

# **REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE 2016**



Reply S.p.A.

# **REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE 2016**

Approved by the Board of Directors on 15 March 2017

**[www.reply.com](http://www.reply.com)**

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

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## 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 July 2015 (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 carries out its function through Executive Directors and is advised by an Internal Control and Risks Committee and a Remuneration and Nomination 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;
- > informing the administrating body the outcome of the audit;
- > is responsible for the procedures in the independent audit firm selection.

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

The independent audit firm is responsible for checking that the company's accounts are properly kept and that managerial operations are correctly reflected in the accounting records.

The auditors also verify that the separate and consolidated accounts correspond to the accounting records and to verifications performed and that they are in compliance with the applicable regulations. The Independent Auditors can also perform other services upon request of the Board of Directors, if not incompatible with the legal audit engagement.

Governance also includes the Internal Control System, the Organizational and management Model pursuant to Article 6 of Legislative Decree no. 231/2011 and the structure of the powers and proxies, as presented herein.

The following Report - and where it is deemed necessary in Report on Remuneration- includes the governance structure examined by the Board of Directors on 15 March 2016 and it accounts for the recommendations of the Code that the Board of Directors has decided not to adopt, providing related motivations and/or, where pertinent, the alternative recommendations adopted.

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.com](http://www.reply.com) – Investors – Corporate Governance).

## OWNERSHIP STRUCTURE (ex Art. 123-bis, paragraph 1, of Italian Legislative Decree. 58/1998) at 15 March 2017

### CAPITAL STRUCTURE

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

The share capital fully paid and subscribed at 15 March 2017, amounts to 4,863,485.64 Euros, divided in 9,352,857 ordinary shares having nominal value of 0.52 Euros- no other form of shares exist.

At present, the stock option plans, no longer exist as the stock options have been entirely exercised.

### OWNERSHIP STRUCTURE

	ORDINARY SHARES	% WITH RESPECT TO S.C.	LISTED/ NON-LISTED	RIGHTS AND OBLIGATIONS
Ordinary shares	9,352,857	100%	Listed	ex law
Plural voting share	-	-	-	-
Limited voting share	-	-	-	-
Non voting share	-	-	-	-
Other	-	-	-	-

### RESTRICTIONS ON THE TRANSFER OF SHARES

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

### SIGNIFICANT SHAREHOLDERS

According to the Shareholders' Ledger, to the notifications received in compliance to the laws and according to other available information as at 15 March 2017, the shareholders that directly or indirectly hold stakes greater than 3% 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.	52.7775	52.7775
	Rizzante Mario	0.1080	0.1080
	<b>Total</b>	<b>52.8855</b>	<b>52.8855</b>
Goldman Sachs Segregation	Goldman Sachs Segregation	3.628	3.628

### **SHARES GRANTING SPECIAL RIGHTS**

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

### **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.

### **RESTRICTIONS ON VOTING RIGHTS**

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

### **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: 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 2019, by which the shareholders of Alika 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 ex Article 122 of TUF for a three year period and renewable for equal periods as long as one of the shareholders does not communicate the cancellation with a six months written notice, having the right to vote in the company Alika S.r.l., holding of Reply S.p.A..

## **CHANGE OF CONTROL AND STATUTORY RULINGS IN PUBLIC TENDER OFFICES**

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 agreement with Intesa San Paolo:

- On 31 March 2015 a contract was signed for 30 million Euros;
- On 28 July 2016 a contract was signed for 49 million Euros.

Reply S.p.A., has entered into the following loan agreements with Unicredit S.p.A.:

- On 25 November 2013 a contract was signed for 25 million Euros;
- On 8 April 2015 a contract was signed for 10 million Euros;
- On 30 September 2015 a contract was signed for 25 million Euros and then on 17 February 2017 was reduced to 1.5 million Euros;
- On 17 February 2017 a contract was signed for 50 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 OFFICES**

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

## PROXIES TO INCREASE 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					AMOUNT PROXY	PROXY EXECUTED
THE GENERAL SHAREHOLDERS' MEETING	EXPIRY PROXY	DATE	EUROS	SHARES	THE GENERAL SHAREHOLDERS' MEETING	PROXY
21/04/2016	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.	21/04/2021	312,000	600,000	-	-

On 21 April 2016 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.

The Shareholder's, following resolution passed on 21 April 2016, 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 1,869,564 ordinary shares at 0.52 Euros, corresponding to 19.9892% 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 21 April 2016 to 21 October 2017, in substitution of the previous authorization resolved by the Shareholders' meeting of 23 April 2015;

**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 50,000,000 Euros;

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

At the reporting date the company held 1.007 treasury shares.

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.

## **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.

## **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 <http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2015.pdf> 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.

## BOARD OF DIRECTORS

### 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.com](http://www.reply.com) under – Investors – Corporate Governance).

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 list presenting candidates equivalent or superior to three shall be composed by candidates from both genders, so as the number of candidates, in accordance to the regulations of the Report, belong also to the less represented genders (it shall be rounded up to the next number if in excess);
- 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.
- As to represent a balance in the genders, the last candidate elected from the section of the

list that obtained the most votes belonging to the most represented gender shall lapse and shall be replaced by the first candidate not elected from the same list and the same section belonging to the least represented gender. Otherwise, the Shareholders' Meeting shall make up the number of the Board of Statutory Auditors with the majorities required by law, ensuring that the requirement is complied with.

- 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.

Considering the current composition of the Board of Directors and the participation of various members, a succession plan for Executive Directors has not been adopted also in light of the fact that the business management is guaranteed through a prompt substitution of executives.

## 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
- Dott. Filippo Rizzante Executive Director

and three (3) Non-Executive and Independent Directors:

- Mr. Fausto Forti (Lead Independent Director)
- Mrs. Maria Letizia Jaccheri
- Mr. Enrico Macii

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 members above were nominated through the Annual Shareholders' resolution on April 23, 2015 based on the list presented by the majority shareholder Alike S.r.l. Office for the above members terminated with the approval of the 2017 financial statements.

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, based on a criteria that satisfies an equal gender balance, pursuant to Art. 147 ter, paragraph 1 ter of the TUF, the Company has applied it as from the renewal of the corporate bodies that took place in 2015.

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

Name	Position held	Year of Birth	Date of first nomination	Board of Directors		Internal control and risks committee		Remuneration and Nomination committee						
				L (**)	E	N.E	I. code	I. TUF	%	Other offices	Attendance	%	Attendance	%
Mario Rizzante	Chairman and Chief Executive Officer	1948	10/07/2000	In office From 1/1/15 to 31/12/17(*)	M	X	-	-	100,00%	-	-	-	-	-
Tatiana Rizzante	Chief Executive Officer	1970	10/06/2003	From 1/1/15 to 31/12/17 (*)	M	X	-	-	100,00%	-	-	-	-	-
Oscar Pepino	Executive Director	1952	10/07/2000	From 1/1/15 to 31/12/17(*)	M	X	-	-	100,00%	-	-	-	-	-
Claudio Bombonato	Executive Director	1946	13/12/2007	From 1/1/15 to 31/12/17	M	X	-	-	75,00%	2	-	-	-	-
Daniele Angelucci	Executive Director	1956	27/04/2012	From 1/1/15 to 31/12/17(*)	M	X	-	-	100,00%	-	-	-	-	-
Filippo Rizzante	Executive Director	1972	27/04/2012	From 1/1/15 to 31/12/17(*)	M	X	-	-	75,00%	-	-	-	-	-
Fausto Forti	Lead Independent Director	1949	19/04/2004	From 1/1/15 to 31/12/17(*)	M		X	X	100,00%	-	X	100%	X	100%
Maria Letizia Jaccheri	Non-Executive Independent Director	1965	23/04/2015	From 23/4/15 to 31/12/17(*)	M		X	X	100,00%	-	X	100%	X	100%
Enrico Macii	Non-Executive Independent Director	1966	23/04/2015	From 23/4/15 to 31/12/17(*)	M		X	X	100,00%	-	X	100%	X	100%
Number of meetings held in 2016				Board meetings: 4				Meetings of the Risk and Control Committee: 4		Meetings of the Remuneration Committee: 1				

(\*) in office until the Shareholders' meeting for the approval of 31 December 2017 Financial Statements  
 (\*\*) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous with votes in favors amounting to 57.618% of share capital.

Legend  
 L: list  
 M/m: M/majority list m/minority list  
 E: Executive  
 N.E.: Non-Executive  
 I: independent  
 I TUF: independent pursuant to Art. 148 TUF

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

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

Mr. Rizzante received a graduate in Science of Informatics at the University of Turin. In the 70's, within the Fiat Group, Mr. Rizzante worked on several projects for manufacturing automation. In 1981 Mr. Rizzante left Fiat and founded Mesarteam S.p.A., a System Integration company that in a few years became one of the leading Italian companies in the ICT sector. In 1990 Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais and Mr. Rizzante contributed as Chairman and strengthened relations with important international clients. In 1994 Mr. Rizzante joined Digital (now HP), as Southern Europe Territory Manager of System Integration and Consulting. In June 1996, together with other partners Mr. Rizzante decided to undertake a new entrepreneur endeavor: constructing a system integration and consulting company specialized in new internet technologies. Reply comes to life. Within only four years since its constitution, in December 2000, Mr. Rizzante leads Reply to the Stock market, listing it on the market in Milan. Under his leadership, Reply embarks on a path of internationalization, which sees it grow and expand in Europe, particularly in Germany and England, as well as in America, becoming a point of reference for companies that consider technological innovation one of the main competitive levers. Reply, today, is a multinational, over 6,000 employees and with offices in Germany, Italy, England, Benelux, United States and Brazil. In 2014 Mr. Rizzante was nominated "Cavaliere del Lavoro" (Historian of the Workforce) by the Premier of the Italian Republic, Mr. Giorgio Napolitano.

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

Degree in computer engineering from the Turin Polytechnic, married with a daughter, she has always been passionate about new technologies. After some research experiences at the Politecnico of Turin, in 1995 enters Cselt (today Tlab) where she carries out testing and research on technologies and Internet services to the public. In 1996 she becomes part of Reply's founders, an entrepreneurial challenge based on a new business model: exploit the opportunities that the internet technologies make available by creating a cluster of companies, each specialized in application expertise or technology. From the start, Tatiana Rizzante handles the creation and skills development in areas with high rate of innovation, such as value added services to telecommunications operators, new media and the new digital channels. Over the years, she covers ever-increasing responsibilities within the group, assuming direct responsibility for various lines of business, including architectures and technologies, Digital

Media and Mobile Networks and contributing to the emergence of Reply in important Italian and foreign clients. Since 2006, after several experiences in the field of Innovation Management, she takes on the role of Managing Director, with the direct responsibility of the Group's overall offer definition and development of Reply.

**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 and Audit & Compliance which run 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 and Banca Fonspa S.p.A. until November 2013 At present he is a Member of the Board at Whysol S.p.A. a financial holding company active in the energy sector. Since March 2014 he is Chairman of Anima Holding S.p.A., a company which is listed on the Italian stock exchange.

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

Daniele Angelucci 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 specialized in the health market and local government. From 2006 to 2010 he was Chief Financial Officer of Reply Deutschland 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 he 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 has 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 held until March 2013. From April 2013 to April 2015 he was the Chairman of DHL Express Italy S.r.l. 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).

**Maria Letizia Jaccheri (Independent Director of Reply S.p.A.)**

Norwegian nationality, holds a PhD in Computer Engineering at the Politecnico of Turin, achieved in 1994 and a degree in Computer Science from the University of Pisa in 1988. Since 2002, she is Professor at the Norwegian University of Science and Technology (NTNU) and since 2013 appointed Director of the Department of Computer and Information Science (NTNU), managing a group of 210 employees (professors, administrators, graduates and researchers), more than 2,000 students and numerous research activities for the innovation of the department with several projects funded by the Norwegian Research Council and by the European community and industry.

Since 2014, she is an alternate member of the Sintef Council, a Norwegian research organization with about 2,000 employees. Since April 2015 Independent Director of Reply S.p.A.. She has published more than 100 scientific papers since 1989, for which she obtained over 1,700 mentions according to Google Scholar.

**Enrico Macii (Independent Director of Reply S.p.A.)**

Since 2001 Enrico Macii is a Full Professor of Computer Engineering at Politecnico di Torino. Prior to that, he was an Associate Professor (1998-2001) and an Assistant Professor (1993-1998) at the same institution. From 1991 to 1997 he was also an Adjunct Faculty at the University of Colorado at Boulder. He holds a Degree in Electrical Engineering from Politecnico di Torino (1990), a Degree in Computer Science from Università di Torino (1991) and a PhD degree in Computer Engineering from Politecnico di Torino (1995). Since 2007, he is the Vice Rector for Research at Politecnico di Torino; he was also the Rector's Delegate for Technology Transfer (2009-2015) and for International Affairs (2012-2015). His research interests are in the design of electronic circuits and systems, with particular emphasis on low-power consumption aspects. In the last few years, he has been growingly involved in projects focusing on the development of new technologies, methodologies and policies for achieving energy efficiency in buildings, districts and cities, therefore addressing multi-disciplinary activities regarding clean energy deployment, low-pollution mobility, sustainable urban development, pointing towards the actuation of the concept of smart city. In the fields above he has authored over 450 scientific publications.

electronic systems. The scientific results obtained in his career have given rise to a total of about 500 publications in journals, books and conferences internationally.

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. Claudio Bombonato is a Director of Whysol S.p.A., a financial holding company active in the energy sector and Chairman of Anima Holding S.p.A..

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 and this, beyond the limit of five appointments at Italian companies with shares listed on Italian regulated markets (excluding subsidiaries of the parent Company or the latter) indicated in art. 16 of the Statute the Board 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.

In accordance to the Group's practices that have been adopted in relation to induction programmes, several initiatives are foreseen aimed at providing Directors and Top Management an adequate knowledge of the area in which the company operates, of the dynamics of the company and its evolution and of the regulatory framework. More specifically, it is provided that a full set of documents containing the principle regulations and laws regarding the Board of Directors, the various internal Committees within the Board and the main related corporate documents be made available.

## 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.

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

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

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 and provide adequate information on atypical, unusual or with related party transactions, that are not subject to the Board of Directors approval.

During 2016 the Board of Directors met four (4) times and the average duration was approximately one hour and half (1.5).

The Board of Directors is scheduled to meet at least four (4) times in 2017. The Board of Directors has held no meetings at the present date of this Report.

During 2016, the Chairman, in accordance to the Corporate Governance, provided documents containing information relevant to the discussion to directors and statutory auditors a few days preceding the meeting as to ensure the directors and statutory auditors timely and complete access to information in advance of the Board meeting. In particular, to simplify access and consultation of such documents, a synthesis of the most relevant items (new amendments, regulations) has been provided. The documentation shall be sent a few days prior to the established date of the meeting, except documentation which is not available or particularly urgent or unforeseen.

The Chairman of the Board of Directors ensured that each meeting was carried out appropriately, ensuring that each item on the minutes was treated accordingly, and that adequate time was spent to establish an advantageous comparison among the members of the board.

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.

The Director in charge of drawing up the financial statements, systematically takes part in the Board of Directors meetings; the main business functions are represented directly by members of the Board of directors who hold such functions in the Organization of the Company.

The Board of Directors, upon the approval of the annual and half-year financial report and considering the duties carried out by the Control and Risk Committee (which in turn is based on controls carried out by the Internal Audit), examine and evaluate periodically the adequacy of the organizational, administrative, and accounting structure and the general performance of the system of the internal control and risk management.

This point is fully detailed in “Internal Control and risks Committee”.

In accordance with the Corporate Governance Code (art. 1.C.1, letter f), the company has granted the Board of Directors the examination and 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.

Coherent to the Code, the Board of Directors, on an annual basis, evaluate the activities performed by the Board and its Committees with particular emphasis on size, composition and functioning. The evaluation takes into account the relative mix of executive, non-executive and independent directors, as well as their specific technical abilities and professional background and experience and the length of time on the board.

During the meeting held on 2 August 2016, the Board of Directors deemed that the standing Board and its Committees, with particular emphasis on size, composition and functioning meet the requirements set forth by the Code.

The Board of Directors, pursuant to the Group’s consolidated practices, has considered not to express its position with regards to the nominations of 2015, as this valuation is already carried out by the shareholders upon presentation of the mentioned lists.

The shareholders have relieved the Board of Directors from the obligations pursuant to art 2390 paragraph 1 of the Civil Code.

## CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICERS AND EXECUTIVE DIRECTORS

The Board of Directors currently holding office comprises of two Chief Executive Officer, (who also fulfils the role of Chairman of the Board of Directors) 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 23 April 2015.

Mr. Mario Rizzante, Chairman of the Board of Directors, is empowered with the ordinary and extraordinary administration of the company with the exception of those specifically empowered by law to the Board of Directors and excluding the operations empowered to the Board of Directors, as set out by the *Regulation on Significant Operations and with related parties*.

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

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

- Ordinary administration of the company, including the activities related to purchase, sales, trade-in of products, goods and automobiles, real estate and any other asset related to the company's activities;
- Undersign rent and lease contracts for no longer than a nine year period establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions;
- Carry out any type of operation with the offices of the public debt, banking institutions, post offices, administration and finance authorities, customs agents and transport institutions in general, governmental authorities whether federal, provincial or local, with ministries and in general with any public or private office, including the undersigning of any acts or declarations pursuant to fiscal laws;
- To represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;

- Request, accept and use short term or long term lines of credit, with no sum limitation, according to the necessary conditions and terms with any banking or credit institution;
- Hire, appoint or suspend employees, undersign the related 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 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.

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

- Sign rent and lease contracts for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- Participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 10,000,000.00 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 10,000,000.00 Euros for each operation from an asset side and 500,000.00 Euros for operations from a liability side;
- To represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- Hire, appoint or suspend employees, undersign the related labor contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labor unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;

The main proxies empowered to the Executive Director, 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 bidding – 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 10,000,000.00 Euros for each operation from an asset side with parties belonging to the Group and 1,000,000.00 Euros for operations from a liability side with parties not belonging to the Group;
- 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 10,000,000.00 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 3,000,000.00 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 with parties 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 3,000,000.00 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;

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.

## INDEPENDENT DIRECTORS

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

- Dott. Fausto Forti (*Lead Independent Director*)
- Prof. Maria Letizia Jaccheri
- Prof. Enrico Macii

The independent Directors constitute as a whole the Remuneration and Nomination 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 2015 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 23 April 2015, and in the following meetings called to approve the 2016 draft financial statements also being the first meeting following its renewal 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 verified with regards to Mr. Fausto Forti from April 2013.

The Independent directors shall communicate in due time to the Board of directors any situation which may compromise independency and assume the necessary and/or consequent decisions.

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.

During the periodic meetings held throughout the year, the Board of Statutory Auditors has not disclosed any situations which could compromise independency in accordance to the regulations in force.

In November there was a meeting of only independent directors, during which the independent directors discussed their roles within the administrative body of the company.

## 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.

## 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.

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, Reply S.p.A., who has already adopted since 2003 an Internal Conduct Code on Internal Dealing, adopted from 1 April 2006, following the resolution of the Board of Directors of 31 March 2006, a new Corporate Governance Code aimed at regulating, with binding force, information flows of "Relevant Persons" and "Related parties to them" with respect to the

Company and related obligations and information and communications in respect of Consob and the transactions carried out by such persons; code subsequently amended by resolution of November 13, 2014.

Finally, following the entry into force, on July 3, 2016 of Regulation (EU) no 596/2014 of April 16, 2014 said "market abuse Regulation" or "MAR", supplemented by implementing Regulation (EU) 2016/523 of March 10, 2016 and the delegated Regulation (EU) 2016/522, directly applicable, the company approved the updated text of the "Internal Dealing procedure" on August 2, 2016.

More specifically, the Procedure 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" and by "Closely related 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 code comprises ten 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 "Key Parties" and "Closely related persons", 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 "Key persons"; all in accordance with the regulations included in "Market Abuse Regulations" and the delegated and implementing regulations.

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.com](http://www.reply.com) – Investors – Corporate Governance).

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

## 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 Nomination Committee.

The Board of Directors during the meeting held on 23 April 2015, decided not to set up an internal committee to propose candidates for appointment to the position of Director. Considering the current ownership structure, proven to be concentrated and the governance structure of Reply S.p.A. and considering the circumstances that this function is already carried out by the shareholders upon presentation of the lists for renewal of the governing bodies. Information concerning the meetings of the internal committee is given in the following Board of Directors meetings.

## 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 Committee composed of Professor Maria Letizia Jaccheri and Prof. Enrico Macii, Non-Executive and Independent Directors and Mr. Fausto Forti, Lead Independent Director, who has gained adequate knowledge and experience in financial matters and of remuneration policies in view of his professional experience characterized by taking operational responsibilities in companies of significant size.

In 2016 the Remuneration Committee, in order to carry out its duties, met once (1) with the presence of all members.

In 2017 one (1) meeting has been planned and has already been held.

At present, the Committee has not utilized external consultants.

In consideration of the current composition of the Remuneration Committee, it has been deemed not necessary to proceed with the nomination of a President of the committee, also in light of the fact that the Lead Independent Director already carries out functions in coordinating and programming activities for the Committee and relating to the Board.

In accordance with art. 6.C.6 of the Corporate Governance Code, no Director shall participate in meetings of the Remuneration and Nomination 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.

## **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 Nomination Committee, upon proposal of the Committee, authorized by the Board of Statutory Auditors.

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

In compliance 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 2016.

## CONTROL AND RISK COMMITTEE

Under the Article 7.P.4 of the Code, the Board of Directors has internally constituted a Control and Risk Committee composed by Prof. Maria Letizia Jaccheri and Enrico Macii, Non-Executive and Independent Directors and Mr. Fausto Forti, Non Executive Director and Lead Independent Director.

The Chairman of the Board of Statutory Auditors or another auditor appointed by the aforementioned and a Director in charge of the internal control system participate 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 2016 the Internal Control and Risks committee met four (4) times and twice (2) in 2017. All the 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 2015 and 2016, and half-year report of 2016;
- 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;
- Internal audit's mandate and work;
- Updating of the Organizational Model ex Law Decree 231/2001 and the Code of Ethics;
- Updating of the Related Party transactions procedure.

With reference to the examination of issues related to the Financial Statements, the Committee requested the participation, further to that of the Head of Internal Audit, but also the presence of Mr. Conti on behalf of the audit firm EY S.p.A..

During 2016 the Committee reported three (3) 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, while during 2017, at present the Committee has referred only once.

## INTERNAL CONTROL AND RISK MANAGEMENT

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 favorable judgment 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 the disclosure of financial data and 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 AND 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 PERIOD

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 Group Finance Director 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 Administrative Procedures Manual:

- Defines 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;
- Defines the operational means of managing the necessary activities to comply with the aforementioned legal obligations;
- Introduces, 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 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 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.

### **DIRECTOR IN CHARGE OF THE INTERNAL CONTROL SYSTEM**

The Board of Directors, at its meeting of 23 April 2015, 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.

### **HEAD OF THE INTERNAL AUDIT DEPARTMENT**

The Board of Directors, at its meeting of 23 April 2015, appointed Mr. Edoardo Dezani as the Head of the Internal Audit department, upon a proposal of the Director responsible for the Internal Control System, with the favorable 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.

### **ORGANIZATIONAL MODEL PURSUANT TO EX 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.

In 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 periodically through resolutions on 1 August 2013 and on 31 July 2015 which was limited to the Ethic Code.

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.
- (viii) Employing citizens from foreign countries

The Model was adopted in 2008 and updated periodically and the latest version in 2015 by all the Italian Group companies.

The Organizational Model of Reply S.p.A is available on the company website ([www.reply.com](http://www.reply.com) – 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 2017.

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 2016 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 EY S.p.A. as the Company's independent auditors for the nine-year period 2010-2018 which includes the audit of the separate Financial Statements, the annual consolidated Financial Statements and the half-year condensed consolidated Financial Statements.

#### **DIRECTOR IN CHARGE OF DRAWING UP THE FINANCIAL STATEMENTS AND LEGAL DOCUMENTS**

The Board of Directors, at its meeting of 23 April 2015, 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 favorable 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 25 June 2015, 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.

## **DIRECTORS' INTEREST AND TRANSACTIONS WITH RELATED PARTIES**

In compliance with the Corporate Governance Code transactions carried out with related parties are performed 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.

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.com](http://www.reply.com) – 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.

In the past the Company has exercised the option to apply the procedures related to minor transactions to significant transactions, as it is a smaller sized company; in the month of May 2015, as the Company no longer falls under a small sized company and therefore cannot exercise such faculty, the procedure was modified.

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, the Committee must express a motivated and binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction. Should the Committee express an unfavorable opinion, the Board of Directors could choose to submit to the General Shareholders' meeting the decision concerning the transaction; in this case, the transaction cannot be approved unless the majority of the non Related Shareholders express a favorable vote, provided that they represent at least 10% of the voting share capital.

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

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

If, in relation to a significant operation the motion to submit to the General Shareholders' meeting the decision is approved by the Board of Directors despite an unfavorable opinion expressed by the Committee, the transaction – having respected the constituent and voting quorum requested for the adoption of ordinary and extraordinary resolutions by the General Shareholders' meeting – cannot be approved unless the majority of the non Related Shareholders express a favorable vote, provided that they represent at least 10% of the voting share capital.

In case there is an urgency, the operation, as long it is not competence of the Shareholders and does not need their authorization, may be concluded in derogation of the procedures as long as all mandatory information has been provided to the public and under the condition that:

- Should the transaction fall under the Chief financial officer's powers, the Chairman of the Board of Directors must be informed the reasons of the urgency prior to the transaction being executed;

- The transactions are subsequently approved in a following Shareholders' meeting;
- The body convening the Shareholders' meeting must draw up a report with adequate motivations of the urgency and the Board of Statutory Auditors must refer to the Shareholders their opinion in relation to the reasonableness of the urgency;
- The report and valuation of the previous point must be made available to the public at least 21 days prior to the Annual Shareholders' meeting and in accordance 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 –on an annual 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.

In 2016 the Committee for transaction with related parties, identified within the Internal Control Committee (now called the Control and Risks Committee), did not meet.

## 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.com](http://www.reply.com) under – Investors – Corporate Governance).

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;
- 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;
- The list which presents candidates equivalent to or superior to three shall be composed by candidates from both Statutory auditors and Alternative auditors, so as the number of candidates, in accordance to the regulations of the Report, belong also to the less representative genders (if in excess, it shall be rounded up to the next number);
- 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 and/or an Alternative being replaced, and considering the balance in genders, if the Statutory auditor shall be replaced in the majority list, the nomination is carried out without any binds to the list; if a Statutory Auditor shall be replaced from a minority list, the Board shall substitute with a majority vote and when counting such votes, the shareholders' with a majority shares and shareholders' connected to the previous shall not be considered.

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, Reply to S.p.A. applied the renewal of the corporate bodies on 23 April 2015.

## 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 |
| • Dott.ssa Giuliana Monte              | Alternate auditor |
| • Mr. Alessandro Pedretti              | Alternate auditor |

The Board of Statutory Auditors was appointed during the Shareholders' meeting on 23 April 2015 based on the list which was presented by the majority shareholders of Alika S.r.l.. The office expires on 31 December 2017 with the approval of the Financial Statements.

On an annual basis and upon nomination, the Committee, verifies the requisites of independence of its members in accordance to Article 144-novies of the Regolamento Emittenti and in compliance to the Code of Conduct.

During the periodic controls carried out in 2016 and in compliance to the Code, the Committee has not disclosed any situations which could compromise independence and it has been resolved not to apply the criteria stated in Article 3.C.1 letter f) of the Code, in view of member's authority, even in light of the resolutions made by the Board of Directors.

This was verified with regards to Mrs. Ada Alessandra Garzino Demo from June 2012.

Considering the professional experience of the members of the Statutory auditors, the Company deemed not necessary to proceed with training courses, finalized at providing an adequate knowledge of Reply S.p.A's business and norms and regulations.

Statutory auditors who have an interest, even if only potential or indirect in a given transaction shall promptly inform the members of the Board of Statutory Auditors and the Chairman of the Board of Directors of the interest and the related circumstances.

During the periodic controls carried out in 2015 by the main controlling committees, the Statutory Auditors coordinated its activities with the functions of the Internal Audit, the Internal Control committee and with the Supervisory Board.

The exchange of information is carried out on a quarterly basis during Statutory Auditors meetings and also through the participation of the President during the Internal Control and Risk Committee meetings.

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

Name	Office	Year of birth	Date of first nomination	In office	List(*)	Independent from code	% of attendance in meetings of Board of Statutory Auditors	Other offices held (1)
Cristiano Antonelli	President	1951	29/04/2009	From 1.1.15 to 31.12.17	M	X	100%	-
Ada Alessandra Garzino Demo	Statutory Auditor	1963	10/06/2003	From 1.1.15 to 31.12.17	M	X	88%	20
Paolo Claretta-Assandri	Statutory Auditor	1954	01/01/2003(**)	From 1.1.15 to 31.12.17	M	X	100%	32
Giuliana Monte	Alternative Auditor	1964	22/07/2013	From 1.1.15 to 31.12.17	M	X	NA	NA
Alessandro Pedretti	Alternative Auditor	1969	29/04/2009	From 1.1.15 to 31.12.17	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 favorable votes equal to 59.199% of the share capital.

(\*\*) office not held on a continuous basis

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

**Cristiano Antonelli president of the board of the statutory auditors**

Cristian Antonelli is a professor of political economics, at the Economic Department Salvatore Cognetti de Martiis at the University of Turin; Director of BRICK (Bureau of Research in Innovation Complexity and Knowledge) at Carlo Alberto College. He is the editor of the 'Economics of Innovation and New Technology' magazine. In the past he was Director at the Economic Department Salvatore Cognetti de Martiis at the University of Turin (2004-2010) 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. He is President of Reply's Statutory Board of Auditors since 2009. 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 2016 the Statutory Auditors met eight (8) 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 and, starting from 2017, following the amendments made to the Decree 39/2010 by Legislative Decree No. 135/2016, as (i) inform the governing body of the outcome of the statutory audit; (ii) be responsible for the procedure aimed at selecting the auditor.

## 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 23 April 2015 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.com](http://www.reply.com), Investors – Corporate Governance), the following documents are available:

- Company by-laws;
- Annual calendar for 2017 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

## 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.

At the Ordinary General Shareholders' meeting held on 21 April 2016, nine (9) Directors out of nine (9) spoke. On that occasion, the Board of Directors reported on its activities during the year 2015.

## **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.

## **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.

*Turin, 15 March 2017*

For the Board of Directors

The Chairman

**Mr. Mario Rizzante**