, authorised by the Board of Statutory Auditors.

In compliance with 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 March 2012 the Company complied with the recommendations contained in Art. 7 of the Code of Conduct of March 2006, as amended in March 2010 (now categorised as art. 6, in the version of the Code of December 2011).

In compliance with Article 6.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 ever 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 31 December 2012.

10. Control and Risks Committee

Under Article 8.P.4 of the Code, the Board of Directors has internally constituted a Remuneration and Appointments Committee composed of Mr. Carlo Alberto Carnevale Maffè and Mr. Marco Mezzalama, Non-Executive and Independent Directors, and Mr. Fausto Forti, Lead Independent Director.

The Internal Control and Risks Committee

- Evaluates together with the Director responsible for the preparation of the company's accounting documents, the auditor, and the Board of Statutory Auditors, the correct utilisation of the accounting principles and, in the event of groups, their consistency for the purpose of the preparation of the consolidated balance sheet;
- Expresses opinion on specific aspects relating to the identification of the principal risks for the company;
- Examines the periodic reports relating to the evaluation of the system of internal control and risk management, and those of particular relevance prepared by the Internal Audit function;
- Monitors the independence, appropriateness, effectiveness and efficiency of the Internal Audit function;
- May ask the Internal Audit function to perform checks on specific operating areas, simultaneously notifying such request to the Chairman of 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 and risk management system.

The Chairman of the Board of Statutory Auditors or another auditor appointed by the aforementioned participates in the work of the Control and Risk Committee; a written report shall be prepared at the end of each meeting, which will include the Committee's proposals.

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

During 2012 the Internal Control and Risks Committee met three times (3) and once (1) in 2013. All members were present and examined the following:

- Revision of the Impairment Test policy – Impairment (IAS 36);
- The separate Financial Statements and the consolidated Financial Statements of 2012-2012, and half-year report of 2011;
- Update on activities in relation to Law no. 262/2005 (Legge sul Risparmio) and other related internal improvement projects;
- Update on the introduction of the Risk Management system.

With reference to the examination of issues related to the Financial Statements, the Committee requested the participation, as well as that of the Head of Internal Audit, also that of Mr. Conti on behalf of the audit firm Ernst & Young S.p.A.

The Committee reported two (2) times to the Board of Directors in relation to the activities carried out and with reference to the adequate functioning of the Internal Control and Risks System.

The Internal Control and Risks 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 and Risk Management System

The internal control and risk management system is a set of rules, procedures and organizational structures that contribute to safeguarding the company's assets, the efficiency and effectiveness of business transactions, the reliability of financial information, the identification and monitoring of the main risks, and the compliance with laws and regulations.

The Board of Directors is responsible for the system of internal control and risk management, that, after receiving the opinion of the Control and Risks Committee, establishes guidelines and a work plan, evaluating its adequacy. In this regard, during the year, the Board of Directors and the Control and Risks Committee expressed a favourable judgement regarding the adequacy of the Internal Control System for monitoring the level of risk consistent with the objectives of the Group.

Foreword

Reply has put in place a system of internal control and risk management for financial reporting based on the “*COSO Framework*”, defined as a set of rules, procedures and tools designed to provide, through an adequate process of identification, the measurement, management and monitoring, of the major risks related to disclosure of financial data, reasonable assurance of the achievement of corporate objectives.

The objective of the internal control and risk management system is also to ensure that the financial reporting disclosed within the required timeframe provides a fair and correct representation of operations, in order to guarantee the reliability, accuracy, truthfulness and timeliness of the financial information.

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

Instruments monitoring business objectives

- **Planning 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 operational planning through a *budget* and monitoring them by means of a monthly *review* of performance.
- **Company operational procedure system** - Reply S.p.A. has implemented a group of procedures that regulate internal processes, in order to properly apply the Company directives and to limit the risks connected with the achievement of the Company's objectives, regulating both the activities carried out within individual departments, as well as relations with other entities.
- **Risk Management System** - Reply S.p.A. has implemented a Risk Management system, based on the Control Risk Self Assessment model, a self assessment methodology recognized by sector standards.

The objective of such procedure is to develop a corporate culture in view of raising risk awareness, through a continuous and pervasive process, implemented by the Board of Directors and by top management, aimed at identifying any potential events that might involve the Company as well as pursuing a risk level that is consistent with achieving the Company's objectives.

The methodology used is articulated in the following phases:

- Identification of objectives, strategies, critical success factors and the specific related risks that conflict with the achievement of the objectives;
- Self-assessment process based on indicators associated with the different risk categories (named the Key Risk Indicators).

Such system thus enables the identification, measurement, management and control of the Company's level of exposure to the different risk factors, considering (i) the probability that the risk occurs, (ii) the impact of the risk on the Company's objectives, (iii) the overall scope of the risk, (iv) the Company's ability to reduce the impact of the risk on business operations, and (v) possible relationships among the different risk factors.

The procedure provides for monitoring the adequacy and effective functioning of the internal control and risk management system, as well as its review, to be completed annually, in order to consider the trend of business operations and the context of reference. Such process, coordinated by the Internal Audit department, provides for the use of questionnaires so that risk belonging to each profile can be assessed by Top Management and the Directors of the Company's various departments as well as by the Partners of the Italian subsidiaries.

Instruments monitoring compliance objectives

- **Law 262/2005 on financial and accounting reporting** – Consistently with what is provided by Law 262/2005 on the protection of savings, Reply S.p.A. implemented accounting and administrative processes relevant for purposes of the reliability of the financial-economic reporting disclosed to the market, that provide for:
 - Mapping of the main sub-processes within the administration and relevant accounting procedures;
 - Assessment of the adequacy of the existing controls and ongoing implementation of further controls in view of *compliance* and increased reliability 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 the relevant paragraph.
- **Security, environment and quality** – Reply has implemented a system of procedures and an organizational structure dedicated to the management of data security (also in view of the laws on *Privacy*), environmental protection, the safety of equipment and personnel and the quality of the services carried out (ISO certification 9001:2008).
- **Other laws and regulations** - Monitoring the evolution of laws and regulations and that relative compliance is carried out internally.

Instruments monitoring reporting objectives

- **Accounting disclosures** - the drafting of accounting disclosures and disclosures in the consolidated and separate Financial Statements is regulated by the procedures of an administrative-accounting system.
- **Confidential Information**: see the relevant paragraph.
- **Internal Communications** – Reply S.p.A. has implemented an internal communications system aimed at facilitating and promoting internal communications within the Company and the Group, including by means of a structured management and coordination Committee system.

Characteristics of the current internal control and risk management system in relation to the financial reporting process. The approach adopted by Reply in relation to the assessment, monitoring and continuous updating of the internal control and risk management system is based on a process that is consistent with the “*COSO Framework*” model, which allows making assessments focusing on areas of higher risk and/or materiality, that is, where there are risks of significant errors 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 the above controls with respect to the above risks, enabling ex ante or ex post identification of potential misstatements in elements of financial-economic reporting;
4. Verification of the operating effectiveness of controls.

Identification of the risk of misstatements which could have material effects on *financial reporting* is carried out through an administrative-accounting *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 accounting items that are generated, in addition to specific activities which could potentially generate significant errors. According to 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 *risk assessment* process, require definition and evaluation of specific controls (“key controls”) that guarantee “coverage”, thereby mitigating the risk that financial reporting will contain any material misstatements.

According to international *best practice*, there are two principal types of existing controls:

- 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, verifications of consistency, etc. This category includes controls referring to operational processes and controls of accounting closure processes. Such controls can be “*preventive*” aimed at preventing errors or fraud which could result in misstatements in financial reporting, or “*detective*”, aimed at revealing errors or fraud which has 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 process of identifying the above risks and key controls has led to the elaboration of control matrixes (*RCM* – “*Risk Control Matrix*”) that identify, for each significant process, the potential impact on financial reporting:

- Risks subsequent to not having fulfilled the “Financial Statement assertion” control objectives, (existence, occurrence, completeness, rights and obligations, 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 the “Reply Group’s Manual of administration and accounting procedures”, recently updated/integrated pursuant to Law No. 262/2005, commented on below.

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 (Nominated Director); The Director in charge of drawing up the Financial Statements is responsible for setting up adequate administrative and accounting procedures to prepare the financial information disclosed to the market, and to monitor the proper application of such 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 the roles and responsibilities of the Organizational Units involved in the general activities of drafting, communication and control of the financial reporting 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 attestations/statements required by law of the Director in charge and the Chief Executive Officer, the obligation, headed by the Compliance department, to internally attest, through the internal communication processes, the correct functioning of the Accounting Control System pursuant to Law 262/2005 related to the accounting processes/flows regulated by such law and which fall within their administrative responsibility, the completeness and reliability of the information flows, as well as the adequacy and effective application of the 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 shared with the relative process-owners, who attest that the controls have been planned and are operational, Administrative Management, with the support of the Internal Audit department, agree upon the implementation of any corrective measures.

The Internal Audit department carries out periodic assessments of the adequacy and effective application of the key controls every six months at the time of the preparation of the Financial Statements and interim report through audit procedures performed on specific areas determined by the Director in charge of drawing up the Financial Statements.

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 persons in charge of the relevant administrative and accounting processes pursuant to Law 265/2005 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 for which they are responsible.

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 Internal Audit Officer in a special report, object of an internal communications flow, and addressed to the Director in charge of drawing up the Financial Statements and to the Board of Directors. By sharing this document, two flows are activated:

- The attestation process addressed externally based on the declarations made by the Director in charge in compliance with 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, any compensation controls, corrective measures or improvement plan proposals.

The Head of the Internal Audit department periodically refers periodically to the Internal Control and Risk Management Committee, the Board of Statutory Auditors and to the Supervisory Body with reference to the activities carried out within the assessment process of the Internal Control System.

A. Director in charge of the Internal Control and Risk Management System

The Board of Directors, at its meeting of 27 April 2012, confirmed Mr. Oscar Pepino as the Director in charge of the Internal Control and Risk Management system, responsible for maintaining the internal control and risk management system in an efficient manner and in conformity with what is required by the Corporate Governance Code, and allows the Head of the Internal Audit department to carry out his role in accordance with the cited provisions of the Code.

B. Head of the Internal Audit department

The Board of Directors, at its meeting of 27 April 2012, appointed Mr. Edoardo Dezani – already tied to the Company as an employee – as the Head of the Internal Audit department, upon a proposal of the Director responsible for the Internal Control System, with the favourable opinion of the Internal Control and Risk Management Committee and having heard the Board of Statutory Auditors, who is responsible for controlling that the internal control and risk management system is operational and adequate.

The Head of the Internal Audit department works on the basis of an audit plan approved by the Board of Directors, which provides for periodic reports on the assessment of the internal control and risk management system's adequacy and the reliability of the reporting systems, including the accounting reporting systems, advising the members of the Board of Directors, Top Management, the Internal Control and Risk Management Committee and the Board of Statutory Auditors of his activities.

C. Organizational Model pursuant to Legislative Decree 231/01.

In November 2004 the Company's Board of Director's approved an "*Ethics Code*", which confirmed the ethical principles and transparency that guide the Company's internal and external activities, outlining all of the fundamental principles required to guarantee legality, loyalty, and correctness when conducting Reply's business. During the course of 2007 a project was initiated to adopt an updated organizational, management and control Model pursuant to the provisions of Article 6 of Legislative Decree 231/2001 (the "Model") in relation to the responsibilities of enterprises, in order to prevent the crimes provided by such Decree. The Model was approved by the Board of Directors at a meeting held 28 March 2008, and was subsequently updated through resolutions on 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 crime contemplated by Legislative Decree No. 231/2001 and that have been considered at risk for the Group, as outlined in the annex to the Model, are the following:

- (i) Relations with the Public Administration;
- (ii) Enterprise obligations;
- (iii) Privileged information;
- (iv) Security, prevention, health and hygiene in the workplace;
- (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 appointed a Supervisory Body, 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 and Risk Management Committee. The Supervisory Body, which has its own internal Regulations, is comprised of an outsider (Eng. Franco Gianolio) as its President, the Lead Independent Director (Mr. Fausto Forti), and the Head of the Internal Audit department (Mr. Edoardo Dezani), who will remain in office until the approval of the Financial Statements as at 31 December 2014.

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 Supervisory Body of the Parent Company, on the basis of specific agreements.

In 2012 the Supervisory Body 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.

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.

D. Director in charge of drawing up the Financial Statements and legal documents

The Board of Directors, at its meeting of 27 April 2012, in accordance with the provisions of Law 262/2005, confirmed as *the Director responsible for drawing up the Company's Financial Statements*, upon the proposal of the Chairman and Chief Executive Officer, and with the favourable opinion of the Board of Statutory Auditors, Mr. Giuseppe Veneziano, based on the experience matured in such department during the previous three years, as well as in the context of the Group's administrative and management control areas ever since it was listed; on 17 May 2012, the power of attorney was renewed for the same Director in order to enable him to carry out the powers attributed to him.

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 with specific laws and regulations.

With reference to his tasks, the *Director responsible for drawing up the Financial Statements* 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.

Coordination between those involved in the Internal Control and Risk Management system

At present, the company does not consider it necessary to set up formal procedures for coordination between the various parties involved in the Internal Control and Risk Management system, as they already work in a spirit of mutual cooperation.

12. Directors' 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. Beginning from the 15 June 2006 the Company has adopted a Regulation on Significant Operations with related parties.

In accordance with Consob regulation no. 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 members 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 unfavourable 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 favourable 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 unfavourable 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 favourable 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 with 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.

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

During 2012, the Committee for transaction with related parties, identified within the Internal Control Committee (now called the Control and Risks 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 favourable opinion with regards to the convenience and correctness of the related conditions.

13.Appointment of Statutory Auditors

The appointment and substitution of Auditors is disciplined by Art. 23 (Board of Statutory Auditors) of the by-laws, and is available on the Company's *website* (www.reply.eu under –Investors – Corporate Governance).

Art. 23 of the Company by-laws has been amended by the Board of Directors resolution passed on 26 October 2010 following mandatory amendments to the regulation introduced by Legislative Decree no. 27/2010 (exercising of rights of the shareholders of listed companies) and the resolution of the Extraordinary Shareholders' meeting on 28 April 2011.

Art. 23 of the Company by-laws, regulates that:

- 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 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 with binding laws or 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 with 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.

With regard to the application of the criterion of allocation in connection with the election of auditors, under Art. 148, paragraph 1 bis of the TUF, Law no. 120 of 2011 established that the above provisions shall apply from the

first renewal of the body one year from the date of entry into force of the above-mentioned law; such rules will apply to Reply to S.p.A. as from the renewal of the corporate bodies on the approval of the Financial Statements at 31 December 2014, upon the adoption of the necessary statutory changes.

14. 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:

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

The Board of Statutory Auditors was appointed during the Shareholders' meeting on 27 April 2012 based on the list which was presented by the majority shareholders of Alika S.r.l., the office expires on 31 December 2014 with the approval of the Financial Statements.

The table below summarises the Board of Statutory Auditors with the main information requested in accordance with Article 144-duodecies issued by Consob

Name	Office	In office	List(*)	Independent from Code	% of attendance in meetings Meeting of Board of Statutory Auditors	Other offices held (1)
Cristiano Antonelli	President	From 1.1.12 to 31.12.14	M	X	100%	2
Ada Alessandra Garzino Demo	Statutory Auditor	From 1.1.12 to 31.12.14	M	X	100%	17
Paolo Claretta-Assandri	Statutory Auditor	From 1.1.12 to 31.12.14	M	X	100%	34
Alessandro Mikla	Alternate auditor	From 1.1.12 to 31.12.14	M	X	NA	NA
Alessandro Pedretti	Alternate auditor	From 1.1.12 to 31.12.14	M	X	NA	NA

Key:

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

(1) Where applicable a list of all positions held has been annexed, according to Art. 144-quinquies decies of RE, as replaced by Resolution no. 17326 of 13 May 2010.

(*) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favourable votes equal to 59.199% of the share capital.

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

Cristiano Antonelli President of the Board of Statutory Auditors

is a professor of political economics, Director of the Economic Department Salvatore Cognetti de Martiis at the University of Turin; Director of the Bachelor degree in Institution and Business Communication; 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, Lyon, 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 Centre 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 has been registered on the Registry of Qualified Accountants and Bookkeepers ever since 1991 and the Registry of Auditors ever 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, has been registered on the Registry of Qualified Accountants and Bookkeepers ever since 1981 and the Registry of Auditors ever since 1983. She works as a Chartered accountant in Turin and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals.

In 2012 the Statutory Auditors met five (5) times.

The compensations paid to the Statutory Auditors is disclosed in the Annual Report on Remuneration pursuant to Article 123-ter of TUF.

Legislative decree 39/2010 assigns the Board of Statutory Auditors the role of the committee for control and risks and audits 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.

With a resolution of the Board on 27 April 2012 Mr. Riccardo Lodigiani, 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 for 2013 of company events;
- Organizational Model pursuant ex art. 6 Legislative Decree no. 231/01 and the Code of Ethics;
- Code of conduct for internal dealing;
- Corporate Governance Code;
- Annual Report on Remuneration;
- Procedures on Related party transactions.

16. General Shareholders' meeting

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.

Art. 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.

Five (5) Directors out of 7 (seven) spoke at the General Shareholders' meeting held on 27 April 2012. On that occasion, the Board of Directors reported on its activities during the year 2011.

17. Other Corporate Governance Practices

System of the Company's operational procedures – in order to properly apply the Company's regulations and to reduce risks connected with achieving the Company's objectives, Reply S.p.A. has adopted a set of procedures that regulate internal processes, governing both the activities carried out by the single departments as well as relations with other entities; Reference is made in this regard to what has been described in the paragraph on the Internal Control and Risk Management System.

18. Changes subsequent to the year end under review

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.

With respect to the modifications of the Corporate Governance Code approved in December 2011, which issuers were requested to apply by the end of 2012, it is noted that the Company has adjusted to the most significant recommendations contained in the Code.

Turin, 14 March 2013

For the Board of Directors
The Chairman
Mario Rizzante

