



_Corporate Governance

Report on Corporate Governance in accordance
to articles 124 bis Legislative decree no. 58/1998,
89 bis of "Regolamento emittenti" Consob
and Art. ia.2.6 of Borsa Instructions and regulations



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Introduction

This Report reflects and illustrates the governing structure that the Company has adopted in accordance with the indications 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.

1. Corporate governance system

The *Corporate governance system* of the company, which is a set of laws and bylaws adopted in order to ensure the efficient and transparent functionality of the corporate bodies and the control system inspired on the principles and criteria recommended by 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 three bodies: The General Shareholders’ Meeting, Board of Directors (that carries out its function through executive directors and is advised by an Internal Control Committee and a Remuneration Committee), Board of Statutory Auditors and Independent Auditors.

The General Shareholders’ Meeting is the corporate body which expresses the wishes of the shareholders through its resolutions. Resolutions passed in compliance with the law and the bylaws are binding on all shareholders independently whether they agree or disagree with them 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 invests the broadest possible powers of management of the company in order to perform all the actions held to be most appropriate in the pursuit of the company objects, except those reserved for the Shareholders’ meeting.

The Statutory Auditors supervises compliance with the law and bylaws and exercises management control and has to verify the following: The Board of Statutory Auditors must ensure that the laws and bylaws are properly applied and carries out the following controls:

- Respect of good management principles;
- The adequate structure of the company;
- The ways in which the Code is actually executed;
- The adequacy of information disclosed by the subsidiaries in relation to mandatory information disclosed to the market and concerning privileged information.

The Statutory auditors are not responsible for controlling the accounting records which is a function performed by an external company registered in the special Consob register as requested by law and chosen by the Shareholders’ meeting.

The Audit Firm checks during the year that the company’s accounts are properly kept and the management events are correctly reflected in the accounting records. The auditors also verify that the corporate and consolidated financial statements correspond with the outcomes of the accounting records and the verifications performed and that the accounting documents themselves are in compliance with the applicable regulations.

The Independent Auditors can also perform other services resolved by the Board of Directors, when not incompatible with the audit engagement.

The *governance* also includes the Internal Control System and the Organisational Model pursuant to Article 6 of the Law decree 231/2001 and the structure of the powers and proxies, as presented herein.

In the following Report the corporate governance code examined by the Board of Directors on 18 April 2008 is included and it should be noted that some recommendations have not been adopted by the Board of Directors and shall be further explained herein.

This Report has also been integrated with the information requested by laws and regulations of the governance. The Report on Corporate Governance, which completes the explanatory notes and the code can be consulted on the company's website (www.reply.it).

2. Ownership information (art. 123-bis of Legislative Decree 58/1998)

A Share capital structure

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

The share capital fully paid and subscribed, at 18 April 2008, amounts to 4.721.558,40 euros, comprises 9.079.920 ordinary shares with par value of 0,52 Euros each.

The share capital can be increased by a maximum of 87.568,00 euros following the assignment of stock options, related to Reply ordinary shares, at an established exercise price.

The following table shows the existing stock options as at 31 December 2007 which had not yet been exercised:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	Number of options
2004	11/06/2004	11/11/2005	1	17,569	11/11/2008 – 11/11/2013	2.400
2004	11/06/2004	12/05/2006	10	21,339	12/05/2009 – 12/05/2014	150.000
2006	15/06/2006	08/08/2006	1	18,662	08/08/2009 – 08/08/2014	10.000
2006	15/06/2006	27/09/2007	1	24,096	27/09/2010 - 27/09/2015	6.000

On 14 June 2007 the Company approved a share-based incentive plan in favour of directors, employees and managers with key positions of the group companies who achieved group objectives. This plan includes the assignment of ordinary shares (Stock Granting) which may be represented through ordinary shares and/or new shares assigned pursuant to Article 2349 of the Italian Civil Code. With reference to the aforementioned plan the General Shareholders' Meeting, pursuant to Article 2349 of the Italian Civil Code, delegated the Board of Directors to resolve an increase in share capital at different intervals and a maximum period of 5 years, for a maximum nominal Euro 104.000,00, corresponding to a maximum of 200,000 ordinary shares. As at present the share - based incentive plan of Stock Granting has not been activated.

B Restrictions on the transfer of securities

The code does not foresee restrictions on the transfer of securities.

C Significant shareholdings

According to the Shareholders' Ledger, to the notifications received in compliance to the laws and according to other information available as at 18 April 2008, the shareholders that directly or indirectly hold stakes greater than 2% of the share capital having the right to vote are the following:

Declarer	Direct Shareholder	% ownership of share capital and voting capital		
	Name	Type of possesor	%	of which non voting %
Rizzante Mario	Iceberg Sa	Owner	49.642	0.000
	Alika Srl	Owner	4.244	0.000
	Rizzante Mario	Owner	0,111	0.000
	Reply S.p.A.	Owner	1.867	1.867
	Total		55.864	1.867
Kairos Partners	Kairos Partners Sgr S.p.A.	Saving Fund	5.761	0.000
	Total		5.761	0.000
Wassel Manfred	Wassel Manfred	Owner	2.690	0.000
	Total		2.690	0.000
Lodigiani Riccardo	Lodigiani Riccardo	Owner	2.122	0.000
	Total		2.122	0.000
Highclere International Investors Limited	Highclere International Investors Limited	Saving Fund	2.140	0.000
	Total		2.140	0.000
Bipiemme Gestioni Sgr Spa	Bipiemme Gestioni Sgr S.p.A.	Saving Fund	2.044	0.000
	Total		2.044	0.000
Jp Morgan Asset Management (UK) Limited	Jp Morgan Asset Management (UK) Limited	Saving Fund	2.655	0.000
	Total		2.655	0.000

D Securities which grant special rights

No securities have been issued which grant special rights of control.

E Employee shareholdings: mechanism for exercising voting rights

In the case of employee shareholdings, a system by which the voting right can be exercised directly by someone else does not exist.

F Restrictions on voting rights

The corporate governance of the company has not established restrictions on voting rights.

G Agreements between shareholders

At present the Company has the following lock-up agreements in compliance to art. 122 of Legislative Decree no. 58/1998:

1. Agreement dated July 4, 2005 between Mrs. Flavia Rebuffat and the Company by which following 36 months from the agreement date, for a total of 5,446 (five thousand four hundred forty six) shares, equivalent to approximately 0.06% (zero point zero six percent) of the share capital, Mrs. Rebuffat cannot directly or indirectly, or publicly announce the intention of, directly or indirectly executing the following actions: offer, sell and in general not to dispose by any means the shares owned and the rights attributed to the same, with the exceptions allowed under art. 123 TUF.
2. Agreement dated April 2006 between Mr. Manfred Wassel, holder of 244,205 (two hundred forty four thousand two hundred five) shares, equivalent to approximately 2.69% (two point six nine percent) of the share capital and Jochen Meier, holder of 59,524 (fifty nine thousand five hundred twenty four) shares, equivalent to approximately 0.66% (zero point sixty six percent) of the share capital, and the Company by which jointly or individually, cannot directly or indirectly, or publicly announce the intention of, directly or indirectly executing the following actions: offer, sell and in general not to dispose by any means the shares owned and the rights attributed to the same, with the exceptions allowed under art. 123 TUF as outlined below:
 - after 24 months following 21 April 2006, the lock-up period shall expire in relation to 33% (thirty three percent) of the shares held by both;
 - after 36 months following 21 April 2006, the lock-up period shall expire in relation to 34% (thirty-four percent) of the shares held by both;

3. Agreement dated 15 June 2006 between Mr. Giacomo Segalli and the Company by which Mr. Segalli, holder of 8,526 (eight thousand five hundred twenty six) shares equivalent to approximately 0.09% (zero point zero nine percent) of the share capital cannot directly or indirectly, or publicly announce the intention of, directly or indirectly executing the following actions: offer, sell and in general not to dispose by any means of the shares owned and the rights attributed to the same, with the exceptions allowed under art. 123 TUF as outlined below:

- after 24 months following 15 June 2006, the lock-up period shall expire in relation to 4,263 (four thousand two hundred sixty two) shares, equivalent to approximately 0.05% (zero point zero five percent) of the share capital;
- after 36 months following 15 June 2006, the lock-up period shall expire in relation to 4,263 (four thousand two hundred sixty two) shares, equivalent to approximately 0.05% (zero point zero five percent) of the share capital;

4. Agreement dated 15 June 2006 between Mr. Luca Miccoli, Mr. Michele Angelo, Mr. Umberto Riva, and Mr. Claudio Papetti and the Company by which, as at present, cannot directly or indirectly, or publicly announce the intention of, directly or indirectly executing the following actions: offer, sell and in general not to dispose by any means the shares owned and the rights attributed to the same, with the exceptions allowed under art. 123 TUF as outlined below:

Mr. Luca Miccoli:

- after 24 months following 15 June 2006, the lock-up period shall expire in relation to 15,122 (fifteen thousand one hundred twenty two) shares, equivalent to approximately 0.17% (zero point seventeen percent) of the share capital;
- after 36 months following 15 June 2006, the lock-up period shall expire in relation to 15,121 (fifteen thousand one hundred twenty one) shares, equivalent to approximately 0.17% (zero point seventeen percent) of the share capital;

Mr. Michele Angelo and Mr. Umberto Riva:

- after 24 months following 15 June 2006, the lock-up period shall expire in relation to 7,561 (seven thousand five hundred sixty one) shares, equivalent to approximately 0.08% (zero point zero eight percent) of the share capital;
- after 36 months following 15 June 2006, the lock-up period shall expire in relation to 7,560 (seven thousand five hundred sixty) shares, equivalent to approximately 0.08% (zero point zero eight percent) of the share capital

Mr. Claudio Papetti:

- after 24 months following 15 June 2006, the lock-up period shall expire in relation to 5,155 (five thousand one hundred fifty five) shares, equivalent to approximately 0.06% (zero point zero six percent) of the share capital;
- after 26 months following 15 June 2006, the lock-up period shall expire in relation to 5,154 (five thousand one hundred fifty four) shares, equivalent to approximately 0.06% (zero point zero six percent) of the share capital

5. Agreement dated 9 November 2004, tacitly renewed for a further three year period and until 9 November 2010, by which 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, holder of 46.206,00 euros equivalent to 51% of the share capital and more specifically:

- Mr. Mario Rizzante holder of 5.705,00 euros, equivalent to approximately 6.3% (six point three percent) of the share capital;
- Mrs. Maria Graziella Paglia holder of 17.100,00 euros equivalent to approximately 18.87% (eighteen point eighty-seven percent) of the share capital;
- Mrs. Tatiana Rizzante holder of 11.700,00 euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;
- Mr. Filippo Rizzante holder of 11.700,00 euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;

have signed a lock up agreement according to article 122 of TUF for a three year period and renewable for equal periods as long as one of the shareholders does not communicate the cancellation giving six months written notice.

H Appointment and substitution of directors and amendments to the bylaws

The nomination and substitution of directors is disciplined by art. 16 (Nomination of Directors) of the bylaws, and is available on the Company's website (www.reply.it under Investors – Corporate Governance).

Article 16 of the Company's Articles of Incorporation has been revised under the General Meeting's resolution of June 14, 2007, in order to comply to the changes made to the laws and regulations recently introduced, even in relation to the "voting list" mechanisms, under Principle 6.P.1 of the Code that regulates that the nomination of the directors must follow transparent procedures that guarantee the timeliness of adequate information concerning the personal and professional characteristics of the candidate.

Art. 16 of the Corporate Governance, regulates that:

- The list of candidates shall be deposited at the company's registered office fifteen days prior to the date of the first call for the Annual general Shareholders' meeting;
- Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares having the right to present the lists or the minimum minority voting share required in accordance to binding laws or regulations;
- The lists that do not reach the percentage of votes equivalent to at least half of those required for the presentation of the same, cannot be considered when apportioning the directors to be elected;
- The voting mechanism appoints the directors from the list having obtained the majority votes by the shareholders and following the order on the list, five sevenths of the Directors will be selected from the eligible candidates, while the remaining Directors will be selected from the other lists, guaranteeing in any case, that at least one component 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.

The Articles of Incorporation can be modified by resolution passed by the extraordinary shareholders' meeting that:

- as set out by art. 13 (Quorum of the Shareholders' meeting), the Shareholders' meeting is validly constituted at first call, with the attendance of shareholders that represent more than half of the share capital, at second call, with the attendance of more than one third of the share capital, and at third call, with the attendance of more than one fifth of the share capital;
- as set out by art. 14 (Resolution Quorum of the Shareholders' meeting), requests at least two thirds of the voting shares is represented in the meeting.

I Mandates to increase the share capital and authority to buy new shares

The General Shareholders' meeting authorised the Board of Directors' to increase share capital pursuant to article. 2443 of the Italian Civil Code.

The information regarding the share capital increase is detailed in the table below:

Shareholders'		Amount authorised		Proxy executed		
Resolution	Proxy	Expiry date	Euros	Shares	Euros	Shares
14/06/2005	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, to be executed separately against payment released through payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	14/06/2010	442.000,00	850.000	272.953,20	524.910
15/06/2006	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, to be executed separately against payment released through payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	15/11/2011	312.000,00	600.000	-	-
14/06/2007	The Board of Directors has the proxy to increase the share capital in accordance to art. 2429 of the Italian Civil Code and to assign shares to employees, directors of the Parent Company and subsidiaries having a key role in achieving the Group's objectives.	14/06/2012	104.000,00	200.000	-	-

The Shareholder's, following resolution past on June 14, 2007, have authorised the acquisition of treasury shares in accordance to 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 863,191 ordinary shares at 0,52 euros, corresponding to 9.6695 % of the existing share capital, in the limits of 30.000.000 euros;

duration: for a period of 18 months, that is from 14 June 2007 to 14 December 2008, in substitution of the previous authorisation resolved by the shareholders' meeting of 15 June 2006;

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 MTAX Market the day prior to the purchase applying a spread of 10% and a disbursement of maximum 30.000.000 euros;

authorisation to sell: on the market or in blocks, through a public bid, sale, transfer, or trade of shares as the acquisition and or negotiation with strategic *partners* against payment in kind pursuant to the regulations of the Stock Granting plans.

At the end of the financial year on 31 December 2007, the company held no. 169,499. Treasury shares.

L Change of control clause

Should Reply S.p.A. undergo a change of control, with relation to contractual agreements the following is noted:

Financing contracts

Reply S.p.A., on December 30, 2006 undersigned a Financing Contract with a pool of banks, San Paolo Imi (now Intesa San Paolo S.p.A.) is pool leader for a total of 66.000.000 euros, with the major scope of financing the Group for acquisitions on the Italian or European market.

This contract allows the financing banks the faculty to call off the contract if “Iceberg S.A.” loses control directly or indirectly of Reply S.p.A., in accordance to 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, compared to the entire Group activities, are subject to confidentiality clauses.

M Directors’ indemnity in the event of resignation, termination or cessation of employment following a takeover bid

There are no agreements in force between the company and the Board of directors with regards to Directors’ indemnities in the event of resignation, termination or cessation employment following a takeover bid.

3. Management and coordination activities

Reply S.p.A. does not perform management and coordination activities pursuant to article 2497 and subsequent of the Italian Civil Code.

The subsidiary companies do not exercise control and coordination activities for Reply S.p.A. inasmuch as they qualify as a holding, lacking an autonomous organisational structure and consequently do 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 published the control and coordination to which they are subject by Reply S.p.A. in accordance to art. 2497 – bis of the Italian Civil Code.

4. Board of directors

A Members

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 eight (8) Directors of which five (5) executive:

- | | |
|---------------------------|--------------------------------|
| - Dott. Mario Rizzante | Chairman and Managing Director |
| - Dott. Sergio Ingegnatti | Managing Director |
| - Ing. Tatiana Rizzante | Managing Director |
| - Dott. Oscar Pepino | Executive Director |
| - Ing. Claudio Bombonato | Executive Director |

and three (3) non Executive and Independent Directors:

- | | |
|---------------------------------------|------------------------------------|
| - Dott. 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 above mentioned directors have been appointed under shareholders' resolution of June 15 2006, with the exception of Ing. Claudio Bombonato, appointed under shareholders' resolution of 13 December 2007. The mandate of the above directors expires upon approval of the year end 31 December 2008 financial statements.

The nomination of the next Board of Directors will take place according to the bylaws and are detailed in the paragraph "APPOINTMENT AND SUBSTITUTION OF DIRECTORS AND AMENDMENTS TO THE BYLAWS"

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 table below discloses the main information related to the Board of Directors in compliance to Article 144-decies of "Regolamento Emittenti Consob".

Name	Office	In office since	List	Exec.	Non exec.	Indip.	Indi. TUF	% Board	Other offices
Mario Rizzante	Chairman	15/06/2006	M	X				100 %	N/A
Sergio Ingegnatti	Managing Director	15/06/2006	M	X				100%	N/A
Oscar Pepino	Executive Director	15/06/2006	M	X				100%	N/A
Tatiana Rizzante	Managing Director	15/06/2006	M	X				92%	N/A
Claudio Bombonato	Executive Director	13/12/2007	M	X				100%	2
Fausto Forti	Lead Independent Director	15/06/2006	M		X	X	X	92%	1
Marco Mezzalama	Non executive and Independent Director	15/06/2006	M		X	X	X	83%	N/A
Carlo Alberto Carnevale Maffé	Non executive and Independent Director	15/06/2006	M		X	X	X	83%	1

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

The criteria in evaluating the requisites of the Board of Directors has not been integrated or modified.

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

The following arose

- Ing. Claudio Bombonato is a member of the Board of Directors of Fonspa S.p.A. and SI Holding S.p.A,
- 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 a member of the Board of Directors of Poligrafica San Faustino S.p.A.,
- Dott. Fausto Forti is Chairman and is member of the Board of Directors of DHL Express Italy S.r.l..

Compared to the recommendations set out by the Code, the Board of Directors preferred not to express an opinion in relation to the maximum number of offices compatible with the execution of the directors' role, as it believes that such assessment firstly should be made by the shareholders when designating the directors and subsequently by the individual director when accepting the office.

B Role 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 2007 the Board of Directors met 12 (twelve) times.

The Board of Directors are scheduled to meet at least 6 (six) times in 2008.

The Board of Directors have held three (3) meetings at the present date of the Report.

The participating members of the Board are also allowed to intervene through audiovisual connection.

In order to facilitate the participation of a greater number of Managers and Statutory auditors, a draft of the annual meetings is scheduled.

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

C Chairman of the board of directors, chief executive officers and executive directors

The Board of Directors currently holding office is composed of two Managing Directors, an Executive Director and has empowered the Chairman with all 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, 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 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 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, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
 - hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;

The main proxies empowered to the Executive Director, Ing. Claudio Bombonato, with the scope of supporting the Company in the development of activities, are the following:

___ individual powers:

- a) represent the Company Reply S.p.A. with external contacts and business negotiations and authorise the issuing of the related business offer with a limit of 5.000.000 euros per transaction;
- b) negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5.000.000,00 euros for each operation;
- c) participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 euros; and can:

___ draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;

___ confer or receive the necessary mandate in the case of temporary joint ventures;

___ undersign contracts following the awarding of the bid

___ allow third parties the execution of the contracts awarded;

- 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 of exceeding the limits defined above.

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.

At present, the following persons have proxies related to different levels of responsibilities and operational areas: Daniele Angelucci, Domenico Piantelli, Fernando Masella, Riccardo Lodigiani, Riccardo Iezzi, Luigi Luoni, Salvatore Zangari, Elena Previtera Filippo Rizzante, Francesco Savino, Flavia Rebuffat, Daniela Novelli, Giuseppe Veneziano and Fabio Zappelli; detailed information can be obtained at the competent Register of Companies.

D Independent directors

As previously stated, in the current Board of Directors there are three directors that qualify as being independent as specified by law and qualify as independent as per the Code:

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

The independent directors are integral part of the remuneration Committee and internal control Committee.

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 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, 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.

The Board of Statutory Auditors verifies the proper application of the assessment criteria and procedures adopted by the board in order to annually assess the independence of its members, communicating the outcome of such controls in its report to the shareholders.

In 2008 a meeting with only the independent Directors was not necessary.

E 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; for this scope, should these circumstances occur, in accordance to article 2.C.3 of the Code, the role of *Lead Independent Director* is head by the non Executive and Independent Director, Dott. Fuasto Forti.

5. 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 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 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. Consequently, the previously in force Internal Dealing included in the Market Regulation organised and managed by Borsa Italiana and related Instructions, applied by Reply since January 1, 2003 through the adoption of a specific Internal Dealing Code, has been abolished since the new regulations set out by Consob came into force, that is since April 1, 2006.

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).

6. Committees within the board of directors

The Board of Directors set up consulting committees within the Board, The Internal Control Committee and the Remuneration Committee.

The Board of Directors, as allowed by the Code, have not deemed necessary to constitute within its members a director nomination Committee. More specifically, the definition of the professional characteristics of the candidates and the selection of the candidates is carried out through sharing of the shareholders knowledge of the moral requisites and professional competencies of the persons involved.

7. Remuneration committee

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 Remunerations Committee met three (3) times during 2007 with the presence of all members.

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.

8. Remuneration of directors

Remuneration of Directors not invested with operational proxies, for each year in office, was resolved by the Shareholders' Meeting of June 15, 2006, upon nomination, and equal to 20.000,00 euros gross of any withholding amounts foreseen by law.

Remuneration of directors invested with special roles, was established by the Board of Directors upon proposal of the remuneration Committee, authorised by the Board of Statutory Auditors.

In compliance to article 7.C.1 of the Code in the March 2006 release, article 22 of the Articles of Incorporation allows the possibility that a variable fee be attributed 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, and is resolved by the Annual General Shareholders' Meeting approving the annual financial statements.

Such a possibility, that has already been adopted upon allocation of the 2004, 2005 and 2006 net results, considering that this alternative does not exclude the distribution a dividends to the shareholders, will be applied in relation to 31 December 2007 results.

The following table summarises remuneration of controlling bodies:

Director	Fee resolved (annual in relation to duration of office)	Note
Mario Rizzante Chairman and Chief Executive Officer	Euros 540.000,00	Of which Euro 330.000 annual fee for the office of Chairman and Chief Officer and Euro 210.000 as participation in 2006 results as resolved by the Shareholders' Meeting of 14 June 2007. The amount of Euro 540.000 does not include the amount received by Reply Services S.r.l. in capacity of Director and amounts to Euro 120.000.
Tatiana Rizzante Chief Executive Officer	Euros 354.000,00	Of which Euro 120.000 annual fee for the office of Chief Executive Officer and, Euro 24.000 paid by the subsidiary Cluster Reply S.r.l. con Unico Socio as fee for the office of Chief Executive Officer 2007 and Euro 210.000 as participation in 2006 results as resolved by the Shareholders' Meeting of 14 June 2007. The amount of Euro 354.000 does not include the amount received by Reply Services S.r.l., in capacity of Director and amounts to Euro 103.364.
Sergio Ingegnatti Chief Executive Officer	Euros 420.000,00	Of which Euro 210.000 annual fee for the office of Chief Executive Officer and, Euro 210.000 as participation in 2006 results as resolved by the Shareholders' Meeting of 14 June 2007.
Oscar Pepino Executive Director	Euros 210.000,00	Annual fee for the office of Executive Director
Carlo Alberto Carnevale Maffè Non Executive and Independent Director	Euros 20.000,00	Annual fee for the office of Non Executive and Independent Director
Marco Mezzalama Non Executive and Independent Director	Euros 20.000,00	Annual fee for the office of Non Executive and Independent Director
Fausto Forti Non Executive and Independent Director - <i>Lead Independent Director</i>	Euros 20.000,00	Annual fee for the office of Non Executive and Independent Director - <i>Lead Independent Director</i>

The remuneration to Members of the Board in 2007 amounted to 1.688 thousand of euros, inclusive of Directors' severance indemnities (38 thousand euros).

The table below summarises participations held by Directors, and managers with strategic commitments in Reply S.p.A. as at 31 December 2007:

Name	Office held in Reply S.p.A.	No. shares held at 31/12/2006	No. shares purchased in 2007	No. shares sold in 2007	No. shares held at 31/12/2007	%
Mario Rizzante	Chairman	1.481	9.900	-	11.381	0.1112%
Tatiana Rizzante	Chief Executive Officer	5.834	9.900	-	15.734	0.1733%
Sergio Ingegnatti	Chief Executive Officer	-	9.800	-	9.800	0.1079%
Oscar Pepino	Executive Director	2.060	9.900	-	11.960	0.1317%
Marco Mezzalama	Non Executive and Independent Director	250	-	-	250	0.0028%
Managers with strategic commitments		735.290	58.791	(96.108)	697.973	7.6870%

At present, there are still Stock option rights assigned to Directors of the Company in compliance to the Stock Option plans adopted by the Company; the assignment of Stock Option rights to the Directors is summarised in the table below:

Director	Options assigned and Resolution by the Shareholders' meeting	Number of Stock options assigned	Vesting period	Strike price
Rizzante Tatiana	10/06/2004 (plan 2004)	15.000	12/5/09-12/5/2014	Euros 21,339

The Options assigned to the above Director 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.

The following table summarises the number of stock options previously assigned to Directors and exercised in 2007:

Member of the Board	Resolution of the Shareholders' meeting	Number of Stock options assigned	Vesting period esercizio	Strike price
Rizzante Mario	11/06/2002 (plan 2002)	9.900	13/5/07 -13/5/2012	Euro 9,416
Ingegnatti Sergio	11/06/2002 (plan 2002)	9.800	13/5/07 -13/5/2012	Euro 9,416
Pepino Oscar	11/06/2002 (plan 2002)	9.900	13/5/07 -13/5/2012	Euro 9,416
Rizzante Tatiana	11/06/2002 (plan 2002)	9.900	13/5/07 -13/5/2012	Euro 9,416

9. 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 financial statements;
- 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 year basis, on the occasion of the approval of the balance sheet and the half year 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 2007 the Internal control committee met five (5) times and once (1) in 2008 and examined the following:

- consolidated financial statements of 2006 and 2007, half-year report of 2007;
- Reply S.p.A's proposal to acquire the total shares in Acxel S.r.l., a related party that has been doing business with the Reply Group for some time and is currently aimed at becoming a competence centre in the broad band and wireless telecommunication sector;
- the adequacy of the procedures aimed at "Approving offers", applicable to the offers issued by all the Reply Group companies and to the application to Public Bids;
- the projects concerning the revision of procedures according to Law 262/2005 ("Legge sul Risparmio") and to regulations set out under Legislative Decree 231/2001.

The Committee reported two times to the Board of Directors in relation to the activities carried out and with reference to the adequate functioning of the internal control System.

10. 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.

In relation to the company's objectives, operational and of compliance and reporting the Company uses the following instruments:

Instruments able to monitor operational objectives

___ *Budgeting 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 objectives/strategies and defining a budget;

___ *Operational procedure system* - In order to properly apply the company directives and to limit the risks connected to the achievement of the company's objectives, Reply S.p.A. has implemented a group of procedures that regulate internal processes, regulating the activities executed within a function and those with other areas; in 2007 a specific procedure of "Offer Authorisation" was adopted by the Group and is applicable to the offers issued by all the Group companies for Public Bids, that in brief regulates that the issuing of an "Offer" by a Group Company is subject to approval at an adequate organisational level corresponding to the value of the offer and, if the offer exceeds 5.000.000,00 euros it must be approved by the Reply Approval Board (RAB) comprising the Chairman of the Board and by the Chief Executive Officers Sergio Ingegnatti and Tatiana Rizzante; this procedure has been approved by the Internal Control Committee.

Instruments able to monitor compliance objectives

___ *Law 262/2005 in relation to accounting and financial disclosures* - Following the coming into force of law 262/2005 concerning the safeguarding of savings, Reply S.p.A. has terminated the project related to the upgrading of procedures. The objective of the project was to revise the administrative and accounting procedures with reference to the reliance of the economic-financial information disclosed to the market and more specifically:

- ___ mapping of the main sub- processes within the administration and relevant accounting procedures;
- ___ assessment of the adequacy of the existing controls and proposal of further areas of control in view of compliance and greater reliance 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 related paragraph.

___ *Security, environment and quality* - Reply has established a procedure system and an organisational structure dedicated to the management of data security (also with regards to the laws on Privacy), protection of the environment, security of equipment and personnel and the quality of services carried out (Iso certification 9001:2000).

___ *Other laws and regulations* - Monitoring the evolution and compliance to new laws and regulations is carried out internally.

Instruments able to monitor reporting objectives

— *Accounting disclosures* – The Group accounting Manual sets the guidelines to the information to be disclosed with relation to consolidated and separate financial statements, to the administrative-accounting procedures recently upgraded/integrated within the Project related to Law no. 262/2005, illustrated previously.

— *Processing of confidential information*: see relevant paragraph;

— *Internal information* – Reply S.p.A. has an internal communication system, orientated to facilitate and promote the internal communication within the company and the Group, also through a structured system as the Management and coordination Committee.

A Executive officer in charge to supervise the functionality of the internal control system

On 15 June 2006, the Board of Directors, appointed Dott. Sergio Ingegnatti to the position of Executive Officer in charge to supervise the functionality of the internal control system and has also nominated Ms. Celestina Massenzio, who was 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.

B Organisation, management and control model pursuant to legislative decree 231/2001

In November 2004, the Board of Directors approved the “Ethic Code” whose introduction represents an important step towards the constitution of a sound internal control system 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.

In 2006 the adoption of a new organisation, management and control model pursuant to Legislative Decree 231/2001 (the Model) was underway and completed in the first quarter of 2007, with relation to the responsibilities of enterprises, in order to prevent the execution of illicit. The model was approved by the Board of Directors on 28 March 2008. 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 organisational procedures, formational and informational activities and disciplinary system finalised at assuring the prevention of offences.

The types of offences contemplated by Legislative Decree 231/2001 and that have been considered at risk for the Group, as outlined in the attached Model, are the following:

- (i) relations with the Public Administration;
- (ii) enterprise obligations;
- (iii) privileged information;
- (iv) security, prevention, health and hygiene on the work site.

The Model must be adopted by the Italian Group companies that are part of the scope of consolidation, in relation to the risk activities of the single company.

The Organisational Model of Reply S.p.A is published on the company website (www.reply.it – Investors – Corporate Governance).

The Board of Directors appointed a Compliance Committee which has the duty to verify the correct function of the Model and to update it. The Compliance Committee has to refer to the Board and in the worst cases must refer to the Internal Control Committee. The Compliance Committee comprises external members (Ing. Franco Gianolio) as Chairman, Lead Independent Director (Dott. Fausto Forti) and a member employed in the company (Dott.ssa Celestina Massenzio).

C 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.

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 Shareholders' Meeting of 14 June 2007 have evaluated positively the extension of the term of the auditing firm Deloitte & Touche S.p.A 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 auditing period will terminate with the auditing of the Financial statements of 2009.

D 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 statements and to any other financial communications 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*.

11. 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 and/or vote. 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 body. 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;
- h) subjects who have the same majority directors as Reply S.p.A.

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

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 transactions 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.

12. Appointment of statutory auditors

The appointment and the substitution of statutory auditors is disciplined by Article 23 (Statutory Auditors) of the Code, and can be consulted on the company's internet website (www.reply.it – Investors – Corporate Governance). Article. 23 of the Code has been modified with the resolution of the Extraordinary Shareholders' meeting of 14 June 2007 in compliance to modifications in the legislations and regulations recently introduced with regards to the "voting lists", Principle 10.P.1 which states that the appointment of auditors shall occur according to a transparent procedure. It shall ensure, inter alia, timely adequate information on the personal and professional characteristics of the candidates.

Article. 23 of the Code is as follows:

- the lists of the candidates for the office of Statutory Auditor must be deposited at the Company's offices at least fifteen days prior to the date set for the Shareholders' Meeting on first call;
- 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 any other minimum number requested by other laws and regulations;
- The voting mechanism foresees that the votes obtained from each list, Statutory Auditors are separated from 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. 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, 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;
- President of the Board of Statutory Auditors is held by the statutory auditor which was elected from the minority list which obtained the highest number of votes.

13. Statutory auditors

The Statutory Auditors Board is made up of three standing auditors and two alternate auditors and the Board is comprised as follows:

- Prof. Piergiorgio Re President
- Dott. Tommaso Vallenzasca Statutory auditor
- Dott.ssa Ada Alessandra Garzino Demo Statutory auditor
- Dott. Paolo Cletta – Assandri Alternate auditor
- Dott. Alessandro Mikla Alternate auditor

The Board of Statutory Auditors was appointed during the Shareholders' Meeting on 15 June 2006 and will expire on 31 December 2008 with the approval of the financial statements.

The appointment of the statutory auditors will be in accordance with the new laws as better explained in the section "Appointment of Statutory Auditors".

The table below summarises the Board of Statutory Auditors and explains the main information requested in accordance to Article 144-decies of the Consob Regulation of Issuers.

Name and surname	Office	In office since	List	Independent from code	Percentage of meetings of the Board of Auditors attended
Piergiorgio Re	President	15/06/2006	M	X	100%
Tommaso Vallenzasca	Statutory Auditor	15/06/2006	M	X	100%
Ada Alessandra Garzino Demo	Statutory Auditor	15/06/2006	M	X	100%
Paolo Cletta Assandri	Alternate Auditor	15/06/2006	M	X	NA
Alessandro Mikla	Alternate Auditor	15/06/2006	M	X	NA

Legend: M/m: M/majority list, m/minority list

In 2007 the remuneration paid to the Board of Statutory Auditors, determined by the Shareholders' Meeting, amounted to 81.744 and was as follows:

- Piergiorgio Re 34.472 euros;
- Tommaso Vallenzasca 23.533 euros;
- Ada Alessandra Garzino Demo 23.739 euros;

In 2007 the Statutory Auditors met 9 (nine) times.

14. Shareholders relations

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.

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.

On the Company's website (www.reply.it, Investor relator - Corporate governance) the following documents are available:

- Articles of incorporation;
- Annual calendar of company events;
- Organisational Model pursuant ex art. 6 Legislative Decree no. 231/01 and the ethic Code;
- Code of conduct for internal dealing;
- Corporate Governance Code;
- Regulations on significant operations and related party transactions.

Pursuant to "Regolamento of Borsa", the company's calendar for 2008 and the events have been made available to the public within the established terms, and the following dates have been established:

- the Board of Directors meeting that approves the Annual Financial Statements;
- the Shareholders' Meeting that approves the Separate financial statements;
- the Board of Directors meeting that approves the fourth quarterly report of 2007 and the first and second quarter of 2008 and the Half-year report.

15. General 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.

Article 12 of the Articles of Incorporation establishes that shareholders have the right to intervene during the General Shareholders' Meeting if they have provided written notice pursuant to art. 2370, paragraph two of the Italian Civil Code, two work days prior to the day of the meeting.

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.

16. Changed subsequent to the year end close

Following the year end close no significant changes have been made to the structure of the Corporate Governance.

Turin, 18 April 2008

For the Board of Directors

The Chairman

Dott. Mario Rizzante

