



Annual Report on Corporate Governance  
of Seat Pagine Gialle S.p.A.

**March 2007**

*The following text is a translation, the Italian version will prevail*



## Annual Report on Corporate Governance of Seat Pagine Gialle S.p.A.

### TABLE OF CONTENTS

#### **Background**

#### **SECTION I: Information on the Company**

Corporate mission/Social responsibility

- Strategic mission
- Social responsibility and the Community

Share capital

Shareholders' Agreements

Management and Coordination Activity

#### **SECTION II: Information on implementation of the Self-Governance Code's Requirements**

Corporate organisation

The role of the Board of Directors

Board membership

Independent directors

Processing corporate information

Internal committees of the Board of Directors

Appointment of directors

Remuneration of directors

Internal Audit System

Directors' interests and transactions with related parties

Statutory Auditors

Relations with investors

#### **SECTION III: Tables**

# Annual Report on Corporate Governance of Seat Pagine Gialle S.p.A.

## Background

The Corporate Governance system adopted by SEAT Pagine Gialle S.p.A. (hereinafter also referred to as “SEAT” or “the Company”) is represented by the whole of the legal and technical rules aimed at ensuring the protection of stakeholders and the maximum transparency through proper management of the Company in terms of governance and supervision. The system is in the form of a collection of procedures and codes subject to a continuing process of up-dating and checks in order to react effectively to changes in the relevant regulatory framework and of best practices.

In this regard it will be recalled that the new Code of Conduct for listed companies (hereinafter also referred to as “the Code”), was introduced in March 2006, produced by the Corporate Governance Committee promoted by the Italian Stock Exchange, representing entrepreneurs and market participants. One of the recommendations of the Code was that issuers should apply the new code (completely replacing the one drawn up in 1999) by the end of the financial year beginning in 2006 (informing the markets in the Corporate Governance Report to be published on the occasion of the Shareholders’ Meeting called to approve the Financial Statements in 2007). In application of this recommendation, the Board of Directors of SEAT Pagine Gialle S.p.A. held on December 19, 2006, resolved to apply the recommendations contained in the new version of the Code of Conduct:

- given the new principles laid down in the Code of Conduct of Listed Companies in the version of March 2006
- and having agreed to the Code’s recommendations.

Furthermore, note that the Shareholders’ Meeting called to resolve on the approval of the draft financial statements for the 2006 financial year, will also be called (extraordinary session) to resolve on the amendments to be made to the articles of association to adopt the new provisions introduced by Law no. 262 of December 28, 2005, bearing “Provisions for savings protection and regulations on capital markets” (the so-called “Savings Act”), as amended by Legislative Decree no. 303 of December 29, 2006 (the so-called “Remedial Decree”). For the explanation of this issue, reference is made to the special report prepared by the Board of Directors for the Shareholders’ Meeting (Extraordinary Session).

Having stated this, in accordance with the current provisions, in order to provide the market with effective information on the standards of conduct set up by the Company, in the following paragraphs - as suggested also by the guidelines issued by Assonime (the Italian association of joint-stock and limited liability companies) and Emittenti Titoli S.p.A. (a company formed by listed companies and that owns an interest in and has a seat on the Board of Borsa Italiana S.p.A., the company managing the Italian Stock Exchange) in February 2004 - we outline:

- (i) general information regarding the Company;
- (ii) the degree the recommendations contained in the individual principles and criteria set out in the Code are applied, consistently with the recommendations expressed in the Introductory Principle of the Code, in order to provide full information about the extent to which the Company complies with the Code itself;
- (iii) summary information in tabular form.

## SECTION I Information on the Company

*We in any case point out that, for exhaustive analysis of the business, the group's overall structure, market scenario, and social responsibility, reference should necessarily be made to the Company's Financial Statements for the year ended December 31, 2006, which is also available on the Company's Web site at the address [www.seat.it](http://www.seat.it).*

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### Corporate mission/Social responsibility

#### **Strategic mission**

The SEAT PAGINE GIALLE Group operates in *Italy and the United Kingdom* on the local advertising market for SMEs, where it maintains its presence with its own multi-platform publishing and advertising sales activities, basically related to telephone directories and information services.

Its operations also cover the Directory Assistance market in *Germany, Spain, France and Italy* and the Business Information and promotional gadgets market in *Italy*.

In *Italy*, the Company acted to develop and update its multi-platform offering by investing on the quality and skills of its sales force, in line with the strategy set out in the three-year Business Plan presented to the market at end 2004, focusing on the following aspects:

- *Market definition and segmentation*: based on the understanding of the communication needs of SMEs, small commercial and services firms, handicraft businesses and the public administration. SEAT is competing with products and services offered on three platforms (print, online, voice), which are able to meet the multiple communication needs of SMEs, both with generalist and specialised products, and overall feature a lower cost/contact than the competing media, thanks to the relevance of its own usage.
- *Constant updating of products already on the market and launch of new services*: still with the aim to better meeting the communication needs of its reference market and raising the value of its media for the advertiser, SEAT continued a program, started in 2005, to restyle the existing products and launch new products targeted to new market segments.
- *Training and segmentation of the sales force*: the major effort to sales force training, which has involved the whole agent structure, has been designed to transform the commercial approach of the SEAT Pagine Gialle agent from "salesperson" to "communication consultant" for the SMEs. The segmentation of the offering and sales organisation, combined with the agent's increasingly advisory role, is an important step for ensuring an increasingly more accurate appreciation of the very high returns that SEAT media are able to offer advertisers, who do not always accurately perceive such returns.
- *Constant monitoring of customer care activities and processes*: The focus on the customer at the centre of the sales action has also continued through an reinforcement of the customer care processes, in all the after-sales publishing and administrative phases, with the aim of improving the operating processes.

As to the *international markets*, note that in the United Kingdom the Company has achieved its strengthening and repositioning in a scenario that is becoming ever-more competitive, while in other European countries it has pursued a strategy of enhancing the offering with value-added services and new product lines,

## Social responsibility and the Community

SEAT Pagine Gialle pursues its mission as a driver of economic and social relations, by connecting people and companies, needs and solutions, and fostering personal and business relationships. Because of its social nature, the Group is engaged in relevant activities, such initiatives too aimed at enhancing creativeness and social relations, with the end purpose to help improve the quality of life in its areas of operation.

### SEAT Pagine Gialle local plans

The local communication plan continued successfully in 2006: the purpose of this programme is to strengthen and spread the Company's image widely among an extensive and heterogeneous mass of interlocutors while enhancing SEAT Pagine Gialle's reputation and prestige all over the country; and also among local newspapers and opinion makers. For this purpose, various specialised issues were given close consideration using the contents of SEAT Pagine Gialle's database and articles were written regarding current affairs and the market. The objective is to spread a "helpful sense of awareness" among a wider public, drawing attention to the special features of the services offered and their importance in the daily support of the activities of small, medium-sized and large Italian businesses, particularly with regard to the growth of industrial districts.

Furthermore, note the following projects:

**"Wivo il mio quartiere"** (living my neighbourhood) is a project which involves an educational path to discover the local community surrounding the school world, with the purpose of reclaiming neighbourhood life and nurturing social and economic community spirit.

**"PAGINEBIANCHE d'Autore"** is a project by which SEAT has opened doors to the creativity of young Italian artists generating great interest all over the country and immediately obtaining sponsorship by the Ministry of Cultural Heritage and Activities and of the Municipality of Turin, also thanks to the significant social value.

**"Gemine e Muse"**: in 2006 the Company continued to promote the project of the Young Italian Artists association, helping, in particular, to prepare the documentation supporting the initiative, such as the important catalogue distributed in the museums involved all over Europe, thus enhancing its own image and brand among the wide public of art tourism in a highly effective manner.

### Social solidarity actions

- **Book: "Dove va la città. Obiettivi puntati sull'Italia che cambia"** ("Where the city is heading. Focus on Italy as it changes") . The Company produced a book that marks the development and the outcome of the **"Luoghi Comuni - Ritratti di Città"** ("Common Places - Town Portraits") photographic competition launched at the end of 2005 to select the pictures that would decorate the covers of the new TuttoCittà directories. For this edition, SEAT Pagine Gialle S.p.A. is handing over the proceeds from the copyright on the sale of copies of the book to charity: in particular to Telethon and to the scientific research on Haemochromatosis (see the Telethon charter).

- **2006 Telethon Campaign.** Throughout the month of December 2006, a campaign was conducted through the sales network, in the course of normal business contacts during the period, in which customers were given the opportunity of donating 2 Euro via SMS to telephone number 48548. Employees and agents were also asked to give donations through the corporate intranet network. Furthermore, the amount needed to finance an entire research project on Haemochromatosis at the San Raffaele Institute in Milan was attained for the second year running. The campaign was also featured on TV, which further assisted in raising the funds for the non-profit organisation involved.

As at December 31, 2006, share capital totalled € 249,878,714.46 and is divided into 8,193,215,696 ordinary shares and 136,074,786 savings shares, each with a nominal value of € 0.03.

As regards savings shares' rights, reference should be made to what is expressly indicated in Article 6 of the Articles of Association.

[ [http://www.seat.it/seat/en/CORPORATE\\_GOVERNANCE/documentazione/statuto/](http://www.seat.it/seat/en/CORPORATE_GOVERNANCE/documentazione/statuto/) ]

The following table lists shareholders holding Seat Pagine Gialle S.p.A. ordinary shares with equity interests in excess of 2% as at December 31, 2006:

| <b>Shareholders as at December 31, 2006</b> | <b>No. of ordinary shares</b> | <b>% of ordinary share</b> |
|---|-------------------------------|----------------------------|
| P.G. Subsilver S.A.                         | 1,555,920,894                 | 18.99 <sup>(1)</sup>       |
| Sterling Sub Holdings S.A.                  | 1,196,849,420                 | 14.61 <sup>(1)</sup>       |
| Subcart S.A.                                | 703,586,244                   | 8.59 <sup>(1)</sup>        |
| Subtarc S.A.                                | 373,595,387                   | 4.56 <sup>(1)</sup>        |
| AI Subsilver S.A.                           | 239,369,605                   | 2.92 <sup>(1)</sup>        |
| BPU PRAMERICA SGR S.p.A.                    | 197,468,906                   | 2.41                       |
| BOUSSARD & GAVAUDAN ASSET MANAGEMENT LP     | 184,920,637                   | 2.26                       |

- (1) Shares subject to a first-degree pledge in favour of The Royal Bank of Scotland Plc Milan Branch, The Royal Bank of Scotland PLC, Lehman Brothers Special Financing Inc., Citibank N.A. London Branch, BNP Paribas S.A. and to a second-degree pledge in favour of The Royal Bank of Scotland Plc Milan Branch and of Citivic Nominees Limited - London, the latter being created on April 22, 2004. Voting rights pertain to the respective owners of rights.

### **Shareholders' agreements**

As regards shareholders' agreements concerning the Company, we note the existence, as up to today's date, of the following agreements:

(a) the shareholders' agreement dated July 30, 2003, as amended by the addendum dated March 24, 2004 and by the amendment dated December 21, 2006, between the closed investment funds indirect by holding a stake in SEAT PAGINE GIALLE S.p.A.'s ordinary share capital (the "Funds"), each via their own Luxemburgian legal vehicles. This Shareholders' agreement makes provisions concerning, *inter alia*, (i) membership of and the resolutions passed by the Board of Directors of SEAT PAGINE GIALLE S.p.A. and its subsidiaries, as well as the resolutions passed by the SEAT PAGINE GIALLE S.p.A.'s Shareholders' Meeting; (ii) establishment of a constraint of non-transferability on SEAT PAGINE GIALLE S.p.A.'s shares owned by the Funds via their own respective vehicles, as well as on the equity interests owned by the Funds in the vehicles themselves.

(b) Shareholders' Agreement dated March 18, 2005, between some tier-one vehicles held by the Funds and Mr. Luca Majocchi concerning his appointment as Managing Director of the Company.

All the aforesaid agreements have been properly notified as required by article 122 of Legislative Decree No. 58/1998 and related implementation directives, also via publication of extracts, respectively (i) in the "La Repubblica" newspaper on August 9, 2003, as regards the Shareholders' agreement dated July 30, 2003, (ii) in the "La Repubblica" newspaper on March 30, 2004, as regards the addendum dated March 24, 2004; (iii) in the "La Repubblica" newspaper on December 28, 2006, as regards the amendment dated December 21, 2006; (iv) in the "Il Sole 24 Ore" newspaper on March 25, 2005, as regards the Shareholders' Agreement concerning his appointment

of Mr. Luca Maiocchi as Managing Director of the Company. Furthermore, a further extract was published in the “Il Sole 24 Ore“ newspaper on December 17, 2004, to advise of completion of some corporate reorganization operations undertaken to enforce the prementioned addendum of March 24, 2004.

The Shareholders' agreement dated July 30, 2003, was filed with the Milan Companies' Register on August 13, 2003. The addendum of March 24, 2004 was filed with the Milan Companies' Register on April 1, 2004. The amendment of December 21, 2006, was filed with the Milan Companies' Register on December 22, 2006. The Shareholders' Agreement concerning the appointment of Mr. Luca Majocchi as Managing Director of the Company was filed with the Milan Companies' register on March 22, 2005.

*With reference to what is described under a), on March 20, 2007, it was agreed to renew the shareholders' agreement of July 30, 2003, on the same terms and conditions. Therefore, the agreement will cease to have effect on the first of the following dates: (i) the third anniversary of the date of March 20, 2007 (or the fifth one, should the Company's ordinary shares no longer be listed on the third anniversary); or (ii) the date when the parties to the agreement fully transfer their direct or indirect investment in the Company.*

### **Management and Coordination Activity**

SEAT Pagine Gialle S.p.A. is not subject to management and coordination activities by Companies or entities. Pursuant to Article 2497-*bis* of the Italian Civil Code, the subsidiaries have identified SEAT Pagine Gialle S.p.A. as the person that performs management and coordination activities. Such activity consists in indicating the general strategic and operating guidelines of the Group and takes concrete form in the definition and updating of the corporate governance and internal audit model, and in the formulation of the general policies for the management of human and financial resources, the procurement of production, training and communication factors.

## **SECTION II:**

### **Information on implementation of the Self-Governance Code's requirements**

#### **Corporate organization**

It should be noted that the Extraordinary Shareholders' Meeting held on September 27, 2004, aligned the articles of association to the provisions under the comprehensive reform decree on the regulations governing joint-stock companies and cooperatives - Legislative Decree No. 6 of January 17, 2003, as amended by Legislative Decree No. 37 of February 6, 2004 (the so called Vietti Reform). Therefore, provisions were introduced on that occasion, aimed to achieve simpler operation and, for reasons of desirability, greater exactitude and co-ordination; specifically, with a view to keeping the previously existing organisational set-up substantially unchanged, shareholders passed a resolution deciding to preserve the present **traditional system of governance** featuring:

the **Board of Directors**

the **Board of Statutory Auditors**

the **Independent Auditors**.

*We point out that it is possible to consult the Company's Articles of Association on our Web site [www.seat.it](http://www.seat.it) in the specific section called "Corporate Governance".*

[ [http://www.seat.it/seat/en/CORPORATE\\_GOVERNANCE/documentazione/statuto/](http://www.seat.it/seat/en/CORPORATE_GOVERNANCE/documentazione/statuto/)]

#### **The role of the Board of Directors (Article 1 of the Code)**

The **Board of Directors** is assigned a central role in the Company's corporate governance system. It meets regularly (usually on a monthly basis), organising itself and operating in such a way as to assure real and effective performance of its functions.

It is specified that the Board of Directors is vested with the widest powers for ordinary and extraordinary management of the Company, and therefore has the power to perform all actions that it deems appropriate for accomplishment and achievement of the Company's corporate purposes, both in Italy and abroad, the only exception being those measures that by law are reserved as being the prerogative of Shareholders' Meetings (see Article 19 of the Company's Articles of Association).

Again, under Article 19 of Articles of Association, the Board is also authorised to pass resolutions concerning:

- mergers, in the cases envisaged by Articles 2505 and 2505-*bis* of the Italian Civil Code, and demergers in the cases when such rules are applicable;
- the opening and closure of secondary registered offices;
- indication of which directors have powers of corporate representation;
- reduction of registered share capital in the case of withdrawal by shareholders;
- adaptation of the Articles of Association to regulatory requirements;
- transfer of the company's registered headquarters within national [Italian] territory.

The Board, whilst complying with legally established limits, can, for the execution of its resolutions and for business management:

- create an Executive Committee, determining its powers and the number of its members;
- delegate appropriate powers, determining the limits of powers delegated, to one or more directors, possibly classified and titled as Managing Directors;
- appoint one or more General Managers and business attorneys, determining their attributions and powers.

The Board of Directors is also empowered to set up Committees, in compliance with the recommendations of the Code.

We specify that powers attributed to the Chairman (corporate representation) and to the Managing Director (as indicated later on) are exercised in compliance with applicable legal constraints - as regards matters that cannot be delegated by the Board of Directors - as well as with the principles and limitations (and specifically those responsibilities assigned exclusively to the Board of Directors) set out in the Code. Given this, the Board of Directors retains exclusive competence, as per the provisions of the Articles of Association, for all matters not expressly delegated to executive directors.

With specific regard to the recommendations under Article 1 of the Code, note that the Board has the prime responsibility to determine and pursue the Company and the Group's strategic goals. On the other hand, note that SEAT - as indicated above - is not subject to **management and coordination activities**, while - pursuant to Article 2497-bis of the Italian Civil Code - the subsidiaries have identified SEAT as the person that performs management and coordination activities.

By way of example but by no means complete, and making explicit reference to the **application criteria under Article 1 of the Self-Governance Code**, the Board of Directors' exclusive competence also includes the following functions:

- review and approval of the company's and the group's strategic, business and financial plans, the corporate governance structure and the structure of the group itself, as well as the assessment of the adequacy of the general organisational, administrative and accounting structure

In this regard, we specify that, as regards criterion 1C1, letter b), of the Code - which requires a formal assessment of the organisational, administrative and accounting structure of the company and of "subsidiaries of strategic importance", the Board of Directors established that, according to a "size-based" business criterion, no subsidiaries were found having a strategic importance such as to entail an assessment by the Board of Directors of the structure required by the criterion referred to hereinabove. In fact, in "quantitative" terms, the subsidiaries are not of such a "significant" size that they require special administrative and accounting procedures to be implemented for the purposes of preparing annual and consolidated accounts (pursuant to the new Article 154-bis of the *T.U.F. (Testo Unico delle disposizioni in materia di intermediazione finanziaria*, Consolidation Act on Financial Intermediation), as amended by Law 262/2005 - the so-called Savings Act) in addition to those already existing within each company. In any case, the Internal Auditing function normally performs activities whose purpose is to verify, if requested to do so, whether the Internal Audits carried out in the subsidiaries are satisfactory, on the basis of instructions given by the Internal Audit Committee and the supervision boards in the subsidiaries themselves.

Having said this, a size threshold has been introduced as a criterion whereby a subsidiary can be described as having "a strategic importance": the threshold consists of a consolidated EBITDA contribution of not less than 10%, while the Board still has the possibility of also attributing strategic importance to subsidiaries whose contribution to EBITDA is lower, by reason of the type of business they conduct.

In relation to the above, the Board of Directors has acknowledged the Internal Audit Committee's favourable opinion regarding the adequacy of the organisational, administrative and accounting system and, during the meeting of February 27, 2007, resolved - without this affecting the periodic appraisals that have already been carried out pursuant to Article 2381, paragraph 3, of the Italian Civil Code - (i) to confirm, purely in order to comply with the formal recommendation of the Code, the adequacy of both the Company's corporate governance system and the group structure, and the Company's organisational, administrative and accounting

structure; and (ii) to postpone the assessment until the completion of the activities that the Company has implemented as a result of Law no. 262 of December 28, 2005, bearing “Provisions for savings protection and regulations on capital markets” (the so-called “Savings Act”).

- attribution to and revocation of powers from the Managing Director and Executive Committee (if created)
- determination of the compensation of Managing Directors and of directors holding particular offices (for example members of the Internal Audit Committee and of the Compensation Committee)
- examination and preliminary approval of the main transactions implemented by the Company and its subsidiaries, with particular regard to situations where the directors hold an interest on their own account or a third-party interest and to the transactions with related parties

For this purpose, we specify that Article 16 of the Articles of Association establishes that Board of Directors and Board of Statutory Auditors must be informed, also by delegated bodies, of the activity performed, general business performance, and expected business progress, and of the most important transactions in business, financial and capital terms undertaken by the Company or by its subsidiaries. In particular, directors must report on transactions in which they have an interest on their own account or that of third parties, or that are influenced by the party, if any, exercising the activity of management and co-ordination. Note that disclosure obligations under the abovementioned Article 16 of the Articles of Association and Article 150, paragraph 1, of the TUF are fulfilled by means of a procedure whose purpose is to ensure transparency, not only as regards transactions with related parties in which an interest is held, either on its own account or on behalf of third parties, or which are influenced by the person that performs the activity of management and coordination (including inter-group transactions), but also as regards all transactions that have been conducted, the most important transactions in business, financial and capital terms undertaken by the Company and atypical or unusual transactions.

The Procedure also contains a document governing the “Standards of conduct for extraordinary transactions with related parties” (see below, Article 9 of the Code).

Finally, we specify that the Company has adopted an internal procedure that provides a constant flow of information from subsidiaries to SEAT itself, regarding the main corporate events.

- annual assessment of size, composition and functioning of the board itself and its committees

As regards the **application criterion 1C1, letter f), of the Code**, we specify that the Board fulfilled this accomplishment based on “self-appraisal” questionnaires prepared by the Chairman, together with an Independent Director (as well as a member of the Internal Audit Committee) and the Secretary to the Board of Directors.

The Board of Directors resolved that the size, composition and functioning of the Board and of its Committees are satisfactory, and that it does not consider that any additions to the Board are necessary given the existing qualifications of the present members of the governing body.

We specify that, based on Article 14 of our Articles of Association, the Company is managed by a Board of Directors composed of a minimum of 7 (seven) and a maximum of 21 (twenty-one) Directors.

The Ordinary Shareholders' Meeting of April 27, 2006, appointed the Board of Directors for the three-year period of 2006, 2007 and 2008, confirming the appointment of all members of the previous Board (it is specified that the Company promptly published the only list presented by the shareholder P.G. Subsilver S.A. on its website, combined with information and characteristics about the candidates). Subsequently, after the Directors Stefano Mazzotti and Stefano Quadrio Curzio resigned, the Board of Directors co-opted Antonio Belloni and Carmine Di Palo on October 10, 2006. Pursuant to Article 2386, paragraph 1, of the Italian Civil Code, such directors will remain in office until the next Shareholders' Meeting.

The **Company Directors** are therefore messrs.: **Enrico Giliberti (Chairman), Luca Majocchi** (who was appointed Managing Director in the Board of Directors' meeting held following the Shareholders' Meeting of April 27, 2006), **Antonio Belloni, Lino Benassi, Dario Cossutta, Carmine Di Palo, Gian Maria Gros Pietro, Luigi Lanari, Marco Lucchini, Pietro Masera, Michele Marini, Marco Reboa, Nicola Volpi.**

As regards minimum frequency of Board meetings, Article 16 of our Articles of Association envisages that Board meetings be held - normally - at least once a quarter and in any case whenever deemed appropriate, or when at least two Directors or two acting Auditors request the Chairman in writing to summon a meeting, also indicating the meeting agenda.

In accordance with the **application criterion 1C1, letter g), of the Code**, we note that the Board of Directors met 14 times in 2006. During meetings the Board drew on the assistance of the Company's managers. Directors' attendance of meetings was very high, with an attendance percentage of approximately 83%.

*The table attached to this report specifies the attendance percentage referred to each Director.*

In compliance with the current regulations, the Company has advised the market of its **2007 corporate events calendar** (available at the Company's Web site at the address: [http://www.seat.it/seat/en/CORPORATE\\_GOVERNANCE/documentazione/calendario\\_finanziario/](http://www.seat.it/seat/en/CORPORATE_GOVERNANCE/documentazione/calendario_finanziario/)) indicating the dates concerning Board approval of periodical accounts and the Annual General Meeting of Shareholders.

As regards **application criterion 1C3 of the Code**, pursuant to which the Board expresses its view of the maximum number of positions as a director or as an auditor (n.b.: in listed companies on regulated markets, including foreign markets, as well as in financial, banking, insurance companies or companies of major size, as specified under criterion 1C2 of the Code) that may be considered compatible with the effective performance of the duties of a Company director, the Board of Directors laid down general criteria that differed according to the commitment expected of each position (executive, non-executive or independent director), also in the light of the nature and the size of the companies in which such positions are held, as well as of whether they belong to the issuer's group.

Specifically, the Board (i) defined as companies of a major size, apart from listed companies, those with a turnover of more than Euro 500 million; (ii) established the following limits to the numbers of positions, specifying that positions held in more than one company belonging to the same group (including the SEAT Group) are to be considered as one position, the one prevailing that entails the greatest degree of professional commitment:

- Maximum number of positions as non-executive director for a **SEAT Executive Director** in the companies indicated above: no more than 3
- Maximum number of positions as non-executive director for an **Executive Director in the companies indicated above and non-executive or independent director in SEAT**: no more than 5

- Maximum number of positions for a **Non-executive director or as auditor in the companies indicated above and non-executive or independent director in SEAT**: no more than 8.

Having stated this, as regards office held by our directors as statutory auditors or directors of companies indicated in Article 1C2 of the Code, we highlight - based on the information received - the following (\*)(\*\*):

|                               |   |
|-------------------------------|---|
| <b>Enrico Giliberti</b>       | Director of Sirti S.p.A.  |
| <b>Luca Majocchi</b>          | Director of Eniro AB  |
| <b>Antonio Belloni</b>        | No office held in the companies under Article 1C2   |
| <b>Lino Benassi</b>           | Director of DeAgostini S.p.A. and Credit Suisse (Italy)   |
| <b>Dario Cossutta</b>         | No office held in the companies under Article 1C2   |
| <b>Carmine Di Palo</b>        | No office held in the companies under Article 1C2   |
| <b>Gian Maria Gros Pietro</b> | Director of Fiat S.p.A., Edison S.p.A.; Chairman of Autostrade S.p.A.; Chairman of Autostrade per l'Italia S.p.A. (Autostrade group); Chairman of Perseo S.p.A.   |
| <b>Luigi Lanari</b>           | Director of Lecta S.A., Sub Lecta 1 S.A.; Rhiag Holding Limited.; Managing Director of CVC Capital Partners S.r.l.  |
| <b>Marco Lucchini</b>         | Director of Marazzi Group S.p.A.;   |
| <b>Michele Marini</b>         | No office held in the companies under Article 1C2   |
| <b>Pietro Masera</b>          | No office held in the companies under Article 1C2   |
| <b>Marco Reboa</b>            | Director of Eni S.p.A., IMMSI S.p.A., Interpump Group S.p.A., Intesa Private Banking S.p.A.; Chairman of the Board of Statutory Auditors of Luxottica Group S.p.A.; Auditor of Lactalis Italia S.p.A. Group |
| <b>Nicola Volpi</b>           | Director of Marazzi Group S.p.A.; Managing Director of Permira S.p.A.   |

(\*) Information updated at March 13, 2007.

(\*\*) Note that the positions held in more than one company belonging to the same group (including the Seat Group) are to be considered as one position, the one prevailing that entails the greatest degree of professional commitment.

As regards the **criterion 1C4 of the Code**, we specify that - without prejudice to the resolutions passed by the Company's Shareholders' Meeting of April 27, 2006 (which appointed the current Board of Directors, with the exemption from the obligations under Article 2390, paragraph 1, of the Italian Civil Code in the event that the cases under the same article should occur), all the Directors have declared to the Board that they do not perform any activities that compete with those of the Company, also undertaking to notify any significant change if this event should occur.

Finally, we specify that the Chairman of the Board of Directors sees that the information and documents necessary for the Board to take the decisions for which it is responsible are provided for its members - where possible - in a satisfactory manner and in good time. At the request of the

Managing Director, the Company's management may attend board meetings to supply any detailed information on the issue on the agenda that may be appropriate.

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### **Board membership (Article 2)**

The Company has appointed two different directors, the Chairman and the Managing Director, to hold corporate positions.

Pursuant to the **application criterion 2C1**, only the Managing Director - Mr. Luca Majocchi - should be considered to be executive. The other directors, which are therefore non-executive directors, in terms of number, authority and authoritativeness, are therefore such as to assure that their opinion carries significant weight in Board decision-making; specifically, they particularly supervise areas where conflicts of interest may arise.

We also specify that it is not necessary to appoint a lead independent director because the Chairman is not the main person responsible for business management, nor is the position of Chairman held by a person that controls the Company.

As regards the **application criterion 2C2 of the Code**, we specify that the "Code of Conduct" of SEAT (as approved by the Company while adopting regulation on market abuse, referred to below), as well as the "Internal Procedure for Board of Directors' Meetings" allow directors to act knowledgeably and to be acquainted with the responsibilities and duties involved in their positions. In order to enhance knowledge of the corporate activities and dynamics, it should be noted that the Chairman sees that Board of Directors' Meetings (i) normally envisage the attendance of the Company's CFO, also in order to supply the necessary information support to directors requiring clarification about corporate procedures; (ii) envisage the attendance of the corporate officers directly concerned when matters of specific corporate interest are to be considered, in order to ensure that the questions for which the directors are responsible can be properly dealt with; (iii) are normally held at the Company offices, also in order to allow meetings to be arranged with the company's management after the Board Meeting itself, so that corporate issues may be examined at greater depth.

For a more complete disclosure, below are listed the attributions of the Chairman and of the Managing Director, as well as information about the power delegation system

The *Chairman*, Enrico Giliberti, is vested with powers of corporate signature and legal representation of the Company vis-à-vis third parties and courts of law. The Chairman - who has not been vested with operating powers - is responsible for organising the board proceedings and for acting as a connection between the executive director and non-executive directors.

The *Managing Director*, Luca Majocchi, is vested with powers of corporate signature and legal representation of the Company vis-à-vis third parties and courts of law. He is also vested with specific powers and responsibilities for operational management of corporate business, within a general limit of an amount up to Euro 10 million. For some types of deeds specific limits are envisaged.

The Managing Director has also been appointed as executive director responsible for supervising the functionality of the internal audit system (referred to below), as well as the official internal auditor of the Company' secondary office.

As regards the *system for delegation of powers* within the corporate environment, we note that the Company has devised a system of powers that - except in special cases, when powers are governed on a case-by-case basis - is structured as follows:

- (i) powers, exercise of which involves a spending commitment for the Company and that can be exercised solely via joint signature of two managers - for matters forming part of their respective spheres of organisational responsibility - thereby ensuring a form of control

constraining exercise of the powers delegated. Another constraint consists of an imperative and general limit of expenditure imposed on exercise of the powers in question;

- (ii) powers of corporate representation, to be exercised - once again within their respective spheres of organisational responsibility - by two managers with joint signature or, in limited and routine cases, with individual signature.

The types of powers illustrated above substantially reflect those attributed by the Board of Directors to the Managing Director.

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### **Independent directors (Article 3 of the Code)**

During the meeting of February 27, 2007, the Board of Directors adopted a procedure to assess the independence of the directors, pursuant to which the Directors sign an appropriate declaration form at least once a year (for submission to the Chairman of the Board of Directors and to the Chairman of the Board of Statutory Auditors), in which they certify that they meet the independence requirements under Article 3 of the Code, if they in fact do so, with specific regard to the valuation criteria under the application criterion **3C1 of the Code**.

During the meeting of March 13, 2007, the Board acknowledged, on the basis of the information received, the existence of the independence requirements for the Directors Lino Benassi, Gian Maria Gros Pietro and Marco Reboa.

We also specify that, on the basis of the outcome of the Board's "self-appraisal" questionnaires (referred to above, reference to the application criterion 1C1, letter f), of the Code), the number and the qualifications of the independent directors were considered satisfactory, also for the purposes of setting up committees.

We specify that, in accordance with the **application criterion 3C5 of the Code**, the Board of Statutory Auditors verified the application of the criteria and of the above procedure, adopted by the Board of Directors to assess the independence of its members.

Finally, we specify that - as regards the **application criterion 3C6 of the Code** - the Independent Directors expressed the intention to meet in the absence of the other directors at least once during the 2007 financial year. The Board of Directors will be informed when this meeting is held.

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### **Processing corporate information (Article 4)**

As to the internal dealing and the disclosure of inside information and making specific reference to the adoption by the Company of the *regulations on market abuse*<sup>1</sup>, on March 21, 2006, the Board of Directors of Seat Pagine Gialle S.p.A. approved the following documents:

- the "**Internal code of conduct for the handling of inside information**", with the aim to summarize the "general" principles adopted by the Company on the handling of inside

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<sup>1</sup> Article 9 of Law No. 62 of April 18, 2005 (2004 Community Law) prescribes transposition of the European regulations on market abuse (2003/6/EC), governing cases involving the abuse of inside information and market manipulation, and making regulatory amendments to the *Testo Unico della Finanza* (Consolidation Act on Finance). By resolution No. 15232 of November 29, 2005, Consob amended and supplemented the Issuers' Regulations (No. 11971/1999), in accordance with the Community Law, thus completing the transposition by our legal system of the community directive on market abuse.

The main aim of the new 2003/6/EC Directive on market abuse is to increase the level of transparency of financial markets, in particular, by laying down behavioural and organisational obligations for those who access relevant information.

information, defining and identifying the “parties involved”, the rules of conduct, disclosure obligations and sanctions. The Code, with the documents below attached thereto, represents the *corpus* of the Company, governing market abuse.

- the “**Procedure for the institution, updating and keeping of the Register of parties who have access to Inside Information**”, for the purpose of guaranteeing compliance with the obligations prescribed on the procedures for the institution, keeping and updating of the “Register” of persons who, because of their working or professional activity or functions held, have regular or occasional access to “inside information” (pursuant to Article 115-bis of the *T.U.F.*). The Procedure (reflecting the policies put in place by the Company on handling of inside information referred to in the abovementioned “Code”) identifies the Function responsible for the keeping and updating of the Register, the Register's content, the parties to register, notice and disclosure obligations, updating and keeping procedures. The Register was instituted as from April 1, 2006.
- “**Internal Dealing Procedure**”, effective from April 1, 2006, which annuls and supersedes, as from the same effective date, the “Code of Conduct for Internal Dealing” previously adopted by the Company, in compliance with the Regulations of Borsa Italiana S.p.A. The Procedure lays down a disclosure obligation (for the Contact Person identified in the Procedure, who, in turn, gives notice to Consob and the market) of transactions amounting to or in excess of Euro 5,000, conducted on the securities of the Company and of its subsidiaries, by (i) the “relevant parties” and (ii) the “persons closely related to relevant parties”. “Black-out periods” still apply, namely, fixed periods during which persons subject to the provisions of the Procedure are barred from conducting any transaction.

Furthermore, the Board of Directors has updated the previously effective Procedure on the “market disclosure of price sensitive information”, in order to (i) acknowledge the new definition of “inside information” under Article 181 of the *T.U.F.*, (ii) envisage cases regarding “delayed disclosure” and (iii) establish rules of conduct on management of such information (thus, referring to the principles of the abovementioned “Code”). By means of this operating procedure (named “**Procedure of Seat Pagine Gialle S.p.A. for the management and market disclosure of inside information**”), the Company endeavours to assure equality of treatment for the public in general - and for all shareholder categories in particular - whilst observing applicable regulations. The procedure identifies the functions and departments involved, also regulating the procedure to be followed in the eventuality or rumours or of requests for information by surveillance and market management bodies. The procedure also specifically governs the activities to be performed when the Company meets with the financial community and with the press.

Furthermore, we specify that - in accordance with the **application criteria 4C1 of the Code** - the Managing Director, Mr. Majocchi, is also responsible for managing inside information.

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### **Internal committees of the Board of Directors (Article 5)**

In accordance with the **principle 5P1 and the criterion 5C1 of the Code**, the Board of Directors has established the following internal committees:

- the Compensation Committee and
- the Internal Audit Committee,

with propositive and consultive functions.

Both the Committees are composed of three members; duties are defined by resolution of the Board of Directors may be supplemented or changed by a subsequent resolution of the Board.

Committees are entitled to access corporate information and departments as necessary for the performance of their functions.

The Board of Directors has fixed an annual budget for the Committees for the performance of their duties; specifically, an annual budget of Euro 30,000 was fixed for the Compensation Committee and an annual budget of Euro 50,000 for the Internal Audit Committee, with the possibility of additional funding during the year (and without prejudice to the possibility for the Internal Audit Committee to make use of the budget made available by the Company's Internal Audit Department, if sufficient provision has been made).

Persons that are not members of a Committee may attend meetings of each committee with reference to specific items on the agenda, at the request of the Committee concerned (note that minutes of meetings are recorded).

*For precise information regarding the Compensation Committee and the Internal Audit Committee (institution, composition, duties, work actually done during the financial year, number of meetings and members' attendance percentage), see comments to articles 7 and 8 below, respectively.*

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### **Appointment of directors (Article 6)**

We specify that the Company has not deemed it necessary to set up an appointments committee within the Board of Directors, in consideration of the fact that Directors are appointed on the basis of a voting mechanism based on competing lists to guarantee clear election procedures and a well-composed Board.

We specify that, pursuant to Article 14 of the Articles of Association, the appointment of the Board based on the list vote involves depositing at the Company's registered office of the lists of candidates, accompanied by the professional resumes and the statements declaring that each candidate accepts the candidature and, under their responsibility, attests to the absence of any reasons for ineligibility and incompatibility, as well as the existence of the requirements prescribed for the office by regulations and by the articles of association. Lists in connection with which the above requirements are not met are considered as not having been presented. Only shareholders who, either alone or with other shareholders, hold the percentage of voting shares in the Ordinary Shareholders' Meeting, representing at least 2% of the share capital, are entitled to submit a list (article 14 of the current text). However, we specify that, at the next Extraordinary Shareholders' Meeting, which is to resolve upon the amendments to the Articles of Association necessary to adopt the so-called Savings Act (referred to hereinabove in the Recitals), a proposal will be submitted to amend Article 14 of the Articles of Association in order to also take into account the different minimum attendance percentage as decided by a Consob Regulation.

Furthermore, in accordance with **criterion 6.C.1 of the Code**, the abovementioned Extraordinary Shareholders' Meeting will also be asked to consider an amendment to Article 14 of the Articles of Association in order to adopt the deadline by which the lists of candidates as directors are to be filed with the Company's registered office as recommended by the Code (or at least fifteen days before the meeting; the term at present laid down in the Articles of Association is ten days).

It is specified that, on the occasion of the appointment by the Shareholders' Meeting of the present Board of Directors on April 27, 2006, the Company promptly published the only list presented on its website, combined with the candidates' professional resumes..

[[http://www.seat.it/seat/it/CORPORATE\\_GOVERNANCE/documentazione/assemblee/27\\_4\\_2006.html](http://www.seat.it/seat/it/CORPORATE_GOVERNANCE/documentazione/assemblee/27_4_2006.html) ]

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## **Remuneration of directors (Article 7)**

### **Compensation committee**

Following the appointment by the Shareholders' Meeting of the Board of Directors on April 27, 2006, the Board of Directors' meeting held following the said Shareholders' Meeting appointed the Directors Gian Maria Gros Pietro (Chairman), Dario Cossutta and Stefano Quadrio Curzio as members of the Compensation Committee. Following the resignation of Quadrio Curzio as Director, the Board of Directors' meeting of October 10, 2006, appointed Antonio Belloni as substitute member of the Committee.

While the Board of Directors acknowledges that the present composition of the Committee (all non-executive Directors and an independent director acting as Chairman) does not enable the Company to comply with the recommendations under principle 7P3 of the Code (which envisages a Committee composed of non-executive directors, the majority of whom to be independent), it considers that the composition of the Committee (which, as already said above, is chaired by an independent director) reflects the fact that at the moment there is a substantial diversity in the Company between the relevant shareholders identifiable funds) and top management. In a scenario of this kind, it is the practice for the relevant shareholders to exert direct influence on the determination of the fixed and variable fees due to the executive directors.

Having stated this, we specify that, in accordance with **critterion 7C3 of the Code**, the Compensation Committee was assigned by the Board of Directors the duty of:

- (i) making recommendations to the Board of Directors concerning the managing director's compensation and that of other directors holding particular positions, also as regards determination of stock option plans, monitoring application of the decisions adopted by the board itself;
- (ii) periodically assessing the criteria adopted for the remuneration of executives with strategic responsibilities, supervising their application based on the information provided by managing directors and making general recommendations to the board of directors concerning this issue.

The Board also resolved to authorise the Compensation Committee to access corporate information and departments as necessary for the performance of its functions.

We note that during 2006 the Compensation Committee met three times during which (i) set the Managing Director's targets for FY2006, to which the variable component of his compensation is linked; (ii) reviewed the criteria to determine the Group management's compensation.

The percentage of attendance at the Committee's meetings has always been 100% for each member (see also the relevant table attached to this report).

*Information concerning stock option plans is contained in the Annual Report, in a specific paragraph in the Directors' Report on Operation.*

### **Directors' compensation**

Directors have the right to receive - besides reimbursement of expenses occurred in performing their functions - annual compensation of an amount established by the Shareholders' Meeting. Such compensation also includes that of directors holding particular offices.

We specify that, pursuant to Article 2389, paragraph 3, of the Italian Civil Code, the Board of Directors then decides upon compensation for directors holding particular positions, after having received the Board of Statutory Auditors' favourable opinion.

Non-executive directors (whose compensation is proportioned to their commitment, also taking account of their participation in the Committees' meetings) are not the beneficiaries of share incentive schemes.

The Chairman's compensation is fixed, whereas that of the Managing Director is to a large extent variable.

As far as compensation is concerned, the Shareholders' Meeting held on April 27, 2006, resolved, in particular, to set up, for social security purposes, a leaving indemnity for the Managing Director only, tasking the Board of Directors to set the relevant terms, conditions and procedures.

Finally, we specify that top management's compensation features a variable component dependent on results achieved in managers' respective sectors and on individual targets.

*The compensation paid to Directors for FY2006 is indicated in the Annual Report.*

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## **Internal Audit system (Article 8)**

### **1) INTERNAL AUDIT COMMITTEE**

The Board of Directors' meeting held following the Shareholders' Meeting of April 27, 2006, appointed the Directors Lino Benassi (Chairman), Marco Reboa and Marco Lucchini as members of the Internal Audit Committee.

The Internal Audit Committee is composed exclusively of non-executive directors, at least two of which must be adequately experienced in accounting and financial issues (in accordance with Article 8.P.4 of the Code); it is specified that all present members of the Committee are in possession of such requirement. Meetings may be attended by the Chairman of the Board of Statutory Auditors or by another Auditor charged by the latter, and the responsible of the Internal Auditing Department, in addition to the members of the Internal Audit Committee. Furthermore, depending on the items on the agenda, meetings may also be attended by the Managing Director, as well as by the representative of the Independent Auditors and the Company's management.

During the meeting of February 27, 2007, the Board of Directors resolved to charge the Internal Audit Committee with the performance of the duties laid down by Article 8.C.3 of the Code of Conduct. The consequent amendments were then made to the Internal Audit Committee Regulations in order to bring them into line with the provisions of the "New" Self-Governance Code. Specifically, pursuant to the Regulation, the Committee.

1. assists the Board of Directors in defining the guidelines and periodically verifying the appropriate and effective functioning of the Internal Audit System, in order to guarantee identification, adequate measurement, management and monitoring of the main corporate risks;
2. considers the work plan prepared by the Official Internal Auditor and periodical reports received from the same;
3. assesses the remarks appearing in the reports by the Official Internal Auditor and in the notices made by the Board of Statutory Auditors, by the Supervisory Board's reports and by the examinations carried out by third parties;
4. expresses its opinion on the proposed appointments and revocations of the Official Internal Auditor, evaluates its organisational set-up and guarantees its actual independence, also in the light of Legislative Decree No. 231/2001 on corporate administrative liability;
5. evaluates, together with the executive responsible for the drafting of the accounting documents and the auditors, the correct use of the accounting standards applied and their consistency for the purposes of the preparation of consolidated financial statements;

6. supervises the effectiveness of the auditing process and, in particular, examines, after consulting the Board of Statutory Auditors: (i) the accounting criteria key to giving a correct representation of the Group's financial, economic and property position; (ii) alternative accounting treatments provided for by the GAAPs regarding material elements discussed with management, highlighting the impact of the adoption of such alternative treatments and relevant information, as well as the treatments deemed advisable by the auditor; (iii) the content of any other written communication between the independent auditors and the Seat S.p.A. management and the Board of Statutory Auditors; and (iv) issues related to the annual accounts and the consolidated financial statements of the main companies in the Group. For this purpose, the Committee may meet the person responsible for auditing the financial statements of Seat S.p.A., the management of Seat S.p.A., as well as the highest administrative ranks of the main companies in the Group, together with the chairmen or other member of the respective board of statutory auditors or other supervisory bodies (if any), as well as the persons responsible for auditing the financial statements of such companies;
7. assess the proposals made by the Independent Auditors for award of the independent auditing assignment, together with the audit work plan and the results shown in the report and in the advice letter, if any;
8. performs any further tasks assigned by the Board of Directors, and, in particular:
  - i. in its dealings with the independent auditors, assesses the admissible extra-audit tasks assigned to the Company auditing the financial statements, in accordance with the corporate provisions established for such purpose;
  - ii. in its dealings with the related parties, expresses its opinion on the rules governing transparency and substantial and procedural fairness of the transactions with the abovementioned parties and those in which a director has an interest, whether on his/her own account or on behalf of third parties;
9. assists the Board of Directors in the description of the essential features of the internal audit system that is included in the corporate governance annual report, also in order to assess its overall adequacy;
10. reports to the Board of Directors, at least on a half-year basis, on the activity and adequacy of the internal audit system.

The Internal Audit Committee met 6 times in 2006 and twice in the early 2007 and in particular performed the following activities:

- i. monitored the development of the organisational and operational structure of the Internal Audit Department;
- ii. considered and assessed the results which arose from the activities performed by the Internal Auditing Department;
- iii. assessed the audit programs for 2007;
- iv. assessed the qualitative and quantitative information on the performance of trade receivables following the measures adopted to improve collection processes;
- v. met with the Administration, Finance and Control top management, the Board of Statutory Auditors and the Partner of the Independent Auditors in order to examine the main features of the Financial Statements as at December 31, 2006, the correct use of accounting standards and their consistency for the purposes of preparing the consolidated financial statements;
- vi. examined the issues arisen during their audit with the Partner of the Independent Auditors;

- vii. favourably assessed the decision to task the independent auditors Reconta Ernst & Young S.p.A. with carrying out some agreed and recurrent check procedures relating to trade receivables;
- viii. favourably assessed the assignment for provision of technical and methodological support awarded to the firm PricewaterhouseCoopers Advisory S.r.l. for action connected with Law No. 262/2005 (the “Savings Act”);
- ix. monitored the formulation and progress of the Enterprise Risk Management (ERM) project aimed at defining an integrated approach to the identification, assessment, management and monitoring of business risks.

The percentage of attendance at the Committee’s meetings was high, totalling 86.6%. In this regard, see the attendance percentage referred to each member in the table attached to this report.

## 2) THE INTERNAL AUDIT SYSTEM

The Board of Directors has the responsibility for the internal control system, establishing its guidelines, managing corporate risks, and periodically assessing its adequacy through the support of the Internal Audit Committee and the person responsible for internal control.

SEAT Pagine Gialle has sought to disseminate a culture at all levels of its business which is fully aware of the existence and usefulness of checks and controls. The Company’s Code of Ethics imposes responsibility on all for creating and maintaining an internal control system which is effective throughout the organisational structure. As a consequence all staff, in the context of their specific activities, have responsibility for the definition and correct functioning of the control system.

In accordance with Article 8.C.5. of the Code, the Managing Director is charged with supervising the **functionality of the Internal Audit System** and is also required to implement the indications provided by the Board of Directors. In particular:

- i. ensuring that the main business risks have been identified, taking account of the characteristics of the activities carried out by the issuer and its subsidiaries, submitting them for consideration by the board of directors on a periodical basis;
- ii. the implementation of the indications provided by the board of directors, being responsible for the design, creation and management of the internal control system, checking its overall sufficiency, its effectiveness and efficiency on a continuing basis; the Managing Director also has responsibility for adapting the system to the dynamics of the operational conditions and the legislative and regulatory framework;
- iii. the Managing Director is required to propose the appointment, dismissal and remuneration of one or more persons responsible for internal control to the board of directors.

SEAT Pagine Gialle has an Internal Auditing function which does not report, within the hierarchical structure, to any operational manager and it is structured in such a way as to allow it to check and ensure the effectiveness and efficiency of the Internal Audit System. The Internal Auditing Manager is a member of the Supervisory Board as required by the Organisational Model under Legislative Decree no. 231/01 and also acts as the Person responsible for Internal Audit.

The Person responsible for Internal Audit, who does not report, within the hierarchical structure, to any operational manager, has been appointed by the Board of Directors and has been assigned, in accordance with Article 8.C.6., the following main duties:

- a) to ensure that the internal control system is always adequate, fully operational and functioning;
- b) to report on the results of his/her work to the internal audit committee, the board of statutory auditors and the executive director charged with supervising the functionality of the internal control system. In particular, he/she is required to report on the manner in which risk management is carried out, as well as on compliance with the plans drawn up to deal with them, expressing his/her assessment of the internal control system’s suitability for achieving an acceptable overall

risk profile.

The **Person responsible for Internal Audit** is a member of the Supervisory Board required by the Organisational Model under Legislative Decree no. 231/01 and also acts as the Person responsible for the Internal Auditing function. The Internal Auditing department is responsible for checking the adequacy of the internal control system and to ascertain whether it provides reasonable guarantees that the organisation will be able to achieve its objectives economically and efficiently.

### 3) LAW 28 DECEMBER 2005 No. 262 - “SAVINGS ACT”

The Savings Act has introduced amendments to the regulations concerned with joint stock companies requiring in particular, that the administrative procedures intended to provide corporate disclosures are both adequate and applied in practice. Notwithstanding the fact that SEAT PAGINE GIALLE S.p.A. already has a sufficiently structured control system, it welcomed the opportunity for a critical re-appraisal of the existing processes and procedures.

The above activities are still on-going. They were planned with methodological support from the PricewaterhouseCoopers Advisory S.r.l. (PwC) consultancy company and have been broken down into the following stages:

- **definition of the “scope”**. “Scoping” of the companies within the consolidation perimeter has been carried out to assess whether, in quantitative terms, the subsidiaries are of significant size. For this reason it was considered appropriate to carry out an analytical examination of the procedures governing the generation of accounting data by the Parent Company alone as a first step;
- **identification of the areas and processes to be examined**. This activity involved the quantitative and qualitative analysis of current processes and the consequential identification of those considered to be the most sensitive for the purposes of the analysis concerned;
- **assessment of controls**. An analysis of existing controls is currently being conducted with reference to the areas and processes described above, concentrating particularly on data appearing in the Financial Statements (Completeness, Existence, Rights & obligations, Valuation, Recognition, Presentation, Disclosures);
- **the identification**, where this is considered appropriate, of possible improvements to be made to the current internal control system and hence increased monitoring of the areas and processes considered sensitive for the purposes of the activities described above.

### 4) ORGANISATIONAL, MANAGEMENT AND CONTROL MODEL PURSUANT TO LEGISLATIVE DECREE No. 231/2001 - CORPORATE ADMINISTRATIVE LIABILITY

During 2004, the Company launched the so-called “Project 231” - designed to define the Company’s organisational model as envisaged by Legislative Decree No. 231/2001 in relation to legal entities’ administrative liability for criminal offences perpetrated by persons in top management positions and by those subject to their direction or supervision. The activities conducted made it possible to define the following documents that help illustrate the system of procedures and controls put in place to reduce the risk of the commission of crimes envisaged by the regulations in question:

- The “Group Code of Business Ethics” adopted by the Company presents the general principles (transparency, correctness, fairness) to comply with in the running and conduct of business;
- The “Principles and guidelines of the organisational, management and control model” identify, *inter alia*, the sensitive activities related to crimes against the public administration and corporate crimes, the Model's distinguishing features, the recipients, information flows, functions and powers of the Supervisory Board;
- The “**Organisational Model**” identifies the crimes against the public administration - highlighting the risk areas and the support areas - and corporate crimes. The Model was

drawn up on the guidelines set by Confindustria, and appropriately adjusted in order to take into account the nature of business and the organisation of the internal audit system.

The Board of Directors' meeting held following the Shareholders' Meeting of April 27, 2006, has appointed the **Supervisory Board** (set up pursuant to Legislative Decree no. 231/2001), confirming the previous appointments and confirming their term of office up to the date of the Shareholders' Meeting called to approve the Financial Statements for the 2008 financial year; the Committee is composed of Marco Reboa (Chairman), Marco Beatrice (Manager responsible for the Legal and Corporate Affairs Department of SEAT) and Francesco Nigri (Manager responsible for the Internal Audit Department of SEAT).

This approach is in fact able to assure consistency with the guidance contained in the Accompanying Report of Legislative Decree no. 231/2001, endowing the Committee with the requisites of autonomy, independence, professionalism and continuity of action needed to perform the necessary activity efficiently.

The Supervisory Board is tasked with:

- implementing the Organisational Model, based upon the indications set forth in the "Principles and guidelines of Project 231";
- overseeing the effectiveness of the Organisational Model, in order to guarantee that the lines of conduct adopted in the company comply with the established Organisational, management and control model;
- monitoring the effectiveness of the Organisational Model, in order to assess its appropriateness in preventing the occurrence of the crimes established;
- updating the Organisational Model, in order to acknowledge the appropriate adjustments following environmental and/or organisational changes in the Company.

During 2006, the Supervisory Board continued to carry out training and communication activities which are required under Legislative Decree no. 231/2001 and which are reserved for the various Company Departments; it assessed activities in compliance with the regulations on market abuse, and accordingly updated the organisational, management and control model; it monitored the activities carried out by the Italian subsidiaries with regard to the issues under Legislative Decree no. 231 based on the principles and guidelines defined by the parent company.

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### **Directors' interests and transactions with related parties (Article 9)**

As regards **article 9 of the Code**, we specify that the Company has already adopted an appropriate procedure governing the performance of disclosure obligations under the abovementioned Article 16 of the Articles of Association and Article 150, paragraph 1, of the *TUF*, whose purpose is to ensure transparency, not only as regards transactions with related parties in which an interest is held, either on its own account or on behalf of third parties, or which are influenced by the person that performs the activity of management and coordination (including inter-group transactions), but also as regards all transactions that have been conducted, the most important transactions in business, financial and capital terms undertaken by the Company and atypical or unusual transactions.

The Procedure also contains a document governing the "Standards of conduct for extraordinary transactions with related parties".

The Procedure is in any event effective in drawing attention to situations in which a director may have an interest on his/her own account or on behalf of third parties. As regards this aspect, it should also be noted that it is the Company's practice to circulate the documents regarding the items on the agenda before board meetings so that the Directors are fully informed before taking decisions. One of the purposes of this is in fact to preliminarily allow to see whether there are any

transactions in which a Director has an interest (see the document available on the Company's website at the address:

[http://www.seat.it/seat/it/CORPORATE\\_GOVERNANCE/documentazione/procedura/index.html](http://www.seat.it/seat/it/CORPORATE_GOVERNANCE/documentazione/procedura/index.html) ).

**Criterion 9C1 of the Code** recommends that the Board of Directors, in consultation with the Internal Audit Committee, (i) should establish the procedures for the approval and the performance of transactions implemented by the issuer, or its subsidiaries, with related parties; and (ii) should pinpoint the specific transactions (or lay down criteria for doing so) that have to be approved after a prior opinion from the Internal Audit Committee itself and/or with the assistance of independent experts. The "Standards of conduct for extraordinary transactions with related parties" (attached to the Procedure) already envisage the possibility of the Board being assisted by experts. Therefore, the Board resolved to integrate these Principles, deciding that the Board of Directors should only approve such transactions (namely extraordinary transactions with related parties are atypical or unusual transactions or transactions concluded on non-standard terms) after first considering the opinion of the Internal Audit Committee. This duty has also been envisaged in the Committee's Regulations.

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### **Statutory Auditors (Article 10)**

The **Board of Statutory Auditors** consists of three standing statutory auditors and two substitute statutory auditors, appointed by the Shareholders' Meeting, which also fixes their remuneration (Article 22 of our Articles of Association).

The Shareholders' Meeting of April 27, 2006, proceeded to appoint the Board of Statutory Auditors for a three-year period, confirming the appointment of all members of the previous Board (according to the Articles of Association, the appointment is made according to a voting mechanism based on competing lists). Therefore, the Board is formed by three standing members and two substitutive members, in the persons of Messrs. **Enrico Cervellera** (Chairman), **Andrea Vasapoli** (Acting Auditor), **Vincenzo Ciruzzi** (Acting Auditor), **Guido Costa** (Alternate Auditor) and **Guido Vasapoli** (Alternate Auditor).

It is specified that the Company promptly published the only list presented (by the shareholder P.G. Subsilver S.A.) on its website [www.seat.it](http://www.seat.it), combined with information and characteristics about the candidates.

The Statutory Auditors' resumes are available on the Company's website.

In accordance with the current Articles of Association, statutory auditors too are appointed on the basis of lists that must be lodged at the Company's registered headquarters before the meeting. Only shareholders who, either alone or with other shareholders, hold the percentage of voting shares in the Ordinary Shareholders' Meeting, representing at least 2% of the share capital, are entitled to submit a list; however, we specify that, at the next Extraordinary Shareholders' Meeting, which is to resolve upon the amendments to the Articles of Association necessary to adopt the so-called "Savings Act" (referred to hereinabove in the Recitals), a proposal will be submitted to amend Article 22 of the Articles of Association in order to also take into account the different minimum attendance percentage as possibly envisaged by the applicable regulations.

In accordance with **critterion 10.C.1 of the Code**, the abovementioned Extraordinary Shareholders' Meeting will also be asked to consider an amendment to Article 22 of the Articles of Association in order to adopt the deadline by which the lists of candidates as statutory auditors are to be filed with the Company's registered office as recommended by the Code (or at least fifteen days before the meeting; the term at present laid down in the Articles of Association is ten days).

Each list must be deposited together with the professional resumes and the statements declaring that each candidate accepts the candidature and attests to the absence of any reasons for ineligibility and

incompatibility under their own responsibility, as well as the existence of the regulatory and requirements under the articles of association prescribed for the office.

With specific regard to **application criteria of Article 10 of the Code**, we specify that the Board of Statutory Auditors proceeded to formally comply with the recommendations therein. Specifically, the Board of Statutory Auditors resolved as follows:

- The statutory auditors act autonomously and independently also vis-à-vis the shareholders who elected them and spend as much time as is necessary on the diligent performance of the duties assigned to them. In this connection, the statutory auditors keep the information and documents that they acquire in the course of their duties confidential and observe the procedures that have been adopted for the disclosure of sensitive data outside the Company;
- The statutory auditors acknowledge that the issuer has adopted procedures and methods of behaviour that ensure the effective performance of the duties proper to the board of statutory auditors, such as, by way of example: (i) the participation of the Board members in the Internal Audit Committee's meetings; (ii) the participation of at least one Board member in the meetings of the Supervisory Board set up pursuant to Legislative Decree no. 231/2001; (iii) direct and constant contact with the Official Internal Auditor, who also holds the position of Head of the Company's Internal Audit Department; during the course of their duties, the statutory auditors may ask this Department to verify specific areas of operations or corporate transactions; (iv) the participation, by request, of the company officers concerned in the Board of Statutory Auditors' Meetings;
- The Board of Statutory Auditors verifies annually that the requirements regarding the independence of the statutory auditors are satisfied; the outcome of the verification is mentioned in the corporate governance report;
- The statutory auditor who has an interest, either on his/her own account or on behalf of third parties, in any transaction proposed by the Company proceeds to inform the other statutory auditors and the Chairman of the Board of Directors exhaustively and in good time of the nature, the terms, the origin and the extent of his/her interest;
- The Board of Statutory Auditors supervises the independence of the independent auditors, verifying both its compliance with the relevant regulatory provisions and the nature and extent of the services other than auditing rendered by the independent auditors and the entities in its network to the issuer and its subsidiaries, in accordance with the provisions under the "Procedure for the assignment of tasks to independent auditors" adopted by the Company in December 2005;
- the Board of Statutory Auditors and the Internal Audit Committee promptly exchange the information that is relevant to the performance of their respective duties;
- in the framework of the duties assigned to it by law, the Board of Statutory Auditors verifies that the criteria and the procedures adopted by the Board of Directors for the assessment of the independence of its members are correctly applied, subsequently disclosing the outcome of these controls to the market within the corporate governance report and the statutory auditors' report to the Shareholders' Meeting.

We specify that, as regards **criterion 10C2 of the Code**, during the meeting of February 27, 2007, the Board of Statutory Auditors verified that the independence requirements regarding each statutory auditor were satisfied, also on the basis of the criteria laid down for Directors in this Code.

Furthermore, in accordance with **criterion 3C5 of the Code**, during the meeting of March 13, 2007, the Board of Statutory Auditors verified that the criteria and the procedures for the assessment of the independence requirements regarding each member were properly applied (for this purpose, see what is indicated above with reference to Article 3 of the Code).

The *main activities* performed by Acting Statutory Auditors are highlighted below:

|                          |   |
|--------------------------|---|
| <b>Enrico Cervellera</b> | Director of Stefanel S.p.A. and Ferrero S.p.A.; Chairman of the Board of Statutory Auditors of Interpump S.p.A., Lactalis Italia SpA Group (*), S.p.A. Egidio Galbani (*), biG Srl (*); Acting Auditor of Brembo S.p.A., Luxottica Group S.p.A., Tamburi Investment Partners S.p.A.<br><br>(* ) Galbani Group company |
| <b>Vincenzo Ciruzzi</b>  | Chairman of the Board of Statutory Auditors of Camuzzi International S.p.A.; Acting Auditor of Dexia Crediop S.p.A.   |
| <b>Andrea Vasapoli</b>   | Acting Auditor of Aksia Group SGR S.p.A.  |

(\* ) Data updated at March 13, 2007.

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### **Relations with Shareholders (Article 11)**

In accordance with **principles under Article 11 of the Code**, pursuant to which the Board of Directors promotes initiatives aimed at encouraging participation of the shareholders in the meetings as widely as possible and helping them to exercise their rights, we specify as follows:

- the Company published the notice of call of meetings in the daily newspaper “Il Sole 24 Ore”, in line with the established use by SEAT of this newspaper as an information medium already known to shareholders.
- As to the place, the shareholders’ meetings must always be convened at the Company’s secondary office located in Turin.
- As regards the right of attendance, on September 27, 2004, the Extraordinary Shareholders’ Meeting passed a resolution aligning our Articles of Association with the new rules established by Article 2370 of the Italian Civil Code, respecting investors’ interest in being freely able to dispose of the securities owned, whilst preventing participation by parties not legitimated to attend shareholders’ meetings. Article 8 of the Articles of Association thus envisages that shareholders with voting rights, and for whom the Company has received notification from the intermediary within the two days prior to the date of individual meetings, can attend shareholders’ meetings.
- Within fifteen days of the date of the Shareholders’ Meeting, documents made available to the public are also published on the Company’s website in the section called “Corporate Governance”.

Documents to be consulted for the purposes of the Shareholders’ Meetings must be sent to all shareholders that request them, including by an appropriate e-mail address. Information may also be given on the phone.

As regards **application criteria under Article 11 of the Code**, we specify that in 2006 the Company gave precise and timely notice in order to guarantee correct and transparent disclosures on the Company's activities, in compliance with the “Procedure of Seat Pagine Gialle S.p.A. for the management and market disclosure of inside information” (referred to above).

Appropriate corporate functions guarantee, in particular, relations with the national and international financial community (Investor Relations) and the shareholders (Legal and Corporate Affairs).

In 2006, the Investor Relations function organised numerous formal meetings with the market (financial analysts, institutional investors and representatives of the financial community) through quarterly conference calls, road shows and conferences. The Company also conducts daily contacts, through direct meetings and conference calls with financial analysts and institutional investors. The strong communication activity, including, *inter alia*, an Investor Day in March 2006, has led the Investor Relations Department of Seat to rank no. 10 among the Italian companies in the Investor Perception Study commissioned by the Investor Relations Magazine in September 2006, to identify the leading IR Teams in the major European countries.

To further promote relations with members of the financial market, the Company has released on its website all of its economic and financial documentation (financial statements, half-year and quarterly reports), supporting documents (presentations to the financial community), a special section named “Corporate Governance” (including, *inter alia*, the documentation relating to the items on the agenda of the shareholders’ meeting, including the lists of candidates to be appointed as director and statutory auditor, indicating the relevant personal and professional characteristics), as well as the press releases issued by the Company, both in Italian and English. The website also has a section with useful information for all Shareholders and an on-line update on the Group's stock prices.

You may contact the Investor Relations Department as follows:

Telephone no. +39 011 4352600; fax no. + 39 011 4352722; e-mail [investor.relations@seat.it](mailto:investor.relations@seat.it)

With specific regard to the **Shareholders’ Meeting**, please also note the following.

The Ordinary Shareholders’ Meeting for the approval of the Financial Statements must be held within 120 days after the end of a company’s financial year, or within 180 days if the company is under obligation to prepare consolidated year-end financial statements or special needs relating to a company’s structure or business purpose make it necessary. Shareholders’ meetings are also held whenever the Board deems it necessary or when so required by law (Article 8 of the Articles of Association).

With reference to **criterion 11C3 of the Code**, as regards the right of attendance, as indicated above while commenting principles under Article 11 of the Code, on September 27, 2004, the Extraordinary Shareholders’ Meeting passed a resolution aligning our Articles of Association with the new rules established by Article 2370 of the Italian Civil Code, respecting investors’ interest in being freely able to dispose of the securities owned, whilst preventing participation by parties not legitimated to attend shareholders’ meetings. Article 8 of the Articles of Association thus envisages that shareholders with voting rights, and for whom the Company has received notification from the intermediary within the two days prior to the date of individual meetings, can attend shareholders’ meetings. The Extraordinary Shareholders’ Meeting mentioned above also passed a resolution amending the article of association concerning convocation, thus envisaging the possibility of the notice of call being published in the daily newspaper “Il Sole 24 Ore”, as well as in the Official Gazette (*Gazzetta Ufficiale*).

The Shareholders’ Meeting, upon the proposal of the meeting’s Chairman, appoints a secretary, who need not be a shareholder. In the possible cases contemplated by law and when the meeting’s Chairman deems it to be necessary, meeting minutes are prepared in the form of a public deed by a notary designated by the Chairman.

Directors make every effort to facilitate shareholders’ attendance of shareholder meetings. Whenever possible, all directors and statutory auditors (especially those directors who - by virtue of the position held - can make a useful contribution to meeting discussions) take part in shareholders’ meetings.

As regards **application criterion 11C5 of the Code**, the characteristics of the Company's shareholder meetings – i.e. streamlined proceedings and absence of criticalities – have allowed us not to propose, thus far, adoption of a shareholders' meeting regulation. We also point out that the reworded version of Article 2371 of the Italian Civil Code expressly envisages, as regards meeting chairmanship, that the meeting's Chairman check proper constitution of the meeting and the identity and legitimation of those present, manage meeting proceedings, and ascertain the results of voting (pursuant to Article 12 of the Articles of Association, the meeting's Chairman checks - also via specifically appointed officers - the right to attend, compliance of proxies with current legislation, the valid constitution of the meeting as such, and the identity and legitimation of those present. He manages meeting proceedings and takes appropriate measures to assure orderly discussion and voting, defining the latter's approach and ascertaining results).

The Shareholders' Meeting for the approval of the annual accounts for the financial year ended December 31, 2005, was held on April 27, 2006.



|  |
|--|
| • Summary of reasons for absence of Committee or for different composition to that recommended by the Code:  |
| ♦ Summary of reasons for absence of Committee or for different composition to that recommended by the Code:  |
| ◇ Summary of reasons for different composition (if applicable) to that recommended by the Code: <i>It was not deemed necessary to set up, within the Board of Directors, an Appointments Committee tasked with proposing director level posts, given also that - as mentioned in the Report – a list-based voting system has been put in place to guarantee clear election procedures and a well-composed Board.</i> |

|  |               |  |                                     |                                    |                                 |
|--|---------------|--|-------------------------------------|------------------------------------|---------------------------------|
| <i>Number of meetings held in 2006</i> | <i>BoD:14</i> | <i>Internal Audit Committee:<br/>6</i> | <i>Compensation<br/>Committee:3</i> | <i>Appointments<br/>Committee:</i> | <i>Executive<br/>Committee:</i> |
|--|---------------|--|-------------------------------------|------------------------------------|---------------------------------|

#### **NOTES**

\*An asterisk beside a name indicates whether the director was designated via lists submitted by the minority.

\*\*This column shows the number of offices held by the person concerned as a director or statutory auditor in other companies listed on regulated Italian and foreign markets; in financial, banking and insurance companies; or in companies of major size. In the main body of the Corporate Governance Report offices held are indicated in full.

\*\*\*In this column “X” indicates that a director is a member of the committee concerned.

\*\*\*\* This column indicates directors’ percent attendance respectively of Board and committee meetings.

**(i) As highlighted in the Report, we note that, following the resignations of Mr. Stefano Mazzotti and Mr. Stefano Quadrio Curzio, Mr. Antonio Belloni and Mr. Carmine Di Palo were co-opted on to the Board of Directors on October 10, 2006.**

**TABLE 2: BOARD OF STATUTORY AUDITORS**

| <b>Office</b>   | <b>Members</b>    | <b>% attendance of meetings of Board of Statutory Auditors</b> | <b>Number of other offices held **</b> |
|---|-------------------|--|--|
| <b>Chairman</b>   | Cervellera Enrico | 83   | 9                                      |
| <b>Standing Statutory Auditor</b>   | Ciruzzi Vincenzo  | 83   | 2                                      |
| <b>Standing Statutory Auditor</b>   | Vasapoli Andrea   | 83   | 1                                      |
| <b>Number of meetings held in 2006: 6</b>   |                   |  |  |
| <b>Minimum equity ownership required for submittal of lists by minorities for election of one or more standing statutory auditors (under Article 148 of the T.U.F.): 2%</b> |                   |  |  |

**NOTES**

\*An asterisk beside a name indicates whether the statutory auditor was designated via lists submitted by the minority.

\*\*This column shows the number of offices held by the person concerned as a director or statutory auditor in other companies. In the Report on Corporate Governance offices held are indicated in full.

**TABLE 3: OTHER PROVISIONS OF SELF-GOVERNANCE CODE**

|   | YES | NO | Summary of reasons for any departure from Code Recommendations |
|---|-----|----|--|
| <b>System of delegated powers and for transactions with related parties</b>   |     |    |  |
| Has the BoD delegated powers defining their:  |     |    |  |
| a) Limits ?   | x   |    |  |
| b) Method of exercise ?   | x   |    |  |
| c) Frequency of reporting ?   | x   |    |  |
| Has the BoD reserved as its prerogative the review and approval of transactions particularly important in business, capital and financial terms (including transactions with related parties) ? | x   |    |  |
| Has the BoD defined guidelines and criteria for identification of “important” and “major” transactions ?  | x   |    |  |
| Are the above guidelines and criteria described in the report ?   | x   |    |  |
| Has the BoD defined specific procedures for review and approval of transactions with related parties ?  | x   |    |  |
| Are the procedures for approval of transactions with related parties described in the report ?  | x   |    |  |
|   |     |    |  |
| <b>Procedures for the most recent appointment of directors and statutory auditors (*)</b>   |     |    |  |
| Were candidacies for directorship lodged at least 10 days beforehand ?  | x   |    |  |
| Were candidacies for directorship accompanied by exhaustive information ?   | x   |    |  |
| Were candidacies for directorship accompanied by an indication of eligibility for classification as independent directors ?   | x   |    |  |
| Were candidacies for the office of statutory auditor lodged at least 10 days beforehand ?   | x   |    |  |
| Were candidacies for the office of statutory auditor accompanied by exhaustive information ?  | x   |    |  |

|  |  |   |   |
|--|--|---|---|
| <b>Shareholders' Meetings</b>  |  |   |   |
| Has the company approved a Regulation for Shareholders' Meetings?  |  | x | The characteristics of our shareholder meetings - i.e. streamlined proceedings and absence of criticalities - have allowed us not to propose, thus far, adoption of a shareholders' meeting regulation. We also point out that Article 2371 of the Italian Civil Code expressly envisages, as regards meeting chairmanship, that the meeting's Chairman check proper constitution of the meeting and the identity and legitimation of those present, manage meeting proceedings, and ascertain the results of voting. |
| Is the Regulation attached to the report (or is it indicated where it can be obtained/downloaded)?       |  |   |   |
| <b>Internal Audit</b>  |  |   |   |
| Has the company appointed official internal auditors?  | x  |   |   |
| Are the official internal auditors free of hierarchical relationships with the heads of operating areas? | x  |   |   |
| Organisational unit responsible for internal auditing (as per Article 9.3 of the Code)                   | The Official Internal Auditor is the head of the Internal Auditing function  |   |   |
| <b>Investor relations</b>  |  |   |   |
| Has the company appointed an investor relations manager?   | x  |   |   |
| Organisational unit and contact details (address/telephone/fax/e-mail) of investor relations function    | Investor Relations - Via Saffi no. 18, Turin, Italy – Telephone +39 011 4352600; fax +39 011 4352722; e-mail: <a href="mailto:investor.relations@seat.it">investor.relations@seat.it</a> |   |   |

(\*) as made in the Shareholders' Meeting of April 27, 2006.