

RETELIT S.P.A.

REPORT
ON COMPANY GOVERNANCE AND
OWNERSHIP
2012

pursuant to Art. 123 bis (Financial Services Act Legislative Decree N° 58 of 24/02/1998);

Approved by the Board of Directors
on 22 March 2013

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GLOSSARY

Code/Code of Self-Regulation: the Code of Self-Regulation of listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Civ. Cod./ c.c.: the Italian civil code.

Board: the Board of Directors of Retelit S.p.A.

Company/Issuer: Retelit S.p.A.

Financial year: the corporate financial year that the Report refers to ended on 31 December 2012.

Consob Issuer Regulation: the Issuer Regulation issued by Consob with Resolution no. 11971 of 1999 (as subsequently modified).

Consob Markets Regulation: the Markets Regulation issued by Consob with Resolution no. 16191 of 2007 (as subsequently modified).

Consob Related Party Regulation: Regulation issued by Consob with Resolution no. 17221 of 2010 (as subsequently modified) on operations with related parties.

Report: the corporate governance and company assets report that the companies are required to draw up pursuant to art. 123-bis of the FSA.

Financial Services Act /SFA: Legislative Decree no. 58 of 24 February 1998.

Articles: the company Articles of Association.

1. ISSUER PROFILE.

The Company has adopted the traditional management and auditing model, which envisages the presence of a Board of Directors and a Board of Statutory Auditors. An auditing firm was appointed, as required by current regulations.

Pursuant to the Articles of Association, the Board is vested with the broadest powers for the administration and ordinary and extraordinary management of the Company and shall be entitled to take all actions it deems appropriate for the implementation and achievement of company objectives. Certain matters referred to in the Code shall be within the competence of the Board, as illustrated in detail below. The Board shall appoint, subject to the mandatory opinion of the Board of Auditors, the manager in charge of preparing company accounting documents.

The members of the Board were appointed, by resolution of the Shareholders' Meeting of 30.10.2012, for three financial years, expiring on the date of the Shareholders' Meeting convened to approve the financial statements at 31.12.2014; members may be re-elected. Board members shall be appointed through slate voting in order to allow minority shareholders to elect an Administrator. In a Board meeting context, the Shareholders' Meeting approved the appointment of the Chairman. The Board resolution of 12.11.2012 sanctioned the appointment of the Executive Committee, to whom the management of the Company shall fall, within the limits of the powers conferred by the Board. Also appointed was the Audit and Risk Committee, with consultative and advisory functions as indicated below, and the Remuneration Committee, with consultative and advisory functions as indicated below.

In accordance with the provisions of current regulations, the Board of Statutory Auditors is responsible for supervising: compliance with the law and the Articles of Association; observance of the principles of sound management; adequacy of the Company's organisational structure, as far as it is responsible, and the internal auditing and administrative-accounting system, as well as the reliability of this system in properly representing operating data; and the methods of concrete implementation of the rules on corporate governance to which the company must adhere. The Board of Statutory Auditors in relation to the conferral of the responsibility of financial auditing shall formulate a reasoned proposal to the Shareholders' Meeting. The members of the Board of Statutory Auditors are appointed for three years, expiring on the date of the Shareholders' Meeting convened to approve the financial statements at 31.12.2014; the members may be re-elected. The appointment of the Board of Statutory Auditors has taken place through slate voting: minority slates are entitled to elect one Statutory Auditor and one alternate. The Auditor chosen by the minority shareholders is the Chairperson of the Board of Statutory Auditors.

The Supervisory Board was also nominated with responsibility for supervising the adequacy and the application of the Code of Ethics and the organisational models of the company.

The Assembly is the body that represents the totality of the shareholders. The ordinary session of the Assembly shall pass resolutions regarding the approval of financial statements, the appointment and dismissal of members of the Board of Directors, the appointment of members of the Board of Statutory Auditors and their Chairman, as well as the retribution of the Shareholders and Statutory

Auditors, the conferral of accounting control duties, and the responsibilities of the Administrators and Auditors. During the extraordinary session, the Shareholders' Meeting passes resolutions regarding modifications of the Article of Association and other operations of an extraordinary nature such as share capital increases, mergers and demergers. Exceptions are made for certain extraordinary transactions, reserved by art. 22 of the Articles of Association for the Board, as permitted by art. 2365 paragraph 2 of the C.C.: The above-mentioned art. 22 establishes, in fact, that

"... The Board of Directors may therefore resolve to open or close – in Italy or Abroad – any secondary branches with permanent representation, to reduce share capital in case of withdrawal of the shareholders, to update the Articles of Association to conform to mandatory regulatory provisions, to transfer the registered offices within national territory, as well as mergers by incorporation or spin offs, in favour of the Company, of companies that are entirely controlled or of which 90% of the capital is held, all pursuant to the provisions stated in articles 2505 and 2505-bis of the Civil Code and also those cited in article 2506-ter of the Civil Code.

As it deems fit and within the limits allowed by law, the Board of Directors may delegate its powers and determine the limits of such delegation, to an Executive Committee made up of some of its members, or to one or more of its members which may be qualified as Chief Executive Officers and grant signing power to them, individually or collectively."

The Ordinary Shareholders' Meeting of 3 May 2012 resolved to confer on Deloitte S.p.A. for the period 2012/2020, i.e. until the Shareholders' Meeting called to approve the financial statements at 31.12.2020, the following assignment:

- audit of the financial statements;
- verification of the consistency of the management report and the information included in the report on company governance and ownership with the budget;
- limited review of the interim approved financial statements;
- verification of the signing of Tax Returns;
- audit of the consolidated financial statements;
- verification of the accounting records and the correct reporting of the facts in the accounting records;
- complete or limited audit of the subsidiaries.

The information contained in this document, unless indicated otherwise, refers to the date of its approval by the Board of Directors (22 March 2013).

2. INFORMATION ON OWNERSHIP

As at 22 March 2013

a) Share capital structure.

The subscribed and paid-up share capital of the Company is Euro 144,035,525.97 fully paid up and divided into 159,937,627 ordinary shares without a nominal value, as indicated in the table below.

SHARE CAPITAL STRUCTURE				
	No. shares	% of share capital	Listed	rights and obligations
Ordinary shares	159,937,627	100	Borsa Italiana MTA (electronic share market)	art. 25 of the Articles of Association;
Shares with limited voting rights	<i>not applicable</i>	<i>not applicable</i>	<i>not applicable</i>	<i>not applicable</i>
Shares with no voting rights	<i>not applicable</i>	<i>not applicable</i>	<i>not applicable</i>	<i>not applicable</i>

Over the course of the 2008 financial year, warrants named “Warrant 2008-2011” were issued free of charge together with the new ordinary shares subscribed during the capital increase operation in a ratio of 1:2.

With Board resolution of 20 May 2011, the period of the "Warrant Retelit 2008-2011", which was originally due to expire on 18.07.2011, was extended until 31.12.2012, with a consequent change in the relative name of the warrants.

With Board resolution of 14.12.2012, the deadline for the period of the "Warrant Retelit 2008-2012", still outstanding at the date of the Board resolution and originally set to expire on 31.12.2012, was further extended until 31/03/2013. Consequently, the Board changed the name of the warrants to "Warrant Retelit 2008-2013".

There are no other categories of shares / financial instruments that give the right to subscribe newly-issued shares.

b) Restrictions on the transfer of securities.

There are no restrictions or limitations on the free transfer of securities.

c) Significant shareholdings.

The significant direct or indirect shareholdings are listed below, according to the communications made pursuant to Art. 120 of the FSA and updated on the basis of the company's available information.

Reporting entity	Direct shareholder	% share of ordinary capital	% share of voting capital
LPTIC – Libyan Posts Telecommunications Information Technology Company	Bousval S.A.	14.798	14.798
SIIT – Società Italiana investimenti tecnologici S.r.l.	Sirti S.p.A.	10.010	10.010
Van Den Heuvel Holger	Selin S.p.A.	8.587	8.587
HBC S.p.A.	HBC S.p.A.	4.601	4.601
Pretto Alberto	Pretto Alberto	4.415	4.415

d) Securities granting special privileges.

No securities that confer special controlling rights have been issued.

e) Employee shareholdings: mechanism for exercising voting rights.

There are no employee shareholdings with a different mechanism for exercising voting rights from that envisaged for other shareholders by the Articles of Association and by law.

f) Restrictions on voting rights.

There are no restrictions on voting rights. Under the terms of art. 13 of the Articles of Association, legal provisions apply to the matter of attendance of Shareholders at Shareholders' Meetings.

As regards voting, art. 13 of the Articles of Association states that every holder of voting rights may be represented by another person with a written proxy under the terms of the law. Notice of the proxy for attendance at the Shareholders' Meeting may also be communicated to the company by forwarding the document to the e-mail address indicated in the notice of convocation.

g) Shareholders' agreements.

On 2.10.2012 a shareholders' agreement pursuant to art. 122 SFA was filed with the Office of the Register of Companies of Milan, signed from among the shareholders Bousval SA, Alberto Pretto, Daniela Guatterini, Guido Previtali, Gregory srl, Franco di Cicco, Alpitel Spa, Ugo Castellano, Giuseppe Ravasio, Oreste Ielmoli, Orazio Ferrari and Riccardo Rossi. The agreement provides for the obligation of members, exclusively in relation to the Shareholders' Meeting called on 29 and 30 October 2012, to vote in favour of the slate of candidates for the new Board of Directors to be presented by the shareholder Bousval SA. The members are also pledged, at the request of each of them, to enter into consultations on the subjects of the Meetings to be held during the term of the agreement and also on any other topic of interest, it being understood that the consultation involves neither any commitment relating to the vote, nor prohibition of alienation, increase or other variation in the investments held by each in the Company. The agreement is in effect for a period of three years after its last signing. Each member has the right to withdraw from the agreement in advance at any time with 60 days notice by registered letter to be sent to the other members.

h) Change of control clauses and statutory provisions relating to takeover bids.

The Articles of Association of the Company do not derogate from the provisions on the passivity rule, provided for by art. 104, paragraphs 1 and 1 - *bis* of the SFA. The Articles of Association do not provide for any of the neutralisation rules contemplated by art. 104 - *bis*, paragraphs 2 and 3, of the SFA.

i) Powers to increase share capital and authorisation to purchase treasury shares.

The Board was authorised to increase the share capital pursuant to Art. 2443 of the Civil Code. In particular, with a resolution passed on 5 May 2008 the Extraordinary Shareholders' Meeting granted the Directors, pursuant to Article 2443 of the Civil Code, the power to increase once or several times, within five years from the date of the resolution, the share capital for a maximum amount of 40,000,000 Euro including any surcharge, by issuing ordinary shares with the same features as those in issue, to be offered through stock options to those having a right.

The administrators were also granted the faculty to establish the number of shares to be issued each time, the price of issue and any possible surcharge on the shares and the relative dividend entitlement. The Extraordinary Shareholders' Meeting of 5 May 2008 granted the Board of Directors the faculty to increase the share capital by payment of one or several rates, within the period of five years from the date of the resolution, at the service of exercising the “Retelit 200[▪]-201[▪]” warrants for a total value equal to the eventual maximum surcharge of 30,000,000.00 Euro.

The Board of Directors on 20 June 2008 partially exercised the power granted by passing a resolution to increase share capital for a total value of 31,524,454.08 Euro in shareholder options; it also passed a resolution for a capital increase of an overall value of 18,764,556 Euro at the service of the exercise of the Warrant Retelit 2008-2011. Initially, the term of the Warrants Retelit was set until 2011; this duration was extended until 31.12.2012, pursuant to the resolution of the Board of Directors on 20.05.2011 and, therefore, up to 31.03.2013, pursuant to the resolution of the Board of Directors of 14.12.2012. The warrants are now called "Warrant Retelit 2008-2013".

The Article of Association do not give the Board of Directors the power to issue equity instruments. The Shareholders' Meeting has not authorised the purchase of treasury shares.

l) Management and coordination activities

The Company is not subject to management and coordination activities pursuant to art. 2497 and following of the Civil Code.

It is also stated that:

- the information required by art. 123 - *bis*, first paragraph, letter i) of the FSA - Compensation of Directors in case of resignation, dismissal or termination of employment following a takeover bid - are contained in the remuneration report published pursuant to art. 123-*ter* of the FSA.

- the information required by art. 123-bis, first paragraph, letter l) - "the rules governing the appointment and replacement of directors ... and the amendment of the Articles of Association, if different from the laws and regulations alternatively applicable" - are shown in the section of the Report on the Board of Directors (Sect. 4.1).

3. COMPLIANCE.

The Company has decided to adopt the substance of the main recommendations of the Code, taking account of its industrial, dimensional and economic specificities. The Code is publicly available on the Company's website (www.retelit.it) and the website of Borsa Italiana spa (www.borsaitaliana.it). Where the Company has decided not to accept a principle or application criterion of the Code, reasons are provided in the Report.

Neither the company nor its strategically important subsidiaries are subject to non-Italian legal provisions influencing the Company's corporate governance structure.

4. THE BOARD OF DIRECTORS.

4.1 APPOINTMENT AND REPLACEMENT.

Pursuant to art. 16 of the Articles of Association, the company is managed by a Board of Directors made up of no less than three and no more than fifteen members, and may include non-shareholder members.

The Board of Directors is appointed by the Shareholders' Meeting, which also determines the number of Board members, establishing the term of office up to a maximum of three years. The Directors' appointments expire on the date of the Shareholders' Meeting called to approve the financial statements for the last year of their term. Those appointments expire and they are re-elected or replaced in accordance with law and the Articles of Association.

The Company is not subject to further regulations beyond those set forth in the FSA on the composition of the Board of Directors.

The administrators must possess the requisites envisaged by pro tempore current regulations; in accordance with the minimum number envisaged by article 148, paragraph 3 of Legislative Decree 58/1998, the required minimum number of administrators must fulfil the requisites of independence stated under the same regulation.

The Articles of Association do not require further requisites of independence.

The failure to meet the requisites shall give rise to termination of the administrator. If a director no longer meets the requisites he or she must resign from the Board. If a director no longer meets the requisite of independence as defined above he or she need not resign from the Board if there is still the minimum number of administrators who according to current legislation must have the said requisite.

The appointment of the Board of Directors shall take place, in compliance with the law in force *pro tempore* on the balance between types, on the basis of the slates of candidates submitted by the shareholders, in which the candidates are listed progressively.

The slates presented by the shareholders and signed by those who present them, must be delivered to the company's head office and made available to anyone who requests to see them at least twenty-five days before the date established for the first call to assemble, and they will be subject to the other forms of publicity envisaged by the provisions in force *pro tempore*.

The Articles of Association establish that each shareholder, or shareholders party to a shareholders' agreement under art. 122 of Legislative Decree No. 58/1998, the parent company, subsidiaries and companies subject to joint control pursuant to art. 93 of Legislative Decree No. 58/1998, may not submit or participate in the presentation, even through a third party or trust company, of more than one slate or vote for different slates, and that each candidate may appear on only one slate on pain of ineligibility. The support for and all votes cast in violation of said prohibition shall not be assigned to any slate.

The only shareholders with the right to submit slates are shareholders who alone or together with other presenting shareholders, own shares with voting rights that account for at least 2.5% of the share capital having the right to vote in the ordinary Shareholders' Meeting, or, which represent the lesser or greater percentage established by legal or regulatory provisions.

Together with each slate, within the respective terms listed above, the following must be filed: (i) the declarations by which the individual candidates accept their candidacy and guarantee under their own responsibility that there is no cause for their ineligibility or incompatibility, as well as that the prescribed requirements for the respective roles have been met; (ii) a curriculum vitae regarding the personal and professional characteristics of each candidate with an indication of the candidate's suitability to be classified as independent. The specific certification issued by a qualified

intermediary under the terms of the law must also be deposited, within the term provided for in the rules applicable for publication of the slates by the Company, to prove that, at the moment when the slate is filed with the Company, the number of shares necessary for presentation of the same are in fact held.

Slates presenting three or more candidates must contain candidates of both types, so that at least one fifth (in the case of the first mandate after 12 August 2012), and successively one third (rounded up) of the candidates belong to the lesser represented kind.

The submitted slates that do not conform to the provisions above shall be considered as if they were not submitted.

The Articles of Association further require that for the election of the Board of Directors, the procedure below shall be followed:

- a) from the list which obtained the greatest number of votes, the Administrators to be elected, except for one, shall be selected in the progressive order in which they are listed on the same list;
- b) the remaining Administrators shall be selected from the minority list which is not connected in any way, even indirectly, with the list stated in the preceding letter a) or with those who presented and voted for the list stated in letter a) above, and which received the second greatest number of votes. For this purpose, slates that have not received at least half of the required percentage of votes for the presentation of slates shall not be taken into consideration, as stated in the eleventh paragraph of the cited article 16 of the Articles of Association.

If the candidates elected as described above do not ensure a sufficient number of Directors in possession of the requisites of independence laid down for statutory auditors by Article 148, paragraph 3, of Legislative Decree No. 58 of 28 February 1998 and equal to the minimum number set by law in relation to the total number of Directors, the non-independent candidate who was elected last from the slate which received the greatest number of votes, under letter a) of the preceding paragraph, shall be replaced by the first independent candidate who was not elected from the same slate, or, if that is impossible, by the first independent candidate of unelected candidates from other slates according to the number of votes each one received. This replacement procedure shall continue until the Board of Directors is made up of a number of members who possess the requisites pursuant to article 148, paragraph 3 of Legislative Decree No. 58/1998, at least equal to the minimum prescribed by law. If at the end of said procedure the last result indicated is not fulfilled, substitution shall take place by assembly resolution decided by the relative majority, upon the presentation of the candidates that possess the cited requirements.

Pursuant to the cited article 16 of the Articles of Associations, if, with the candidates elected by the above described procedures, the composition of the Board of Directors does not conform to the discipline in force *pro tempore* regarding the balance between the types, the candidate of the more represented kind elected last in the progressive order of the most voted slate shall be replaced by the first, according to the progressive order, of the non-elected candidates of the lesser represented type of the same slate. This substitution procedure shall take place until the composition of the Board of Directors conforms to the discipline in force *pro tempore* regarding the balance of the two kinds. If, on conclusion of said procedure, the last indicated result is not fulfilled, substitution shall take place by assembly resolution decided by the relative majority, upon the presentation of the candidates that possess the prescribed requirements.

If only one list is presented or if no lists are presented, the Shareholders' Meeting shall pass resolutions according to legal majority, without observing the procedure envisaged above.

In any case this is without prejudice to other different or ulterior provisions envisaged by mandatory laws and regulations

The Company is not subject to further regulations on the composition of the Board of Directors.

Succession plans.

The Board of Directors has not adopted any specific plan for the succession of executive directors. It should be noted, however, that with resolution of 12.11.2012, the Board appointed an Executive Committee that will remain in office, in accordance with the Regulations of the Executive Committee, for the entire period in which its members hold the office of directors of the Company. Refer to Article. 17 of the Articles of Association concerning the rules for replacement of one or more directors who cease to be available during the year.

4.2 COMPOSITION.

The Board of Directors in office at the date of closure of the financial year is reported in the table below. Please note that the Shareholders' Meeting held on 30.10.2012, called at the request of the shareholder Bousval SA, resolved to revoke the Board of Directors in office on that date. The board members that ceased during the year are shown in the table on page 14 of this document.

The same Shareholders' Meeting of 30.12.2012, following the submission of two slates as specified in the table below, passed a resolution for the appointment of the Board of Directors in its current composition.

Slate presented by	List of candidates	List of those elected	% obtained in relation to share capital
Bousval S.A.	Gabriele Pinosa (Chairman) Majdi Ashibani Abdelmola Elghali Johan Anders Leideman Mauro Tosi Alberto Della Porta Anna-Lena Philipson Paola Pillon Renato Ferroni	Gabriele Pinosa (Chairman) Majdi Ashibani Abdelmola Elghali Johan Anders Leideman Mauro Tosi Alberto Della Porta Anna-Lena Philipson Paola Pillon	32.47%
HBC S.p.A.	Stefano Borghi Patrizia Passerini Daniele Lessi	Stefano Borghi	13.19%

The slates presented were broken down as follows:

The shareholder Bousval SA, owner of 23,604,720 shares, representing 14.781% of the share capital, submitted the following slate:

- Gabriele Pinosa – Chairman
- Majdi Ashibani – Director
- Abdelmola Elghali - Director
- Johan Anders Leideman – Director
- Mauro Tosi – Director

- Alberto Della Porta – Director
- Anna-Lena Philipson – Director
- Paola Pillon – Director
- Renato Ferroni – Director

The shareholder HBC Spa, owner of 7,348,352 shares, representing 4.601% of the share capital, submitted the following slate:

- Stefano Borghi
- Patrizia Passerini
- Daniele Lessi

The CVs of the Directors were made available on the website of the Company (www.retelit.it).

The following table provides information on the composition of the Board of Directors during the year.

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors											Control and Risk Committee		Remuneration Committee		Executive Committee	
Office	Members	In office since	In office until	Slate M/m*	Exec.	Non-exec.	Independent as per Code	Independent as per SFA	** %	Number of other positions ***	****	**	****	**	****	**
Chairperson	Gabriele Pinosa	30/10/2012	Approval of Financial Statements at 31/12/2014	M					100%				X	100%		
Director	Stefano Borghi	30/10/2012	Approval of Financial Statements at 31/12/2014	m		X			100%	1	X	100%				
Director	Ashibani Majdi Ali	30/10/2012	Approval of Financial Statements at 31/12/2014	M	X				100%						X	100%
Director	Alberto Della Porta	30/10/2012	Approval of Financial Statements at 31/12/2014	M		X	X	X	100%				X	100%		
Director	Elghali Abdelmola	30/10/2012	Approval of Financial Statements at 31/12/2014	M		X			50%				X	100%		
Director	Leideman Johan Anders	30/10/2012	Approval of Financial	M	X				100%						X	100%

			Statements at 31/12/2014													
Director	Anna-Lena Philipson	30/10/2012	Approval of Financial Statements at 31/12/2014	M			X	X	X	100%		X	100%			
Director	Paola Pillon	30/10/2012	Approval of Financial Statements at 31/12/2014	M			X	X	X	100%		X	100%			
Director	Mauro Tosi	30/10/2012	Approval of Financial Statements at 31/12/2014	M	X					100%						X 100%

DIRECTORS CEASED DURING THE YEAR

Board of Directors											Control and Risk Committee		Remuneration Committee		Executive Committee	
Office	Members	In office since	In office until	Slate M/m*	Exec.	Non-exec.	Independent as per Code	Independent as per SFA	** %	Number of other positions	****	**	****	**	****	**
Chairperson	Danilo Oreste Broggi	12 December 2011	30/10/2012	M	X				100%							
Director	Laura Guazzoni	12 December 2011	30/10/2012	M		X	X	X	83%		X	100%	X	100%		
Director	Michele Porcelli	12 December 2011	30/10/2012	M		X	X	X	100%		X	100%				

Director	Gabriele Pinosa	12 December 2011	30/10/2012	Mt		X	X	X	100%			100%		100%		
Director	Stefano Borghi	12 December 2011	30/10/2012	M		X			93%					100%		

NOTES:

* This column indicates M/m depending on whether the member was elected from the majority slate (M) or from a minority (m).

** This column shows the percentage of attendance of directors at meetings of the Board and committees (number of admissions, number of Meetings held during the period of office of the person concerned)

*** This column shows the number of offices as directors or statutory auditors held by the individual in question in other companies listed on regulated markets, including foreign markets, in finance, banking, insurance or on a large scale - this Report is accompanied by the list of these companies referable to each director, stating whether the company in which the position is held is or is not part of the parent group or whether the Issuer is part of it.

**** in this column X indicates a Board member's membership of committee.

Maximum number of offices held in other companies

The Board currently has decided not to comply with Code recommendations regarding the Board's expression of a policy regarding the maximum number of offices held as Administrators or statutory auditors in listed companies, finance companies, banks insurance companies or companies of significant size which can be considered compatible with the effective fulfilment of the office of Director of the Company, inasmuch as it has chosen to allow the individual Administrators to evaluate that compatibility themselves. As can be seen by the number of Meetings held and the attendance by the Board members, participation is diligent and regular; the Board carefully follows the activity of the Company.

There are no changes in the composition of the Board to become effective since the year end.

Induction Programme.

The Chairman of the Board of Directors has decided not to promote training initiatives for directors, aimed at providing them with adequate knowledge of the industry in which the Issuer operates, its business dynamics and their evolution, and the regulatory framework, because the directors are largely equipped with skills and experience in the field.

4.3 ROLE OF THE BOARD OF DIRECTORS

During the course of the Year the Board of Statutory Auditors has met 13 times.

The table on pages 14 - 15 shows the percentage attendance of each director at meetings of the Board of Directors.

The financial schedule for the current year, approved by the Board of Directors and published on the website of the Company, establishes that the Board will meet at least in 5 sessions. To date, the Board has met 3 times, on 18 January 1 March and 22 March.

To guarantee the promptness and completeness of the pre-meeting information sent to Directors, the documentation and information necessary for decision-making are sent a reasonable time in advance, at least two days before the meeting, if possible. Given the heavy workload assumed and the numerous resolutions on the agenda, it was not possible to meet this criterion with absolute rigour.

The Chairman of the Board of Directors will ensure that the topics on the agenda will be given the necessary time to allow a constructive debate, encouraging contributions by the Directors during the meetings.

The Board Meetings, if required by the agenda topics and by the request of the Chairman of the Board of Directors, will encourage the participation of Company executives or managers of competent Company departments or any relevant external consultants to ensure appropriate depth on individual topics on the agenda.

The Articles of Association give the Board the widest powers for administration of the Company. It may carry out any actions required for furtherance of the corporate purpose both for ordinary and extraordinary administration, without exclusions or exceptions and without prejudice to actions which the law or the Articles of Association reserve for the competence of the Shareholders' Meeting.

The Board of Directors may therefore resolve to open or close – in Italy or Abroad – secondary branches with permanent representation, to reduce the share capital in the event of withdrawal of the shareholders, to update the Articles of Association to conform to mandatory regulatory provisions, to transfer the registered offices within national territory, country as well as mergers by incorporation or demergers in favour of the Company, of companies which are wholly controlled or of which 90% of the capital is held, all in compliance with the provisions stated in Articles 2505 and 2505-bis of the Civil Code and also those cited in Article 2506-ter of the Civil Code.

The Board of Directors, at its own discretion and within the limits of law, may delegate its powers, determining the limits of such delegation, to an Executive Committee composed of some of its members, or to one or more of its members, who may be appointed as Managing Directors, granting powers of signature to the same, individually or collectively.

The Board may also appoint General Managers, Managers and Attorneys, with individual or collective powers of signature, determining their powers and responsibilities, as well as agents in general for determined actions or categories of actions.

The appointment of Managers, Deputy Managers and Attorneys and the establishment of their respective remuneration and responsibilities may also be deferred by the Board to the Chairperson or whomever is acting in his stead, to the Managing Directors and to the General Managers.

The Board of Directors, also through its Managing Directors, shall report to the Board of Statutory Auditors with regard to the business carried out and the major economic, financial and equity operations carried out by the company and the company's subsidiaries; in particular it shall report any operations which are potentially in conflict of interest. This communications is made by the Directors at the Board meetings and, in any case, at least once every quarter. If there are special circumstances, the communication may also be made in writing to the Chairperson of the Board of Statutory Auditors.

The Board of Directors, with a prior mandatory opinion of the Board of Auditors, appoints and dismisses the Manager in charge of preparing accounting documents, pursuant to art. 154-bis of Legislative Decree 58/1998 and determines his/her remuneration;

It should be noted that to implement the above, the Board:

- established an Executive Committee, an Internal Audit and Risk Committee and a Remuneration Committee and defines the respective chairpersons, passing resolution on the remuneration of directors with special duties;
- resolved the appointments of governance on the subsidiary e-via, in full compliance with the regulations and the Articles of Association;
- has been periodically reported on the activities of the Executive Committee after its appointment by Board resolution on 12.11.2012;
- assessed the general progress of operations, specifically taking into account the information received from the Chairman of the Board of Directors and the Executive Committee in those periods when operational, and compared the results achieved against those planned;

- with the assistance of the Internal Audit Committee, monitored and supervised all the areas of risk associated with the WiMAX business, focusing in particular on profitability, financial risks, investment costs and fulfilment of the coverage obligations;
- analysed and approved the rental operation of the WiMAX business unit put into place by the subsidiary e-via
- examined and approved in advance the operations of the Company and its subsidiary, with the related parties, when those operations held significant strategic, economic, equity or financial importance for the company or the subsidiaries, also availing of the support of the Internal Audit and Risk Committee
- examined and approved the Group budget for 2012 and the industrial plan for 2013-2017;
- monitored the activities relating to Legislative Decree 231/01 through the reports of the Oversight Committee.

The Board considered that it was not necessary to assess the size, composition or operation of the Board itself and its committees.

The Assembly did not authorise general or advance derogation of the prohibition of competition envisaged under article 2390 of the civil code.

4.4 DELEGATED SUBJECTS

Chief Executive Officers

The previous Board, revoked by Shareholders' Meeting resolution of 30 October, 2012, had delegated powers to its Chairman for the administration, ordinary management and legal representative of the Company. By way of example, the following delegated powers were included:

- implementing the resolutions of the Chairman of the Board of Directors;
- submitting offers, participate in tenders and accept orders for sums not exceeding the equivalent of 15,000,000 Euro;
- purchasing or selling, leasing real estate within the limit of 2,000,000 Euro per single operation;
- negotiating contracts inherent to company activity for value less than 5,000,000 Euro
- the signing of insurance and bank contracts up to a maximum total limit of 2,000,000 Euro per year;
- the signing of all contracts required to provide the Company with essential services (electricity, telephone, telex, telefax, etc.) and the performance of all procedures these contracts may entail;
- the demanding and collection of all sums owed the Company by all persons, both physical and juridical, the issue of valid receipts and agreement on payment conditions in all currencies;
- receiving reimbursements; up to a maximum limit per operation of 5,000,000 Euro
- the payment of employee's wages and all associated contributions for whatever amount;
- completing transactions for a maximum value which may not exceed 2,000,000 Euro for each individual transaction;

To date, the Board has not appointed Executive Officers. None of the directors appointed therefore holds the position of *Chief Executive Officer*.

Chairman of the Board of Directors.

The Chairman convenes the meetings of the Board of Directors and works to ensure that the members of the same Board and the components of the Board of Auditors receive all the documentation and information required to enable them to express a competent opinion on the matters presented for their examination and approval. Said documentation and information should be usually be forwarded to the parties indicated above a reasonable amount of time before the Meeting, unless specific circumstances or pressing requirements make it impossible. The Chairman further coordinates the activities of the Board and oversees the performance of the latter's meetings.

The Chairman appointed by resolution of 30 October 2012 has not been vested with management powers. The Chairman is not a controlling shareholder of the issuer, nor is he/she responsible for management, but he/she covers a significant role in formulating corporate strategies.

Executive Committee

By resolution of 12.11.2012, the Board of Directors appointed an Executive Committee, consisting of 3 members in the persons of directors Mauro Tosi (Committee Chairman), Majdi Ashibani and Johan Anders Leideman.

With the same Board resolution, the following powers were conferred on the Executive Committee:

- a) present offers, participate in tenders and accept orders for sums not exceeding the equivalent of Euro 5,000,000;
- b) the purchase of goods and services even over a number of years for sums not exceeding the equivalent of Euro 5,000,000;
- c) execute investment operations in goods or services of any kind even for use over many years for amounts not exceeding the equivalent of 5,000,000 Euro;
- d) authorise bank overdrafts and lines of credit, issue sureties and in general issuing short, medium and long-term loans for unit amounts not exceeding the equivalent of Euro 500,000;
- e) hire and dismiss managers and executives and the transition to manager status for company employees and their relative remuneration, as long as it is within the context of the guidelines of the remuneration committee;
- f) appoint and annul mandates in favour of agents and attorneys for specific acts or contracts or category of contracts and deeds within the limitations of the powers assigned, including attorneys and professionals for disputes of any nature;
- g) the appointment of agents, procurers, distributors and dealers in Italy and abroad and the signing of the necessary contracts including the termination of the above;
- h) set up and close warehouse and depots and perform all necessary paper work.

The following table contains information about the specific mode of operation of the Executive Committee during 2012.

No. of meetings of the Executive Committee in the year	Average length of meetings of the Executive Committee	% attendance of each member at the meetings of the Executive Committee	No. of meetings already held in the current year
1	1.5 hrs	100%	2

The Committee reported to the Board of Directors on a regular basis on its activities. Regular minutes were taken at all Executive Committee meetings.

Reporting to the Board.

The Managing Directors have reported to the Board of Directors and the Board of Statutory Auditors, during each of the Board meetings, on the activities carried out in the execution of the mandate conferred by the Board.

4.5. OTHER EXECUTIVE DIRECTORS.

Besides the executive bodies described above there are no other executive directors.

4.6. INDEPENDENT DIRECTORS

The following are independent Directors: Alberto Della Porta, Anna-Lena Philipson, Paola Pillon. Directors Mauro Tosi and Johan Anders Leideman are considered non-independent, based on the executive appointments received at the Board meeting of 12.11.2012. The Chairman Gabriele Pinosa is considered non independent as from 22.03.2013, based on the role he covers and the functions carried out. The Council, at the first available opportunity after their appointments, has assessed the substance of independence requisites in the hands of each of the non-executive directors, specifying the evaluation criteria applied in practice and publicising the results of its evaluations through a press release to market - art. 144-novies paragraph 1bis RE.

Based on the recommendations contained in the Code and the provisions of art. 148, paragraph 3, referred to by art. 147-ter of Legislative Decree No. 58/98, the Board of Directors periodically assesses the independence of the Directors, taking into account the information provided by the interested parties. Each independent Director is required to promptly inform the Board if they should lose the requisites of independence or find themselves in situations which may compromise their independence.

The Board held its annual audit of independence, placing more emphasis on substance rather than form and bearing in mind also the provisions of the Code, although not exhaustive or binding.

The Board of Statutory Auditors, having verified the correct application of the criteria and procedures adopted by the Board to evaluate the independence of its members, achieved positive results. No meetings were held in which only independent directors had taken part.

4.7. LEAD INDEPENDENT DIRECTOR.

The requirements provided by the Code do not apply to the appointment of a *lead independent director*, the Chairman of the Board of Directors not being primarily responsible for the management of the Issuer - *chief executive officer* - and/or the controlling shareholder of the Issuer.

5. PROCESSING OF COMPANY INFORMATION.

Processing of confidential information takes place according to the prescriptions provided for in the Code, even though no formal procedure exists. Each time the Board, the individual components of the corporate bodies and management, the Company's employees and consultants are privy to information, they are informed that this information is strictly confidential and they are required to comply in full with all regulations on this matter. All external communication of documents and information, with particular reference to all price sensitive information, is handled by the offices that deal with investor and shareholder relations.

All of the confidential company information (for example, Board minutes, monthly updates on Company progress, documentation for Boards) is saved and published at a specific address subdivided into folders. The authorised subjects, that is, Directors, Auditors and members of the Committees, have access to and can consult the documents with personal usernames and Passwords; not all the folders are accessible to everyone, therefore each folder can be consulted only by a group of specifically authorised subjects.

Following the implementation of the accounting procedures required to comply with law 262/05 (law on savings) the Company has introduced a procedure for processing of accounting information. On 29.5.2006, following the resolution of the Board of Directors of 15 May 2006 regarding the introduction of the new code of conduct on Internal Dealing, a register of all persons was established in compliance with the provisions of Art. 115 bis of the Financial Services Act and communications were issued concerning the registration to all subjects entered in this register. The Group then identified as significant persons subject to these communication duties, among others, the Directors, the Statutory Auditors and the Managers with Strategic Responsibilities and anyone who has a shareholding of more than 10% of the Company's stock. The register is constantly updated with the addition of new subjects with access to privileged information and the cancellation of subjects who no longer have relationships with the Group.

6. THE BOARD'S INTERNAL COMMITTEES.

The Board of Directors, in addition to the above Internal Audit and Risk Committee, and the Executive Committee of the Board of Directors has established the Remuneration Committee.

No committees which perform the activities of two or more Committees as provided for by the Code, nor committees other than those provided for by the Code have been established.

7. APPOINTMENT COMMITTEE

The Board of Directors has not considered it expedient to proceed with the institution of an Appointment Committee in the belief that the operations of the Board of Directors and the managing directors are already sufficient given the company needs and its structure.

8. REMUNERATION COMMITTEE

The Board of Directors, at the meeting of 26 June 2012, resolved on the establishment of the Remuneration Committee, indicating that it should be composed of two independent directors (Chairperson Laura Guazzoni and director Gabriele Pinosa) and director Stefano Borghi. Subsequent to the revocation of the Board of Directors, pursuant to shareholders' resolution of 30 October 2012, the new Board of Directors appointed the new Committee on 12 November 2012. The Committee currently consists of Gabriele Pinosa (Chairman), Abdelmola Elghali and Alberto Della Porta (independent directors). The Board of Auditors participates in its works. The Board of Directors will review the Committee itself, given the Chairman Gabriele Pinosa's loss of independence from the 22 March 2013.

9. DIRECTORS' REMUNERATION

See the report on remuneration published pursuant to art. 123-ter of the FSA.

10. AUDIT AND RISK COMMITTEE.

10.1 Composition and functions of the Audit and Risk Committee.

The Board has established, within its scope, the Audit and Risk Committee.

Currently, it is composed of three non-executive directors, the majority of them independent. They are Pillon Paola (Chairman, Independent Director), Stefano Borghi and Anna-Lena Philipson (independent director). At least one member of the Committee has adequate experience in accounting and finance, as assessed by the Board at the time of appointment.

The Committee met six times during the year.

During the current year the Committee has met three times.

The percentage of attendance of the Committee members at the meetings is shown in the table contained in paragraph 4.1 of this Report.

The Committee's work is coordinated by its chairman. The meetings of the Executive Committee have always been attended by the Chairman of the Board of Auditors or by another auditor designated by the latter. At the invitation of the Committee, persons outside the Committee have participated in meetings, such as the *Internal Auditor*, the Chairman of the Board of Directors, the executive director of the system of internal control and risk management and the Chief Financial Officer of the Group.

10.2 Functions of the Audit and Risk Committee.

Pursuant to the Regulations of the system of internal control and risk management, the Audit and Risk Committee:

- a) evaluates, together with the director responsible for drawing up the accounting and company documents and having consulted the statutory auditor and the Board of Statutory Auditors, the correct use of the accounting principles and their uniformity for the purposes of the drawing up of the consolidated financial statements;
- b) formulates opinions on specific matters relating to the identification of the company's principal risks;
- c) examines the periodic reports drawn up to evaluate the internal control and risk management system and those of particular importance as determined by the internal auditors and by the director responsible for preparing the company documents;
- d) monitors the independence, adequacy, effectiveness and efficiency of the internal audit;
- e) carries out additional duties given it by the Board of Directors and, in particular, formulates opinions on the transparency regulations and the substantive and procedural correctness of transactions with related parties;
- f) can request that the internal auditors carry out checks on specific operational areas giving immediate notice to the chairman of the Board of Statutory Auditors;
- g) reports to the Board at least twice a year, on the occasion of the approval of annual and interim financial reports, on the activities carried out and on the adequacy of the internal audit and risk management system.
- h) in performing its duties, the Committee has access to all necessary information and company units and can use external consultants within the terms established by the Board. Retelit makes available to the Committee the necessary financial resources for the performance of its duties, within the budgetary limits approved by the board.

The Committee has ruled on the substantive and procedural fairness of transactions with related parties, expressing its own opinion. Its work has also concentrated on the analysis and evaluation of the adequacy, effectiveness and efficiency of the internal audit function.

Furthermore, also when asked to do so by the Board, it has performed an analysis of the risk areas and the related monitoring carried out by the company.

Regular minutes were taken at all Internal Audit Committee meetings. The Committee was granted access to all information and company units necessary in order to carry out its assignment, and had the opportunity of hiring external consultants.

11. INTERNAL AUDITING SYSTEM

The essential elements of the Company's Internal Control system are represented by the ethical principles and values included in the Company's Ethical Code of Conduct, by the system of company procedures and by the models introduced to ensure compliance, by the Organisation and Management Model provided for by Legislative Decree No. 231/2001, by the organisational structures and current system of delegated powers, by the reporting and risk monitoring systems and by the information technology systems.

The Board has assessed the adequacy, efficiency and effectiveness of the internal control system, based on the information provided in meetings by reports presented by the Audit and Risk Committee, proposing additions and changes that will be put to the Board of Directors during the current year.

11.1 - Executive director in charge of the internal audit and risk management system

Currently, the director, Chairman of the Executive Committee, Mauro Tosi, is charged with overseeing the functioning of the internal control system. Prior to the Shareholders' Meeting of 30.10.2012, which approved the revocation of the Board of Directors in office until that date, this assignment was given to the Chairman of the Board of Directors.

The appointed director, among other things, identifies the main business risks, taking into account the characteristics of the Company's activities and submitting them periodically to the Board of Directors; executes the guidelines defined by the Board of Directors, taking care of the design, implementation and management of the of internal audit and risks system and constantly monitoring its adequacy and effectiveness; oversees the system's adaptation to changes in operating conditions and the legislative and regulatory background; reports to the Audit and Risk Committee on issues and problems that emerge in the course of its work or come to its attention, so that the Committee can take appropriate action.

11.2 PERSON IN CHARGE OF THE INTERNAL AUDIT FUNCTION.

On 23.1.2012, the Council heard the favourable opinion of the Audit and Risk Committee and renewed the appointment of Dr. Francesco Carnevali as Internal Auditor. It should be noted that with a resolution of 18.01.2013 the Board, on proposal from the director appointed to the internal audit and risk management system, and with the prior approval of the Audit and Risk Committee and board of statutory auditors, appointed Dr. Laura Cattaneo as internal auditor, revoking the appointment of internal auditor awarded to Dr. Francis Carnevali. In the above meeting of 18.1.2013, the Board assessed awarding said position to an external party. The Internal Auditor is not responsible for any area of operations nor is he/she in any way hierarchically subordinate to any operational area heads

The Internal Auditor has been granted direct access to all information useful for the performance of his assignment, has reported on the performance of his duties to the Internal Audit and Risk Committee, the Statutory Board of Auditors and to the Executive Director in charge of the control system.

11.3 ORGANISATIONAL MODEL pursuant to Legislative Decree No. 231/2001.

The Company has introduced a Code of Ethics and its own organisation and management model pursuant to ex Legislative Decree No. 231 of 08 June 2001. The Model (General Part), published on the company website, is founded on the values of transparency, propriety and fairness underpinning the Retelit Group and is instrumental in preventing the risk of crimes relevant to the purposes of aforesaid Legislative Decree. 231/2001. The organisational model was defined not only on the basis of the requirements of Legislative Decree No. 231/2001, but also on the basis of guidelines drawn up by Confindustria, as amended on 31 March 2008.

The duties of overseeing the adequacy, updating and effectiveness of the Model have been given to an Oversight Committee. This Committee is currently made up of three members, Patrizia Stona (Chairperson), Laura Cattaneo and Silvano Crescini, and was appointed by the Board of Directors on 18 January 2013 with responsibility for overseeing the operation and compliance of the Model and updating it as required.

The members were selected in order to have a composition that includes responsibilities that as a group are able to comply with the task which by law is attributed to the Oversight Committee.

The committee has been set up so as to include all the different professional skills required to ensure supervision of corporate operations, and has the necessary freedom and independence.

During 2012, the Oversight Committee was made up of three members: Federico Riboldi (Chairman), Francesco Carnevali and Giorgia Caccamo. In 2012, the Oversight Committee met formally three times (19 April, 11 July and 10 October). The Oversight Committee also met in further work sessions called by the Chairman to prepare the half-yearly and annual reports. The meetings were always transcribed and were attended by the members as well as a secretary.

During 2012, the OC monitored the performance of internal staff training activity pursuant to Legislative Decree No. 231/01, under the terms of Chap. 5.1 of the General Part. On 15 February a refresher course was held for the company's top management. It focused mainly on recalling the general aspects of the legislation and liability in business groups. The training activity was correctly held also for new recruits and in particular for the P.A. sales manager. The OC, in addition, planned the audition of the Health and Safety Officer to check on the implementation of the procedures for workers' safety and any critical issues arising. The OC sees the need to improve coordination of procedures and operating instructions concerning reporting and information flows towards the OC itself, as has happened for the areas most at risk of crimes pursuant to Legislative Decree. No. 231/2001 (relations with the Public Administration and for the legal area), also for the other areas considered to be at lesser risk. The Oversight Committee has therefore confirmed its positive overall opinion on the state of implementation of the organisational Model, emphasising the need to make some updates on the basis of the provisions of law.

11.4 EXTERNAL AUDITING FIRM.

Designation	Date of appointment	Appointment expiry
Deloitte SpA	3.5.2012	Shareholders' Meeting called to approve the financial statements at 31.12.2020.

11.5 MANAGER IN CHARGE OF COMPANY FINANCIAL REPORTING.

On 15 October 2007 the Board of Directors, having obtained the favourable opinion of the Statutory Board of Auditors, appointed Ivano Barzago, the Group's Chief Financial Officer, as Manager in Charge of Company Financial Reporting.

At the time of appointment the existence of the prescribed requisites of honourability and professionalism were assessed as required by applicable regulations and the Articles of Association, which in art. 22 establish that the Manager Responsible for Company Financial Reporting, in

addition to the requisites of honourability prescribed in current legislation for those engaged in management and administrative roles, must also possess the necessary professional requirements characterized by specific competence in administrative and accounting matters. This competence, which must be verified by the Board of Directors, must have been acquired through work experience in positions of adequate responsibility over a sufficient period of time.

11.6 DETAILS ON THE MAIN CHARACTERISTICS OF THE RISK MANAGEMENT AND INTERNAL AUDIT SYSTEMS EXISTING IN RELATION TO THE FINANCIAL REPORTING PROCESS, INCLUDING THE CONSOLIDATED PROCESS

The procedures are shown below, whereby the Retelit Group formulated its risk management and internal audit systems in relation to the financial reporting process (hereafter the “System”) including at Consolidated reporting level. This System sets the objective of significantly mitigating risks in terms of the reliability, trustworthiness, accuracy and promptness of the financial reporting. The model described below was presented to Retelit's Audit and Risk Committee, and from a logistical perspective, is applicable to all the companies in the Group regarding the methodology and principles of checking and accuracy on the process.

The model is updated regularly, and every update and/or integration is submitted and presented to the Audit and Risk Committee.

ROLE

The main function of the Manager responsible for preparing Retelit S.p.A.'s accounting records is to implement the administrative-accounting procedures governing the process for formulating the periodic corporate financial reporting, monitor its application, and together with the Chairman, issues the certification to the market, regarding the implementation of the above and the "reliability" of the financial documentation issued. The Manager responsible falls within the broader context of Corporate Governance, which is based on the "traditional model", providing for corporate entities with different controlling functions.

ELEMENTS OF THE SYSTEM:

Methodological approach

In this context, the Retelit Group decided to adopt a work method that sets out the following logical steps:

- a) identifying and assessing the risks applicable to financial reporting;
- b) identifying controls in respect of the risks identified, both at Group level (entity level) and process level.
- c) assessment of checks and management of monitoring process, both in terms of design, as well as operations and effectiveness in reducing risk to a level considered “acceptable”.

The entire process is managed by Finance, Administration and Auditing Management, which regulates all administrative-accounting type procedures, mapping and making these compliant, setting process level, information systems or procedures' interventions to restore any shortfalls in the checks available.

Risk identification and assessment

Risk Assessment is carried out every two years. Based on a quantitative analysis and according to qualitative assessments and parameters, the purpose is to identify:

1. the risks identified at Group level (Entity Level Controls) relating to the general corporate context of the Internal Audit System, referring to the five components of the CoSO model prepared

by the Committee of Sponsoring Organizations of the Treadway Commission, a leading practice at international level and adopted in Italy as a reference model as well as the Self-Governance Code of Borsa Italiana (in the area of control, risk assessment, information and communication, internal audit, monitoring);

2. general risks on the corporate reporting systems, supporting the relevant processes (IT General Controls);

3. the processes that formulate the Consolidated Financial Statements that are relevant for inherent risk;

4. for each relevant process, the specific risks on financial reporting, with special reference to the so-called "reporting assertion" (existence and occurrence, completeness, rights and obligations, valuation and registration, presentation and reporting).

The Risk Assessment process conducted in the context of the Group's Consolidated Financial Statements to determine the relevant analysis perimeter is based on applying two parameters, one purely quantitative and the other qualitative.

With regard to the purely quantitative analysis, the following aspects are determined:

– significant accounts: this refers to a quantitative dimension that the items in the balance sheet must have to be considered significant, applying a material threshold;

– significant processes: by combining the accounts -processes, one finds the processes where it appears appropriate to assess the controls, because all processes associated with accounts that have a balance above the threshold set above, fall under the model.

Subsequently to the quantitative analysis referred to above, the Risk Assessment process then requires

an analysis to be done, based on qualitative aspects, which has a dual purpose.

– to integrate the purely quantitative portion of the analysis, so as to include or exclude accounts-processes from the model's perimeter, based on management's background knowledge, and also considering the expected business developments and the professional opinion of management regarding the risk relating to financial reporting;

- to set the "level of detail" at which the accounts-processes being analysed should be considered within the model's context, and at which level the relevant controls should be mapped, documented and monitored.

The final outcome of the Risk Assessment process is represented by a document, which is validated by the Manager responsible and presented to the Audit and Risk Committee.

Identifying the controls

Once the main risks at process level have been identified, the actions are then set out that need to be put in place to monitor the objective of the associated control.

Specifically, the mapping of accounts-processes and the relevant controls make up the tool whereby:

- the relevant processes and main associated risks are represented, according to what was set out in the Risk Assessment context, and the controls that are required to manage these risks;

– the mapped controls plan is assessed, to ensure the control's ability to manage and mitigate the risk identified, with specific reference to the underlying reporting assertion;

- with the help of external consultants, the monitoring activity is implemented, where this is needed to support the certifications to be issued by the Manager responsible.

The identification of risks and the relevant controls are done both in respect of the controls associated with the reporting assertion, and the other control objectives in the context of financial reporting.

The mapping formulated from time to time for a specific process is also used as a basis for the periodic testing, so as to assess and monitor both the design and efficiency of the existing controls.

Controls' assessment and monitoring process

In respect of the legislation regarding formal requirements and in line with the best practices referred to previously, the methodology adopted ensures that constant monitoring is done of the processes covered by the model, and the actual implementation of the mapped controls.

The objective of this monitoring is to assess the operational efficiency of the controls, intended as: the proper functioning of the mapped controls during the year, for analysis purposes.

A monitoring activities' plan is prepared with this purpose (and fine-tuned and optimised, if necessary) on a half-yearly basis. This is formalised in a document that sets out the strategies and time frames to implement the monitoring tests. This document is presented to the Audit and Risk Committee.

Subsequently to the tests being completed, a report is produced relating to the outcome of the activities carried out. This constitutes the support, based on which the Manager responsible for preparing the corporate accounts, will issue his/her requisite certification, and the Audit and Risk Committee will assess and share the work done by the Manager responsible and the relevant functions that he/she operates through, with regard to the most significant deadlines in the half-yearly and annual financial reports.

11.7 COORDINATION BETWEEN THE PARTIES INVOLVED IN THE SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT.

The Company, in line with the Code, has adopted the Regulations of the System of Internal Control and Risk Management that involves, each for its own area of competence: the Board of Directors, the Audit and Risk Management Committee, the administrator in charge of the system of internal control and risk management, the internal audit and Board of Statutory Auditors

12. DIRECTOR'S INTERESTS AND RELATED PARTY TRANSACTIONS.

The procedure for transactions with related parties, as approved by the Board of Directors in compliance with the requirements of the Regulations containing provisions relating to transactions with related parties, adopted by Consob with resolution No. 17221 of 12.3.2010 and then amended by resolution No. 17389 of 23 June 2010, is contained in the Rules for Transactions with Related Parties reported on the website of the Company [www.retelit.it / IT / Investors / corporate_governance / regolamento_operazioni_parti_correlate.aspx](http://www.retelit.it/IT/Investors/corporate_governance/regolamento_operazioni_parti_correlate.aspx).

13. APPOINTMENT OF AUDITORS.

The appointment of Auditors is disciplined by art. 23 of the Articles of Association reported below:

“Art. 23 – The Board of Statutory Auditors is comprised of three statutory auditors and two alternate auditors and is appointed and operates in accordance with the law.

The Statutory Auditors must possess the necessary requisites prescribed by current legislation and regulations.

Auditors are appointed, in compliance with the provisions in force pro tempore regarding balance between the different types, on the basis of slates presented by the shareholders, with the procedure described below in order to ensure that the minority shareholders appoint one Statutory Auditor and one alternate auditor.

The slates that carry the names of three or more candidates in progressive order must be composed of candidates belonging to both types, so that at least one fifth (in the case of the first mandate after 12 August 2012) and successively one third (rounded up) of the candidates for Statutory Auditor, and at least one fifth (for the first mandate after 12 August 2012) and successively one third (rounded up) of the candidates for alternate auditor, are of the lesser represented type.

No candidate may stand in more than one slate under penalty of ineligibility.

Slates may be presented by those shareholders who, alone or in conjunction with other shareholders, represent at least 2.5% of shares with voting rights at ordinary shareholders’ meetings, or the higher or lower percentage that may be set or required by legal or regulatory provisions.

All shareholders, shareholders who are party to a shareholders’ agreement falling within the scope of Art. 122 of Legislative Decree 58/1998, the parent company, the subsidiaries and companies under joint control may not submit or take part in the presentation of more than one slate, even indirectly by means of trust companies or third parties, nor may they vote for more than one slate. The support and all votes cast in violation of said prohibition shall not be assigned to any slate.

The slates, signed by the shareholders’ who have presented them, must be deposited at the company’s registered office at least fifteen days prior to the meeting’s first call, unless other forms of publicity are prescribed by regulations, including temporary regulations, in force pro tempore. Subject to any further procedure prescribed in current laws or regulations, together with each slate and by the same deadline a brief outline of the presenting shareholders must be filed (including the total shareholding owned), together with full information on the professional and personal characteristics of each candidate, each candidate’s statement that they accept their designation and declare, under their own responsibility, that there are no valid reasons for their ineligibility or incompatibility as pursuant to the law, and that they possess the necessary requisites of honourability and professional expertise prescribed by law for members of Boards of Statutory Auditor along with the list of any administrative and supervisory posts held in other companies.

Every entitled party may cast their vote for one slate only.

Two Statutory Auditors and one Alternate Auditor will be selected, in the progressive order in which they are listed in the slate presented, from slate that has obtained the most votes.

A third Statutory Auditor, who shall be assigned the Chair of the Board of Statutory Auditors, and a second alternate auditor shall be selected from the minority slate that has obtained the most votes and is in no way connected, even indirectly, with the shareholders who have presented or voted the

slate that has obtained the most votes. The latter Auditors shall be selected in the progressive order in which they appear in the same slate.

Where two or more slates obtain the same number of votes the Auditor elected shall be the most senior candidate.

If only one slate or no slates are presented the Regular and Alternate Auditors selected shall be all the candidates to said posts reported in the same slate or those voted by the Shareholders' meeting, provided that they obtain a simple majority of votes cast in the Meeting.

If, with the candidates elected by the above described procedures, the composition of the Standing members of the Board of Auditors does not conform to the discipline in force pro tempore regarding the balance between the types, the necessary substitution shall take place, respecting the progressive order by which the candidates appear on the list, within the sphere of the candidates for Statutory Auditor on the slate that has obtained most votes,

If no slate is presented, the shareholders' meeting shall pass resolution with the majorities of law, the discipline in force pro tempore regarding the balance between types always holding firm.

If an Auditor fails to maintain the requirements prescribed by law and Articles of Association, said Auditor shall be fall from office.

If an Auditor must be substituted, the alternate Auditor belonging to the same slate takes the place of the one removed or, failing this, if the minority Auditor is removed, the next best placed candidate on the same slate to which the former Auditor belonged shall take his/her place or, as a further alternative, the first candidate of the minority slate that has obtained the second most votes shall be appointed.

It remains understood that the Chair of the Board of Auditors shall be held by a minority Auditor, and that the composition of the Board of Auditors shall respect the discipline in force pro tempore on the balance between types.

When the Shareholders' meeting is required to appoint statutory and/or alternate auditors in order to complete the number of the members of the Board of Statutory Auditors it shall proceed as follows: if auditors elected in the majority slate need replacing, the appointment shall take place by a simple majority vote without any slate constraints; if, on the other hand, minority auditors are to be replaced, the shareholders' meeting replaces them with a simple majority vote, choosing them from the candidates indicated in the same slate as that in which the replaced candidate was listed, or from the minority slate that has obtained the second largest number of votes.

If the implementation of these procedures, for whatever reason, does not allow the replacement of the auditors designated by the minority, the shareholders' meeting shall proceed to a relative majority vote; however, in certifying the results of this latter vote, the votes of those shareholders who, according to the communications made pursuant to current regulations, directly or even indirectly, or jointly with other shareholders who are party to a shareholders' agreement deemed relevant according to art. 122 of Legislative Decree 58/1998, the majority of the castable votes in the meeting and the controlling shareholders are controlled by or are under the common control of the same.

The substitution procedure illustrated in the preceding paragraphs must, in any case, ensure respect for the provisions in force on the balance between types.

It should be pointed out that, in implementing the recommendations of the Code, art. 23 of the Articles of Association, cited above, envisages that the slate of candidates for auditor presented by the shareholders and signed by those presenting them must be delivered to the Company's

registered office and made available to anyone who requests them at least twenty-five days before the date set for the Shareholders' Meeting in first call. The only shareholders with the right to present lists are shareholders who, alone or together with other presenting shareholders, own shares with voting rights that account for at least 2.5% of the share capital having the right to vote in the ordinary Shareholders' Meeting, or which represent the lesser or greater percentage established by legal or regulatory provisions. The minority lists are entitled to the election of one Statutory Auditor and one alternate auditor. With regard to the appointment mechanism adopted for the choice of the candidates in the various slates presented, it should be noted that, again pursuant to the aforementioned art. 23 of the Articles of Association, two regular and one alternate auditor are selected from the slate that obtains the most votes in the Shareholders' Meeting, according to the progressive order in which the candidate's names appear in the slate; while from the second slate that obtained the second most votes in the Shareholder's Meeting and is not connected, even indirectly, to the shareholders who have presented or voted the slate that has obtained the most votes one Statutory Auditor, who is automatically awarded the Chair of the Board of Statutory Auditors and one alternate auditor are selected, based on the progressive order in which they appear in their slate. The above mentioned rule contains adequate provisions designed to ensure compliance with applicable regulations regarding the balance between genders.

14. COMPOSITION AND OPERATION OF BOARD OF STATUTORY AUDITORS

The composition of the Statutory Board of Auditors in charge as of the end of the last business year is shown below. The Board of Auditors expires with the Shareholders' Meeting called to approve the financial statements of the year 2014.

Office	Members	In office since	In office until	(M/m)	Independence as per Code	(%)	Number of other positions ***
Chairman	Paolo Mandelli	03/05/2012	Approval 2014 Financial Statements	m	X	100	
Statutory Auditor	Silvano Crescini	03/05/2012	Approval 2014 Financial Statements	M	X	100	
Statutory Auditor	Vittorio Curti	03/05/2012	Approval 2014 Financial Statements	M	X	100	
Alternate Auditor	Paolo Martinotti	03/05/2012	Approval 2014 Financial Statements	M	X		
Alternate	Luca Zoani	03/05/2012	Approval	m	X		

Auditor			2014 Financial Statements				
Accounts AUDITORS TERMINATED DURING THE YEAR IN QUESTION							
Chairman	Mario Stefano Luigi Ravaccia	30/04/2009	Approval 2011 Financial Statements	m	X	100	
Statutory Auditor	Alessandro Barni Spadacini	30/04/2009	Approval 2011 Financial Statements	M	X	100	
Statutory Auditor	Giuseppe Catanzaro	30/04/2009	Approval 2011 Financial Statements	M	X	100	
Alternate Auditor	Luca Zoani	30/04/2009	Approval 2011 Financial Statements	M	X		
Alternate Auditor	Gianluca Settepani	30/04/2009	Approval 2011 Financial Statements	m	X		
Quorum required for the submission of lists at the time of the last appointment: 2.5%							
No. meetings held during the year in question: 5							

* This column indicates M/m depending on whether the member was elected from the majority slate (M) or from a minority (m).

** This column indicates percentage of attendance by statutory auditors at the meetings of the B.o.A. (no. of attendances/no. of meetings held during the actual period in office of the individual involved).

*** This column is to indicate the number of relevant director or auditor positions held by the individual pursuant to Art. 148 bis CFA. The complete list of positions is published by Consob on its website under the terms of Art. 144-quinquiesdecies of the Consob Issuer Regulations.

The current members of the Statutory Auditors' Board were appointed with a resolution taken by the Shareholders' Meeting on 03.05.2012, subsequent to the two lists being presented.

Slate presented by	List of candidates	List of those elected	% obtained in relation to share capital
Di Cicco, Guatterini, Gregory s.r.l., Pretto, Ziggiotto	Silvano Crescini (Statutory Auditor) Vittorio Curti (Statutory Auditor)	Silvano Crescini (Statutory Auditor) Vittorio Curti (Statutory Auditor)	30.00%

(combined holders of 6.72% of the share capital)	Cristina Sorrentino (Statutory Auditor) Paolo Martinotti (Alternate Auditor) Edoardo Silvotti (Alternate Auditor)	Paolo Martinotti (Alternate Auditor)	
HBC S.p.A. (holder of 4.601% of the share capital).	Paolo Mandelli (Statutory Auditor) Mario Stefano Luigi Ravaccia (Statutory Auditor) Luca Zoani (Alternate Auditor)	Paolo Mandelli (Chairman) Luca Zoani (Alternate Auditor)	24.48%

During the course of the year, the Statutory Auditors Board met 5 times. In respect of the current year, the Statutory Auditors' Board has met twice so far. The attendance percentages at the Auditors meetings are shown in the table above.

At the time of appointment and at the meeting of 19 March 2013, the Statutory Auditors assessed their independence in the light of current legislation and the Code.

With regard to significant operations with related parties any Statutory Auditor who on his own behalf or on behalf of third parties, has any interest in a specific Company operation, must duly and promptly inform the other Auditors and the Board of Directors in a comprehensive fashion regarding the nature, terms, origin and scope of their interest.

The Statutory Board of Auditors has overseen the independence of the Auditing Firm Deloitte S.p.A., verifying compliance with relevant legal dispositions, and the nature and extent of services provided other than those directly connected to accounting supervision.

In performing its activities, the Board of Statutory Auditors is coordinated by the Internal Audit Committee through its constant presence at Committee meetings.

15. SHAREHOLDER RELATIONS.

The Company has a specific office in charge of handling shareholder relations. This office collaborates with the Chief Financial Officer Mr. Ivano Barzazo, currently the interim Investor Relator, and has also made use of external consultants. On the website of the Company (www.retelit.it) we have created special sections for Investors, which list information and documents relating to Company Governance, Financial Reports, Company Communications and Regulated Information, easily identifiable and accessible, and useful for facilitating the exercise of shareholders' rights.

16. SHAREHOLDERS' MEETINGS.

The meeting is called in accordance with the terms and provisions of art. 11 of the Article of Association, to which reference should be made.

On the basis of art. 13 of the Articles of Association, provisions of law govern the attendance of Shareholders at Shareholders' Meetings.

Pursuant to art. 15 of the Articles of Association, to which reference is made, the Shareholders' Meeting is held and resolves - in ordinary and extraordinary sessions - as required by applicable laws. Except as required in the Articles of Association regarding the appointment of members of the Board of Directors and the Statutory Auditors.

Pursuant to art. 22 of the Articles of Association, the Board of Directors is entitled to resolve to open or close – in Italy or Abroad – any secondary branches with permanent representation, to reduce share capital in case of withdrawal of the shareholders, to update the Articles of Association to conform to mandatory regulatory provisions, to transfer the registered offices within national territory, as well as mergers by incorporation or spin offs in favour of the Company, of companies that are entirely controlled or of which 90% of the capital is held, all in respect of the provisions stated in articles 2505 and 2505-bis of the Civil Code and also those cited in article 2506-ter of the Civil Code.

The Articles of Association does not currently provide that the Shareholders' Meeting should authorise the performance of specific acts by the Board of Directors, pursuant to Art. 2364, paragraph 1, No. 5, of the Civil Code.

In addition to the provisions of the Articles of Association (articles 11-15) the Company Shareholders' Meeting on 16 October 2001 approved the Meeting regulations (published on the Company web site) in order to ensure the orderly and functional unfolding of the Meetings and the safeguard of the rights of the shareholders. The Shareholders' Meeting Regulations governs the manner in which holders of voting rights may contribute to the discussion of agenda topics.

The number of Directors present at the meeting during the year is shown in the following table:

Shareholders' Meeting of	Number of Directors present
3.5.2012	5
30.10.2012	5

The Board reported to the Shareholders' Meeting on the activities undertaken and planned, and has made efforts to provide shareholders with adequate information about the elements necessary for them to be able to take informed decisions in the shareholders' meeting.

17. ADDITIONAL COMPANY GOVERNANCE PRACTICES.

The Issuer has not introduced additional company government practices, other than those described in the preceding points of this Report.

18. CHANGES SINCE CLOSING OF PREVIOUS BUSINESS YEAR .

As of the closing date of the previous year no change has taken place in the corporate governance structure of this Company.

Milan, 22 March 2013

for the Board of Directors
The Chairman
Gabriele Pinosa