

Corporate governance

The corporate control system adopted by Reply S.p.A., in compliance with Borsa Italiana S.p.A. requirements issued in February 2004, has been inspired by correct management and information principles accomplished through continuous testing of the efficiency and the effectiveness of the Corporate Governance.

In March 2006, Borsa Italiana S.p.A. published the new edition of the Conduct Code for Enterprises listed on the Stock Exchange, that enforces some of the new legislative rules introduced by Law 62/2005 (so called “Market Abuse”) and Law 262/2005 (so called “Legge sul risparmio”).

Members are requested to adopt the new Conduct Code by the end of 2006. The administration body must therefore carry out the necessary adjustments to the Corporate Governance of the company as a consequence of complying to the new regulations laid out by the Conduct Code published in March 2006. The Corporate Governance structure following the aforesaid adjustments will be illustrated in the company government report that will be published in 2007.

Articles of incorporation

The articles of incorporation in force are those approved by the Extraordinary Shareholders' meeting on June 14 2005, that was updated to take into consideration the new rulings concerning company law.

Governance structure of the company

Reply S.p.A.'s government structure is based on a traditional system that includes the Board of Directors and the Board of Statutory Auditors.

Role and tasks of the Board of Directors

The Board of Directors is the statutory managing body of the company invested with all powers with regards to the ordinary and extraordinary administration 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.

The Board of Directors meet on a regular basis, according to the Articles of Incorporation at least on a quarterly basis or however anytime deemed necessary.

The Directors, in occasion of the quarterly reviews, refer to the Board of Statutory Auditors with regards to the activities carried out in respect of their responsibilities, major operations carried out by the company or by its subsidiaries and operations with a potential conflict of interest.

During 2005 the Board of Directors met 8 times and is expected to meet at least 11 times in 2006.

Annual Calendar of company events

In compliance to Borsa Italiana's Regulation, the 2006 annual calendar of company events has been made available to the public within the established time period.

Members of the Board of Directors

The Board of Directors consists of a minimum of 3 to a maximum of 11 members. The number of members is decided by the Annual General Meeting.

The Board of Directors is normally made up of executive and non executive directors.

At present the Company's Board of Directors consists of 7 directors of which 4 executive and 3 non-executive.

Such directors will hold office until the 31 December 2005 financial statements are approved.

Among the non-executive directors, 2 have the characteristic of being independent according to the definition provided by the Conduct Code.

The Board has also verified that the requirements of independence have been met along with the approval of the Directors' Report herein.

The Board annually verifies that Directors and Statutory Auditors holding office do not hold office in other listed companies, in banks, in finance and in insurance companies.

Nomination of directors

The Articles of Incorporation provide that, unless unanimously resolved by the Annual General Meeting, the members of the Board of Directors are nominated by the Annual General Meeting upon presentation of a list presented by the shareholders that alone or together with others represent 2% of the ordinary voting shares.

The nomination of the current Board of Directors, that took place on June 10, 2003, was not carried out through the presentation of a list as none of the Shareholders deemed it necessary.

Chairman of the board and chief executive officers

The current Board of Directors nominated among its members two Chief Executive Officers and empowered the Chairman with vast operational delegation.

The Chairman of the Board of Directors is empowered with extensive control over the ordinary and extraordinary administration of the company, with the exception of those that by law have been reserved to the Board of Directors and also excluding "significant" transactions (intending transactions greater than 250.000 euros) with related parties.

The Directors control the ordinary administration of the company.

On at least a quarterly basis, the Chairman and Directors refer to the Statutory Auditors with regards to the activities carried out during the year, the assignments received and must also provide adequate information concerning non-typical, unusual operations or with related parties whose approval is not brought to the attention of the Board of Directors.

The Chairman coordinates the Board's activities and also coordinates their meetings.

Directors' remuneration

The Board of Directors has internally constituted a Remuneration Committee comprising two independent directors and one non-executive.

The Committee formulates proposals to the Board in respect of the Chairman's and Chief Executive Officer's remuneration and upon indication by the executive officers, formulates proposals for the criteria to follow for top management remuneration taking into consideration the beneficiaries of the stock option plan of the company.

During 2005 the Remuneration Committee met twice.

Internal Control Committee

The Board of Directors has internally constituted an Internal Control Committee comprising two independent directors and one non-executive.

The internal control system is the group of procedures aimed at monitoring the efficiency of company operations, the reliability of financial information, compliance to laws and rules and the safeguard of the company.

The Board of Directors has nominated internally a person in charge of such procedures and who refers his activities to the Board of Directors, to top management and to the Statutory Auditors.

During 2005 the Internal Control Committee met 3 times.

Ethic Code

In November 2004 the Board of Directors approved and issued the “Ethic Code” which represents an important step towards the creation of a good internal control system, even in view of the procedures established by Law Decree 231/2001 in matter of administrative liability of legal entities.

The Ethic Code, which is applied to the Parent company Reply S.p.A. and to its subsidiaries (directly or indirectly controlled), establishes the ethic and transparency principles that all companies must abide by in their internal and external activities, outlining all the fundamental principles necessary in order to guarantee legality, loyalty and correctness when conducting relations.

Transactions with related parties

The Board of Directors, within the framework set out by the Conduct Code in July 2003, has provided procedures concerning transactions with related parties that provide that the Board of Directors are solely competent for “significant” operations with related parties, that is for operations having a value greater than 250.000 euros and are entitled to identify any further operations that have to be approved by the Board and to define the behavioral guide lines to be used in order to achieve correct management.

Related parties are those defined in CONSOB's circular no. 2064231 dated 30 September 2002.

Relations with institutional investors and shareholders

The Investor Relator is in charge of keeping contact with financial analysts, institutional investors and Italian and foreign private shareholders in order to create a continuous channel of communication.

The Investor Relator reports exclusively and periodically to the Chairman and the Chief Executive officers.

Disclosures to the board of directors and processing of confidential information

The Chief Executive Officer and the Investor Relator handle the processing of confidential information in order to avoid the spreading of such information through means not in compliance with law, provisions or rulings or by means that are not timely, or that are incomplete or inadequate.

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.

Internal dealing

Following the so called regulation “market abuse” enacted by Community Law 2004 and endorsed by the corresponding Consob regulation, a law was passed concerning the obligation to notify the public about any transactions carried out by “important persons” and people strictly associated to them in relation to financial instruments of the company. Consequently, the Internal Conduct Code on Internal Dealing already adopted by Reply S.p.A. since January 2003, was eliminated as of April 1, 2006 date in which the new Consob Regulation no.11971/99 was implemented.

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

The new code defines the conduct in terms of “internal dealing” and the ways of applying the same. The code disciplines more specifically, the identification of the so called “important” parties, the types of operations subject to mandatory communication, identification of the party in charge of receiving such information and the notification to Consob and to the market, timing and the means of communication that must be carried out by the so called “Important persons”.

Composition of the share capital

The share capital amounting to 4.537.020,28 euros, at the present date, is made up of 8,725,039 ordinary shares of nominal value 0,52 euros each.

At present no other category of shares is in circulation.

The controlling shareholder is Iceberg S.à.r.l., with headquarters in Luxemburg (non listed company) that at present holds 4,807,538 Company shares, equivalent to 55.10% of the Company's share capital.

Annual General Meeting

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

The company does not deem necessary the adoption of an Annual General Meeting legislation (aimed at controlling the running of the meetings), as the Articles of Incorporation provide adequate provisions concerning the matter.

Statutory Auditors

The Articles of Incorporation provide that, unless unanimously resolved by the Annual General Meeting, the members of the Board of Statutory Auditors are nominated by the Annual General Meeting upon presentation of a list presented by the shareholders that alone or together with others represent 2% of the ordinary voting shares.

Independent Auditors

The General Shareholders' meeting of June 10, 2004 resolved to confer auditing of the Financial Statements of the Company and the Consolidated Financial Statements as well as the limited auditing of the Half-year financial statements for the fiscal year 2004, 2005 and 2006 to the independent auditors Deloitte & Touche S.p.A.

Management and coordination activities

All the Italian subsidiary companies, directly or indirectly controlled by Reply S.p.A., have complied to requirements established by art. 2497-bis of the Italian Civil Code, by indicating the management and coordination activities they are subject to by Reply S.p.A.

Internet website

On the company website (www.reply.it, under investor) all financial information of the company can be found.