



_Corporate governance

Annual Report on corporate governance

Introduction

The *Corporate Governance* system adopted by companies listed on the stock market has undergone numerous and profound changes following the coming into force of the legislation on the “*safeguarding of investors*” (Law no. 252 of 28 December 2005), which significantly modified the regulations of Law Decree 24 February 1998 – TESTO UNICO DELLA FINANZA (TUF), introducing important changes such as providing a voting list for the nomination of the Board of Directors, giving office of President of the Statutory Auditors to the auditor elected by the minority, at least one Chief Executive Officer must meet the independency requirements established for the members of the Board of Statutory Auditors, institution of a Director in charge of drafting accounting and legal documents.

Furthermore, last December the legislator intervened on the matter and introduced the “Decreto correttivo Pinza” (Law Decree no. 303 of 29 December 2006) in order to guarantee the coordination and the adaptation of the measures introduced by the same Law with the existing regulations.

Such measures, aside from mere technical adaptations, brought forth significant changes even to the regulations introduced by the “*Safeguarding of Investors Law*” in order to bring coherency to the system, such as establishing a nine year term for the Independent audit firm.

The “*Decreto correttivo Pinza*” has in addition granted to Consob the task of issuing, by 31 March 2007, the numerous regulations implementing the measures introduced completing therefore the regulatory framework and allowing the listed companies to bring the necessary changes to their Articles of Incorporation within the authoritative deadline of June 30, 2007 established by the Law.

At present the aforesaid measures have not been implemented by Consob.

In March 2006, the *Committee for Corporate Governance*, instituted by Borsa Italiana S.p.A., has ratified the *new Corporate Governance Code* with the aim of integrating the legislative measures with the *best practice* principles acknowledged at an international level.

The Committee has provided more precise and detailed indications with regards to the composition, election, tasks and the independency requirements of the Board of Directors and concerning the coordination of all the bodies and offices involved in the management of the company activities.

Within this changed legislative and regulatory context, still uncertain and incomplete until Consob issues the implementing regulations, Reply S.p.A. has however seen to adapting its *Corporate Governance* system in accordance to the requirements of the new text of the Self disciplinary Code for Listed Companies published by the *Committee for Corporate Governance* instituted by Borsa Italiana S.p.A and adopting the *Regulations on Significant Operations and related party transactions*.

In anticipation of Consob issuing the implementing regulations, the Board of Directors will propose to the Shareholders in the forthcoming Annual meeting in June, the adoption of the necessary changes to the Articles of Incorporation in order to comply to the existing laws, or those deemed necessary in order to respect the established deadline of June 30, 2007.

This Report reflects and illustrates the governing structure that the Company has adopted in accordance with the indi-

cations set forth in the new March 2006 edition of the Corporate Governance Code.

The Board of Directors is always open to any new orientations that will be brought to the “*Corporate Governance Code*” and their acknowledgments in the Company’s Corporate Governance system, only and compatibly with the company’s reality , if the recommendations formulated will allow to further strengthen the Company’s credibility.

Articles of Incorporation

The articles of incorporation in force are those approved by the Extraordinary Shareholders’ meeting on June 15 2006. The share capital amounts to 4.641.990,60 euros (number 8,926,905 shares) as at 31 December 2006 with an increase of 267.901,40 euros (number 515,195 shares) compared to 31 December 2005 owing to:

— No. 41,900 Stock options exercised;

— No. 473,295 new shares issued against equity investments.

The General Shareholders’ Meeting held on June 14, 2005 granted the Board of Directors the proxy, in accordance with art. 2443 of the Italian Civil Code, to increase the share capital with the exclusion of pre-emptive rights by contribution in kind in equity investments having the same or similar business scope as that of the Reply Group companies.

Differently than stated in the previous Report on Corporate Governance (April 21, 2006) during 2006 the Board of Directors made use of the proxy and increased the share capital by 88.174,32 euros through the issuing of 169,566 ordinary shares of nominal value of 0,52 euros each to be paid through contributions in kind of the minority shares, equal to 10% of Spike Reply S.r.l.’s share capital and in 159,673 shares of IrisCube Reply S.p.A..

Following the increase in the share capital previously mentioned, article 5 of the Articles of Incorporation was consequently amended.

The General Shareholders’ Meeting held on June 15, 2006 granted the Board of Directors further proxy, in accordance with art. 2443 of the Italian Civil Code, to increase the share capital with the exclusion of pre-emptive rights by contribution in kind in equity investments having the same or similar business scope as that of the Reply Group companies.

The General Shareholders’ Meeting held on June 15, 2006 granted the Board of Directors the proxy, in accordance to art. 2357 of the Italian Civil Code, and art. 132 of Law Decree 58/1998 subsequent amendments and additions and art. 144-bis of Consob Regulation 11971, to purchase and dispose of treasury shares for an 18 month period, that is from 15/06/2006 to 15/12/2007, under the conditions established by the General meeting’s resolution; by virtue of such authorization and those previously agreed, currently 24,499 treasury shares have been purchased.

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.

More specifically the Board of Directors:

- a) examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it heads, if any;
- b) evaluate the adequacy of the organizational, administrative and accounting structure of the issuer and its subsidiaries having strategic relevance, as established by the managing directors, in particular with regard to the internal control system and the management of conflicts of interest;
- c) delegate powers to the managing directors and to the executive committee and revoke them; it shall specify the limits on these delegated powers, the manner of exercising them and the frequency, as a rule no less than once every three months, with which the bodies in question must report to the board on the activities performed in the exercise of the powers delegated to them;
- d) determine, after examining the proposal of the special committee and consulting the board of auditors, the remuneration of the managing directors and of those directors who are appointed to particular positions within the company and, if the shareholders' meeting has not already done so, determine the total amount to which the members of the board and of the executive committee are entitled;
- e) evaluate the general performance of the company, paying particular attention to the information received from the executive committee (when established) and the managing directors, and periodically comparing the results achieved with those planned;
- f) examine and approve in advance transactions carried out by the issuer and its subsidiaries having a significant impact on the company's profitability, assets and liabilities or financial position, paying particular attention to transactions in which one or more Directors hold an interest on their own behalf or on behalf of third parties and, in more general terms, to transactions involving related parties; to this end, the board shall establish general criteria for identifying the transactions which might have a significant impact;
- g) evaluate, at least once a year, the size, composition and performance of the Board of Directors and its committees, eventually characterizing new professional figures whose presence on the board would be considered appropriate;
- h) provide information, in the report on corporate governance on the number of meetings of the board and of the executive committee, if any, held during the fiscal year plus the related percentage of attendance of each director.

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

The Board of directors meet on a regular basis, at least every three months or whenever deemed necessary.

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

During 2006 the Board of Directors met 12 (twelve) times.

The Board of Directors or scheduled to meet at least 7 (seven) times in 2007.

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 draft of the annual meetings is scheduled.

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

Calendar of the Company’s annual events

In accordance with Borsa S.p.A. Regulation, a calendar of the company events for 2007 was provided to the public within the established time, with the following schedule:

- The Board of Directors Meeting that approves the Financial Statements in draft;
- The Annual General Shareholders’ Meeting that approves the Financial Statements;
- The quarterly Board of Directors Meetings that approve the first, second and third quarterly report and the Half year report.

Composition of the board of directors

The company's Board of Directors is made up of a variable number of components from a minimum of 3 to a maximum of 11 members. The number of components 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 7 (seven) Directors of which 4 (four) executive:

— Mr. Mario Rizzante	Chairman and Managing Director
— Mr. Sergio Ingegnatti	Managing Director
— Mrs. Tatiana Rizzante	Managing Director
— Mr. Oscar Pepino	Executive Director

and 3 (three) non Executive and Independent Directors:

— Mr. Fausto Forti	<i>(Lead Independent Director)</i>
— Prof. Marco Mezzalama	
— Prof. Carlo Alberto Carnevale Maffè	

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

The aforementioned Directors will hold office until the 31 December 2008 financial statements have been approved.

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

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

The Chairman furthermore, by means of the operational members of the company, makes sure that the Directors participate in initiatives aimed at increasing their 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.

The *Corporate Governance Code* requires that, in the event that the Chairman of the Board of Directors is the primary responsible of the company management, or in the event that office of the Chairman is held by the person who controls the Company, the Board designates a "*Lead Independent Director*", that represents a reference point and coordinates the requests and contributions made by the non executive Directors and more specifically by the independent Directors, as in concrete these circumstances exist, in compliance to art. 2.C.3 of the *Corporate Governance Code*, a Lead Independent Director was appointed and Mr. Fausto Forti, Independent non Executive Director currently holds this position.

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

- a) if he/she controls, directly or indirectly, the issuer also through subsidiaries, trustees or through a third party, or is able to exercise over the issuer dominant influence, or participates in a shareholders' agreement through which one or more persons may exercise a control or considerable influence over the issuer;
- b) if he/she is, or has been in the preceding three fiscal years, a relevant representative of the issuer, of a subsidiary having strategic relevance or of a company under common control with the issuer, or of a company or entity controlling the issuer or able to exercise over the same a considerable influence, also jointly with others through a shareholders' agreement;
- c) if he/she has, or had in the preceding fiscal year, directly or indirectly (e.g. through subsidiaries or companies of which he/she is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:
 - ___ with the issuer, one of its subsidiaries, or any of its significant representatives;
 - ___ with a subject who, jointly with others through a shareholders' agreement, controls the issuer, or – in case of a company or an entity – with the relevant significant representatives; or is, or has been in the preceding three fiscal years, an employee of the abovementioned subjects;
- d) if he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer, a significant additional remuneration compared to the "fixed" remuneration of non-executive director of the issuer, including the participation in incentive plans linked to the company's performance, including stock option plans;
- e) if he/she was a director of the issuer for more than nine years in the last twelve years
- f) if he/she is vested with the executive director office in another company in which an executive director of the issuer holds the office of director;
- g) if he/she is shareholder or shareholder or director of a legal entity belonging to the same network as the company appointed for the accounting audit of the issuer;
- h) if he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

The Board of Directors, in its entirety, has verified and obtained positive results with respect to the independency 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.

Annual survey on the office of Directors and Statutory Auditors

The Board of Directors has verified the other office held by Directors and Statutory auditors in other listed companies, finance, bank, and insurance companies or big enterprises.

The following arose

___ Prof. Marco Mezzalama is member of the Board of Directors of CSI Piemonte, of Innogest S.p.A. and of Fondazione Torinowireless.

___ Prof. Carlo Alberto Carnevale Maffè is member of the Board of Directors of Buongiorno Vitaminic S.p.A. and of Poligrafica San Faustino S.p.A.; in Buongiorno Vitaminic S.p.A. he will hold office until May.

___ Mr. Fausto Forti is Chairman and Managing Director of DHL Express Italy S.r.l..

Appointment of directors

The last edition of the Corporate Governance Code provides that the appointment of Directors shall occur according to a transparent procedure. The procedure shall ensure, inter alia, timely adequate information on the personal and professional qualifications of the candidate and the list shall be deposited at the company's registered office according to the terms established by the Articles of Incorporation. The lists shall be timely published through the Company's Internet site.

The lists, must eventually indicate the candidates eligibility as independent director in accordance with the Corporate Governance Code.

The Company's Articles of Incorporation, in occasion of the coming into force of the latest legislation and regulations, will once again include a "voting list", at present the rulings do not provide specific requirements for the composition of the Board of Directors in terms of the minimum number of non executive and independent directors.

The current Articles of Incorporation, unless differently and unanimously resolved by the shareholders' meeting, provide that the members of the Board of Directors are appointed by the same shareholders that present a list of all candidates in numerical order.

Each shareholder can present only one list and each candidate can be elected only on one list and will be considered ineligible if fails to do so.

Only those shareholders that alone or together with others represent 2% of the ordinary voting shares have the right to present the lists.

The lists signed by the shareholder or shareholders must be deposited at the Company at least twenty days prior to the date of the first call for the Annual General Shareholders' meeting.

Within the date established above, a *curriculum* is deposited together with each list which describes the candidates professional experience along with a declaration of acceptance of the nomination and a declaration excluding causes of incompatibility and ineligibility and of having the requisites as per law and the by-laws.

The lists not meeting all the requirements are considered as not having been presented.

Candidates who hold office in other five Italian companies listed on the stock market, with the exception of the Company's subsidiaries or candidates who do not meet the requirements set out by law cannot be appointed, those having the right to vote can only vote one list.

The Directors are appointed as follows:

- a) 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;
- b) the remaining Directors will be selected from the other lists. The votes obtained on the same list will subsequently be divided by one, two, three, four, five, etc., according to the number of directors to be appointed. These percentages will then be progressively assigned to the candidates on each list and a grade in descending order will be formed. The candidates with the highest percentage will be appointed. If two or more candidates have the same percentage, the candidate on the list having the least number of directors will be appointed.

If a director from each list has not been appointed or if the same number of directors have been appointed from each list, the candidate having obtained the majority of the votes will be appointed.

If there is a tie between the votes on a list and a tie in the percentages, the shareholders are called to vote again and the candidate who receives the majority of the votes will be appointed.

- c) If a director is appointed not in accordance with the above mentioned procedure, the shareholders resolve by majority voting.

If the requirements foreseen by the legislation in force and by the by-laws are not met, the Director can no longer hold office.

The Shareholders' meeting cannot change the number of components of the Board of Directors to the extent of the provisions of the by-laws, seeing to the relative nominations.

The Directors appointed under such procedure hold office for the remaining period of the Directors already in office.

If for any reason half of the directors, if the number of components is even, or more than half, if the number of components is odd, can no longer hold office, the entire Board of Directors is to decline office and the Shareholders' meeting must be immediately convened for the nomination of all the Directors.

The current Board of Directors was appointed on June 15, 2006, through only one list presented by the shareholders'. The Board of Directors, as allowed under the *Corporate Governance Code*, did not find it necessary to constitute a Committee for the nomination of its directors. More specifically, the definition of the professional characteristics of the candidates and the selection of the candidates was carried out on the basis of sharing among the shareholders, and the sound knowledge of moral requisites and professional competencies of the candidates involved.

The Board of Directors will propose in the forth coming Annual General Shareholders' meeting the changes to the voting list procedures deemed necessary in view of the new legislation.

Chairman of the Board of Directors and Managing Directors

The Board of Directors currently holding office is composed of two Managing Directors, an Executive Director and has empowered the Chairman with any operational delegations.

Mr. Mario Rizzante, Chairman of the Board of Directors, has the powers of 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.

Mr. Sergio Ingegnatti and Mrs. Tatiana Rizzante, Chief Executive Officers, have the following disjoint 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;
- sign rent and lease contracts for 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;
- 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, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- request, accept and use short term or long term lines of credit, with no sum limitation, according to the necessary conditions and terms with any banking or credit institution;
- hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 euros; and can:
 - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
 - confer or receive the related mandate in the event of a temporary group enterprise participation;
 - undersign the contracts following the assignment of the bid;
 - grant to third parties, to the extent foreseen by the law, the execution of the contracts.

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

- sign rent and lease contracts for a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 euros; and can:
- draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
- negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5.000.000,00 euros for each operation;
- to represent the Company before any judicial authority, before any administration authority of the Italian Republic, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;

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

The Chairman, under the company's Articles of Incorporation, has the power to convene the Board of Directors' meetings.

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

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

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

Currently the following delegations have been conferred:

- a) Mr. Riccardo Lodigiani, Mr. Daniele Angelucci, Mr. Domenico Piantelli and Mr. Fernando Masella, have the following powers:
- accept and undersign orders from clients, offers and participate in biddings for an amount up to 5.000.000 Euros for each transaction;
 - sign rent and lease contracts for 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; ? 500.000 per single transaction;
- b) Mr. Riccardo Iezzi, has the following powers:
- sign rent and lease contracts for a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
 - participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 euros; and can:
 - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
 - confer or receive the related mandate in the event of a temporary group enterprise participation;
 - undersign the contracts following the assignment of the bid;
 - grant to third parties, to the extent foreseen by the law, the execution of the contracts.
 - 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) Mr. Zangari Salvatore and Mr. Luoni Luigi, have more specific and limited powers related to single areas of activity.

Remuneration of Directors

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

The Remuneration Committee has the duty to submit to the Board of Directors proposals on the remuneration of the Chairman and Chief Executive Officers, whereas the latter propose the adoption of general remuneration criteria of the company's directors.

The Committee meets upon request of one of the members, before the Board meetings that resolve the Chief Executive Officers' remuneration, the assignment of stock options or with reference to other forms of remuneration connected to results, or when deemed necessary.

Minutes of the meeting are drawn up and include the proposals made by the Committee.

The Remuneration Committee met 5 times during 2006.

At present, the Committee does not include external consultants.

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

The following table summarises remuneration of Reply S.p.A.'s controlling bodies, resolved and attributed by Reply S.p.A or any one of its subsidiaries:

Director	Fee resolved (annual in relation to duration of office)	Note
Rizzante Mario Chairman and Chief executive officer	Euro 540.000,00	Of which Euro 330.000 annual fee for office of Chairman and Chief executive officer and Euro 210.000 as participation in 2005 results as resolved by the Shareholders' Meeting of 15 June 2006
Ingegnatti Sergio Chief executive officer	Euro 420.000,00	Of which Euro 210.000 annual fee for office Chief executive officer and Euro 210.000 as participation in 2005 results as resolved by the Shareholders' Meeting of 15 June 2006
Pepino Oscar Executive Director	Euro 420.000,00	Of which Euro 210.000 annual fee for office Chief executive officer and Euro 210.000 as participation in 2005 results as resolved by the Shareholders' Meeting of 15 June 2006
Rizzante Tatiana Chief executive officer	Euro 212.000,00	Of which Euro 192.000 paid by the subsidiary Cluster Reply S.r.l. for office as Chief executive officer in 2006. The amount of Euro 212.000 does not include the amount received by Reply S.p.A. in capacity of Director (Reply Services S.r.l. from the second half-year), and amounts to Euro 101.686
Carnevale Maffè Carlo Alberto Non Executive and independent Director	Euro 20.000,00	Fee for office as Non Executive and independent Director
Mezzalama Marco Non Executive and independent director	Euro 20.000,00	Fee for office as Non Executive and independent director
Forti Fausto Non Executive and independent director - <i>Lead Independent Director</i>	Euro 20.000,00	Fee for office as Non Executive and independent director Lead Independent Director

At present, Stock option rights have been assigned to Directors of the Company in accordance to the Stock Option Plans adopted by the Company, the following table summarises the stock options assignment to Directors:

Director	Resolution of the Shareholders' meeting	Number of Stock options assigned	Vesting period	Strike price
Rizzante Mario	11/06/2002 (2002 plan)	9.900	13/5/07 - 13/5/2012	Euro 9,416
Ingegnatti Sergio	11/06/2002 (2002 plan)	9.800	13/5/07 - 13/5/2012	Euro 9,416
Pepino Oscar	11/06/2002 (2002 plan)	9.900	13/5/07 - 13/5/2012	Euro 9,416
Rizzante Tatiana	11/06/2002 (2002 plan)	9.900	13/5/07 - 13/5/2012	Euro 9,416
Rizzante Tatiana	10/06/2004 (2004 plan)	15.000	12/5/09 - 12/5/2014	Euro 21,339

The Options assigned to the above Directors can be exercised, within the vesting period in the above table, in a lump sum solution, within the “exercise window” following fifteen days after the Board of Directors’ meeting approving the quarterly reports, the half year report or the annual report.

Stock options cannot be exercised in the “Blocked period”, foreseen by the Conduct Code in relation to Internal Dealing, which are 15 days prior to the Board of Directors’ meetings approving the annual report, the half year report and the quarterly reports, including the day the meeting is held.

Pursuant to article 7.C.1 of the March 2006 edition of the Corporate Governance Code, article 22 of the Articles of Incorporation foresee the possibility to assign to the Directors invested with specific powers, a variable fee, represented by the participation in the results of the Parent Company, connected to the economic trend of the Group and more specifically to the Gross Consolidated Operating margin, which amount is established by the Annual General Shareholders’ meeting approving the annual statements.

As this does not exclude the distribution of a dividend, and already practiced for the allocation of 2004 and 2005 annual results, it will be used again for the results achieved as at 31 December 2006.

Internal control system

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

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

The Board of Directors has nominated Ms. Celestina Massenzio, presently and temporarily substituted by Ms. Rosa Scalise, as head of internal controls.

Head of internal controls reports his activities to the members of the Board of Directors, key management and to the Board of Statutory Auditors.

Director in charge of drawing up the accounting and legal documents

The Board of Directors, pursuant to Law 262/2005, has appointed in capacity of *Director in charge of drawing up the accounting and legal documents*, with approval of the Board of Statutory Auditors, Mr. Giuseppe Veneziano. On September 15, 2005 a specific proxy was conferred in order to enable him to execute his powers.

Pursuant to article 24 of the Articles of Incorporation, 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 assert in a specific report, annexed to every financial statement and to any other financial communication that the procedures set up have been abided to.

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

The Annual General Shareholders' meeting will be asked to approve changes to the Articles of Incorporation deemed necessary in view of the new regulations introduced by Legislative Decree 303/2006 in relation to the *Director in charge of drawing up the accounting and legal documents*.

Internal control committee

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

The internal control committee:

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

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

The chairman of the Board of Auditors or another auditor designated by the chairman participates in the works for the internal control and at the end of each meeting the minutes are drawn up with the Committee's proposals.

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

During the year the Internal Control Committee met three (3) times.

Ethic code

In 2004, the Board of Directors approved the "Ethic Code" pursuant to decree law 231/01, whose introduction represents an important step towards the constitution of a sound internal control system, even in view of the broader procedures set out under Legislative Decree 231/2001 in relation to administration responsibilities of juridical persons, the adoption of which is mandatory for all issuers that qualify for the STAR segment by 31 March 2008.

The *Ethic Code*, applicable to the Parent Company Reply S.p.A. and to the companies directly or indirectly controlled by Reply S.p.A., set out the ethic and transparency principles that guide the company's internal and external activities, and outlining the fundamental principles necessary to guarantee legality, loyalty and correctness in conducting Reply's relations.

The Internal Control Committee must also verify that the principles set out by the Ethic Code are respected and that the same is periodically updated.

Director's interests 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.

The company has set up a Regulation of significant operations and with related parties that foresees the following.

Significant operations

Pursuant to the Corporate Governance Code, the Board of Directors has the task of reviewing and approving operations of significant economic, financial and earning value, including the most significant operations with related parties, which are subject to specific substantial procedural correctness criteria.

Decisions concerning Significant Operations cannot be taken by delegated directors

Significant operations are those that put the Company in the position to make the necessary communication to the market and accompany it with ad-hoc accounting situations according to the requirements of the market controlling body¹.

When the Company has to put in action significant operations, the delegated directors provide the Board of Directors, reasonably in advance, a summary of the analysis conducted in terms of strategic coherence, economic feasibility, and the expected benefits for the company.

Operations with related parties

Identification of related parties

Related parties are:

- a) subjects which control, are controlled by (also 100%) or are under the same control as Reply S.p.A.;
- b) subjects which hold an interest sufficient to exercise considerable influence over Reply S.p.A.;
- c) the under signers of non competition agreements, pursuant to article 122, paragraph 1 of Legislative decree 58/1998, related to the right of vote;
- d) subjects associated with Reply S.p.A.;
- e) subjects which have power and responsibility in the planning, management and control of Reply S.p.A. or in holdings i.e. The Board of Directors and Board of Statutory Auditors;
- f) subjects' close relatives in a), b), c), d), and e). a subject close relative means those potentially capable of influencing or being influenced by the natural person in their relationship with Reply S.p.A and may include cohabitant, and relatives up to second degree;
- g) subjects controlled, jointly controlled or subject to considerable influence by any of the subjects in a), b), c), d), and e), or subjects in a), b), c), d), and e) who exercise considerable influence;

¹ Currently Consob communication no. DIS/98081334 of 19 October 1998

h) subjects who have the same majority directors as Reply S.p.A.

According to the Accounting Principle “IAS 24” control means the power to determine financial and management policies of an organization in order to enjoy the benefits of its business.

Therefore, pursuant to art. 2359 of the Italian Civil Code and to art. 93 of Legislative decree 24 no. 58 of February 1998, subsidiary (controlled) companies are:

- 1) the company in which the other company has the majority voting rights in the general Shareholders' meeting;
- 2) the company in which the other company has sufficient votes in order to have dominating influence in the general Shareholders' meeting;
- 3) the company, Italian or foreign, in which a subject has the right, in view of a contract or a statutory clause, to exercise a dominating influence, where the law allows such contracts or clauses;
- 4) the company, Italian or foreign, in which a shareholder, on the basis of agreements with other shareholders, has alone sufficient voting rights in order to have dominating influence in the general Shareholders' meeting.

Pursuant to the International accounting standard IAS 28, a company is considered an associate when the holder of the investment has a significant influence but is neither a subsidiary nor a joint venture. Significant influence means the power to participate in administration and operational decisions of the company without having control of it. Therefore, pursuant to art. 2359 of the Italian Civil Code, associate companies are also those over which another company has significant influence; significant influence is presumed when the company, in the general Shareholders' meeting, can exercise at least one fifth of the voting rights or a tenth if the company's shares are listed.

Three different types of categories of operations with related parties has been defined and are the following:

a) Significant operations

These significant operations are with related parties. If the nature, prices or mode/timing of implementation of significant operations with related parties may affect shareholders' equity or the correctness of information (including accounting data) relating to Reply S.p.A., such operations must be made public pursuant to CONSOB regulations. These operations must be previously authorized by the Board of Directors and specific notice must be provided to CONSOB.

b) Intercompany transactions

These are defined as the transactions realized with companies whose financial statements are consolidated in Reply S.p.A.'s consolidated financial statements on a line by line basis.

These transactions must previously be authorized by the Board of Directors when each have a value greater than 5.000.000 euros and are related to atypical, unusual or transactions regulated under non standard market conditions. Atypical, unusual or transactions regulated under non standard market conditions having a value lower than 5.000.000 euros must, in any case, be specifically addressed by the Board of directors in the following board meeting.

The operations qualifying as ordinary business activities of Reply S.p.A., and are carried out at normal market conditions, therefore do not require the Board of Directors authorization.

c) Transactions with related parties

These are defined as transaction with related parties other than “group companies”.

These transactions must previously be authorized by the Board of Directors when each have a value greater than 2.000.000 euros or greater than 1.000.000 euros if related to atypical, unusual or transactions regulated under non standard market conditions.

Atypical, unusual or transactions regulated under non standard market conditions having a value lower than 1.000.000 euros must, in any case, be specifically addressed by the Board of directors in the following board meeting.

Relations with the shareholders

The Board of Directors shall ensure that a person is identified as responsible for handling the relations with the shareholders and shall evaluate from time to time whether it would be advisable to establish a business structure responsible for such structure.

Mr. Riccardo Lodigiani has been appointed, under resolution made 15 June 2006, the person in charge of relations with Institutional Investors and with Shareholders (*Investor relator*) in order to create continuous dialogue with the said persons.

The abovementioned person must exclusively and periodically inform the Chairman and the Chief Executive Officer, Mr. Sergio Ingegnatti of his activities.

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.

More specifically, all company communication to the external and all press releases are accurately draw 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.

Internal Dealing

Following the so called regulation “market abuse” enacted by Community Law 2004 (Law 18, April 2005 no. 62), which restated article 114 of legislative decree 58/1998 (TUF) and endorsed by the corresponding Consob regulation (new articles from 152-bis to 152-octies introduced in Title VII of Part III of the regulation of listed companies no. 11971/99, endorsed by Consob resolution no. 15232 of 29 November 2005, in force since April, 1 2006), 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 Corporate Governance Code was enacted starting April 1, 2006 following the Board of Directors’ resolution of March 31, 2006.

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

The new code 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 “key” parties, the types of operations subject to mandatory communication, identification of the party in charge of receiving such information and the notification to Consob and to the market, timing and the means of communication that must be carried out by the so called “Key persons”.

The complete version of the Corporate Governance Code is available on the Company’s website (www.reply.it).

Composition of the share capital

The company’s share capital amounts to 4.641.990,60 euros comprises 8.926.905 ordinary shares with the par value of 0,52 Euros each.

Currently no other categories of shares are on the market.

The controlling shareholder is Iceberg S.A., with headquarters in Luxembourg (non listed company) and holds no. 4.507.538 shares, equal to 50.49% of the share capital.

Shareholders' meetings

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.

Members of the board of statutory auditors

Similarly to the Corporate Governance Code, article 23 of the existing Articles of Incorporation provides that, with the exception of unanimous resolutions passed by the Shareholders' meeting, for the nomination of the members of the Board of Statutory Auditors the following procedures are adopted.

The list of candidates to the position of auditor, accompanied by detailed information on the personal traits and professional qualifications of the candidates along with the CV's of the candidates, shall be deposited at the company's registered office at least 20 (twenty) days before the date fixed for the shareholders' meeting.

Nomination proposals must be accompanied by statements by the candidate that they accept candidacy, that there are no causes of ineligibility or incompatibility and that they possess the requisites for holding the post prescribed by law and the Company's by-laws.

Twenty days prior to the Shareholders' meeting, the list of names running for Auditors must be indicated in a specific list in progressive order and presented by the shareholders. Each shareholder can present only one list and each candidate can be elected only on one list and will be considered ineligible if fails to do so.

Only those shareholders that alone or together with other shareholders represent at least 2% of the voting shares in the General Shareholders' meeting.

At least five days prior to the date of the first call for the Annual General Shareholders' meeting, the shareholders must provide the certificate attesting the ownership of the Company's shares issued by the depositors pursuant to the procedures of articles 33 and 34 of Consob Regulation no. 11768/1999 and subsequent amendments.

If more than one list is presented, for the nomination of the members of the Board of Statutory Auditors, the procedures are as follows:

- a) The votes obtained on each list will be divided by one, two, three, four, five, etc., according to the progressive number of auditors to be appointed;
- b) These percentages will then be progressively assigned to the candidates on each list and a grade in descending order will be formed;
- c) The candidates with the highest percentage will be appointed.

At least one Statutory Auditor must be appointed from the minority list having received the majority votes. Therefore if the three highest percentages are obtained by candidates from the same majority lists two or more candidates, the last Statutory Auditor to be elected must be appointed from the minority list that obtained the most votes, even though he has a lower percentage than the majority candidate with the third highest percentage.

If there is a tie in the percentages, the candidate of the list in which an auditor has not been voted will be elected, or if all the lists have voted the same number of Auditors, the candidate having received the most number of votes will be elected.

If there is a tie between the votes on a list and a tie in the percentages, the shareholders' are called to vote again and the candidate who receives the majority of the votes will be appointed.

President of the Board of Statutory Auditors is the candidate that is elected first on the list and obtained the majority

of the votes. The Statutory Auditor, when and if the case, can be substituted by the Alternate Auditor belonging to the same list as the auditor to substitute.

The nomination of the current Board of Statutory Auditors took place on June 15, 2006.

Together with the amendment proposals, the Board of Directors will propose to the General Shareholders' meeting, amendments to the nomination procedures of the Board of Statutory Auditors.

Independent audit firm

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.

The auditing period of the company Deloitte & Touche will terminate with the auditing of the Financial statements as at 31/12/2006 however with the modifications introduced with Law no. 262 of December 2005 and the Legislative decree no.303 of December 2006 with regards to accounting principles, the Board of Directors and Statutory Auditors have evaluated positively the extension of the term from 2007-2009, in order to guarantee the coordination and the adaptation of the measures introduced by the same Law with the existing regulations.

The Board of Directors will propose to the Extraordinary Shareholders' meeting amendments to the Articles of Incorporation deemed necessary in view of the new provisions introduced by Legislative decree 303/2006.

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's website (www.reply.it, under investor resources) the following documents are available:

- articles of incorporation;
- Annual calendar of company events;
- Ethic code;
- Code of conduct for internal dealing;
- Corporate Governance Code;
- Regulations on significant operations and related party transactions.

To conclude the following Report on Corporate Governance adopted by Reply S.p.A is in compliance with the principles set forth in the "Listed Companies Code of Self-Discipline", in the version adopted in March 2006 in compliance with recommendations set forth by CONSOB.

Annexed tables include the following items:

Table 1: Board of Directors, Internal control committee and Remuneration committee

Table 2: Board of Auditors

Table 3: Other provisions of the Corporate Governance Code

Table 1: Board of Directors and Committees

Board of Directors							Internal control committee		Remuneration committee	
Office	Members	Executive	Non-executive	Independent	****	Number of other offices	***	****	***	****
Chairman	Mario Rizzante	Mario Rizzante			100%	N/A				
Chief executive officer	Sergio Ingegnatti	Sergio Ingegnatti			100%	N/A				
Executive director	Oscar Pepino	Oscar Pepino			100%	N/A				
Chief executive officer	Tatiana Rizzante	Tatiana Rizzante			100%	N/A				
Lead Independent Director	Fausto* Forti		Fausto Forti	Fausto Forti	100%	1	X	100%	X	100%
Non executive and independent director	Marco Mezzalama		Marco Mezzalama	Marco Mezzalama	83,33%	N/A	X	100%	X	100%
Non executive and independent director	Carlo Alberto Carnevale Maffè		Carlo Alberto Carnevale Maffè	Carlo Alberto Carnevale Maffè	91,66%	2	X	100%	X	100%
Number of meetings held in financial year under review	Board: 12						Internal Control Committee: 3		Remuneration Committee: 5 meetings	

Note

* indicates whether the director has been nominated through lists presented by minorities.

**This column shows the number of directors or statutory auditor positions held by each director in other companies whose shares are listed on Italian or foreign regulated markets and in finance companies, banks, insurance companies and large corporations in general. A detailed listing of these positions is provided in the Annual Report on Corporate Governance.

***"X" is the column which indicates that the members of the Board belong to the Committee.

**** This column shows in percentage terms the attendance record of each director at board of Directors and Committee meetings.

Table 2: board of statutory auditors

Office	Members	Percentage of meetings of the Board of Auditors attended	Number of other offices**
President	Piergiorgio Re	100%	1
Statutory auditor	Tommaso Vallenzasca	100%	zero
Statutory auditor	Ada Alessandra Garzino Demo	100%	zero
Alternate Auditor	Alessandro Mikla		zero
Alternate Auditor	Paolo Claretta - Assandri		zero
Number of meetings attended during the financial year: 8 (eight)			
Indicate the quorum required for the submission of lists by minorities for the election of one or more Statutory Auditors (pursuant to art. 148 TUF): 2%			

Note

* indicates whether the member was nominated through lists presented by minorities.

**This column shows the number of Director or Auditor offices held by the person in other firms listed on the Italian regulated markets. The report on corporate governance contains a complete list of offices.

Table 3: other provisions of the Corporate Governance Code

	Yes	No	Brief explanation of the reasons for any in observance of the recommendations of the Code
Proxies and operations with related parties			
Has the Board of Directors assigned power and defined their:			
a) limits	X		
b) performance modalities	X		
c) and frequency of reporting?	X		
Has the Board of Directors examined and approved most significant economic, financial and asset operations (including operations with related parties)?	X		
Has the Board defined guidelines and criteria for the identification of "significant" operations?	X		
Are the above mentioned guidelines and criteria described in the report?	X		
Has the Board defined precise procedures for examining and approving operations with related parties?	X		
Are the procedures for approving operations with related parties described in the report?	X		
Procedures applying to the most recent appointment of Directors and Auditors			
Were the lists of candidates for the office			
The Corporate Governance system is being updated of Directors submitted at least ten days before the Meeting?	X		
Were all Director candidate recommendations			
The Corporate Governance system is being updated accompanied by exhaustive information?	X		
Were all Director candidate recommendations			
The Corporate Governance system is being updated accompanied by an indication of eligibility as independent actors?	X		
Were the lists of candidates for the office of Auditors submitted at least ten days before the Meeting?	X		
Were all Auditor candidate recommendations accompanied by exhaustive information?	X		
Meetings			
Has the Company approved any Meeting Regulations?	X		The Company does not deem necessary to adopt a Regulation for the Shareholders' meetings.
Are the Regulations attached to the report or is there an indication of where to obtain/download them from?	X		
Internal control			
Has the company appointed persons entrusted with internal control?	X		
Are those persons hierarchically independent of the persons responsible for operational sectors?	X		
Organizational department entrusted with internal control (pursuant to art. 9.3 of the Code)			
Investor relations			
Has the company appointed persons entrusted with investor relations?	X		Mr. Riccardo Lodigiani is head of Investor Relation of the Group.

Organizational department and contacts (address/telephone/fax/e-mail) of the person entrusted with investor relations Investor Relations - Dr. Pedro Martins – Piazza Duca degli Abruzzi, 2
E-mail: investor@reply.it - Reply S.p.A., Corso Francia 110, 10143 Torino; Phone no.: 011/7711594.