

REPLY

ANNUAL REPORT 2003

Corporate Bodies  
Reply – Financial Highlights  
Letter to the Shareholders

**DIRECTORS' REPORT ON OPERATIONS**

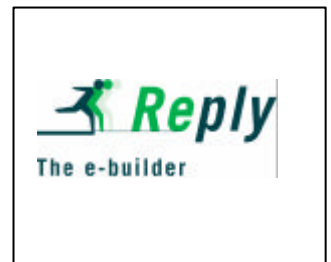
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**ANNUAL REPORT  
2003**

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# CORPORATE BODIES

## **Board of Directors**

*Chairman*

Mario Rizzante

*Chief Executive Officers*

Sergio Ingegnatti  
Oscar Pepino

*Directors*

Tatiana Rizzante <sup>1</sup>  
Marco Mezzalama <sup>1 2</sup>  
Paul de Sury <sup>1 2</sup>

## **Board of Statutory Auditors**

*Statutory Auditors*

Piergiorgio Re – Chairman  
Tommaso Vallenzasca  
Ada Alessandra Garzino Demo

*Alternate Auditors*

Alessandro Mikla  
Paolo Claretta-Assandri

## **Independent Auditors**

Deloitte & Touche S.p.A.

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<sup>1</sup> *Directors not invested with operational proxy;*

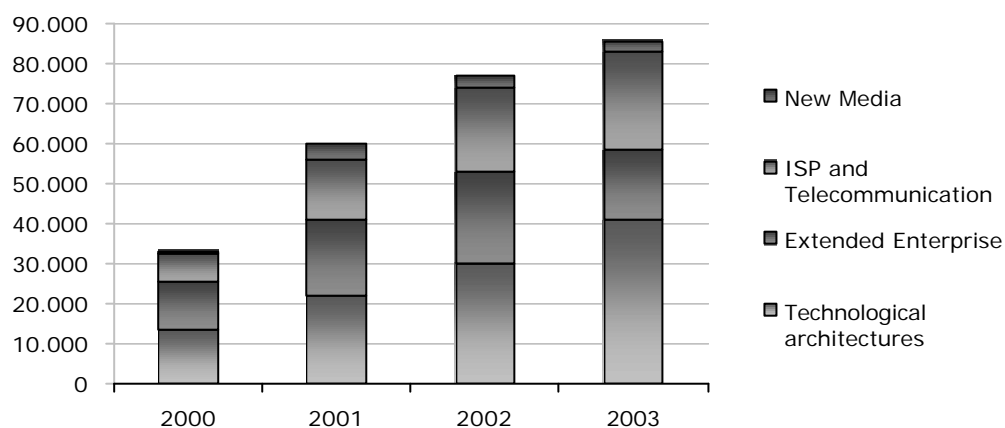
<sup>2</sup> *Independent directors, according to the Corporate Governance code for listed companies.*

## REPLY – FINANCIAL HIGHLIGHTS

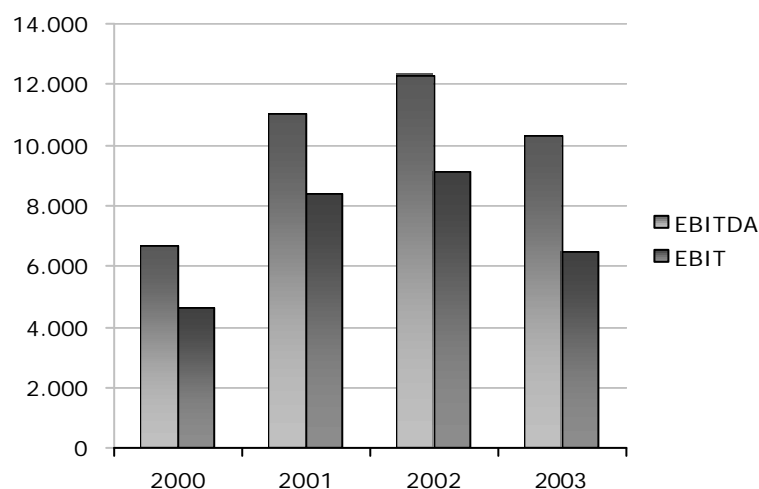
Statement of operation data (thousand euros)	2003	%	2002	%	2001	%	2000	%
Revenues	85.970	100,0	77.141	100,0	60.303	100,0	33.337	100,0
Gross operating income	10.317	12,0	12.324	16,0	11.047	18,3	6.659	20,0
Operating income	6.471	7,5	9.111	11,8	8.404	13,9	4.649	13,9
Income before extraordinary items *	6.264	7,3	9.292	12,0	9.185	15,2	4.544	13,6
Net income/(loss)	3.003	3,5	3.535	4,6	3.842	6,4	1.883	5,6

\* Income before extraordinary items includes operating income and net financial income

Revenues by business line



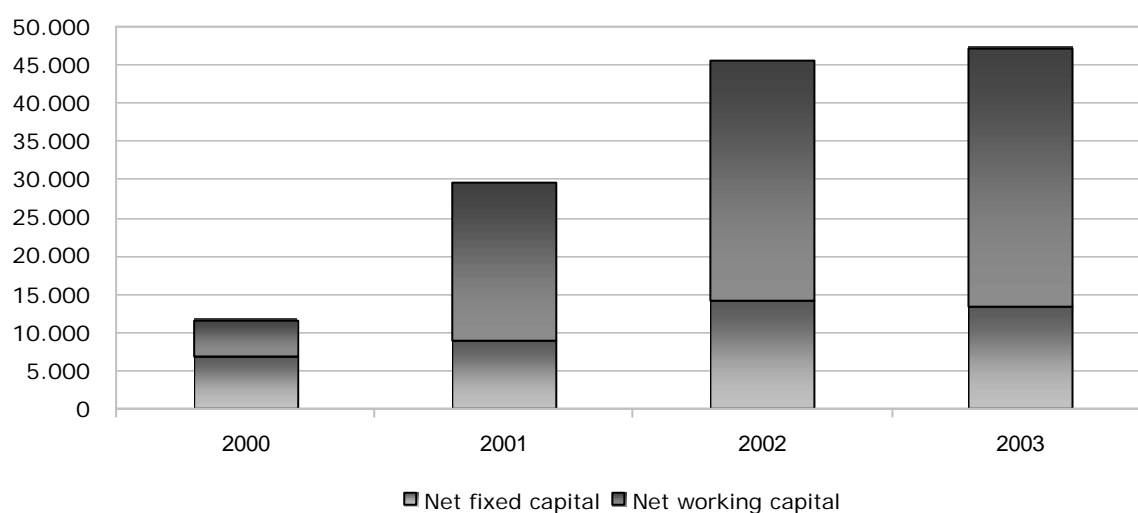
Trends in profitability



<b>Balance sheet items (thousand euros)</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Shareholders' equity	50.055	48.888	45.615	41.761
Minority interest	836	698	466	-
Total assets	89.022	79.197	69.789	56.996
Net working capital	33.912	31.314	20.582	4.681
Net invested capital	47.260	45.455	29.584	11.674
Cash Flow *	7.046	(2.878)	(8.228)	3.201
Net financial position	3.631	4.131	16.497	30.087

\* Calculated as the sum of operating cash flow and change in operating activities and liabilities.

#### Change in net invested capital



<b>Data per single share (in euros)</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Number of shares	8.162.200	8.162.200	8.162.200	8.162.200
Operating result per share	0,79	1,11	1,03	0,57
Net profit per share	0,37	0,43	0,47	0,23
Net worth per share	6,13	6,00	5,59	5,12
Dividend per share	0,12	0,10	-	-

**Reply on the stock market since listed**



**2003**

**2002**

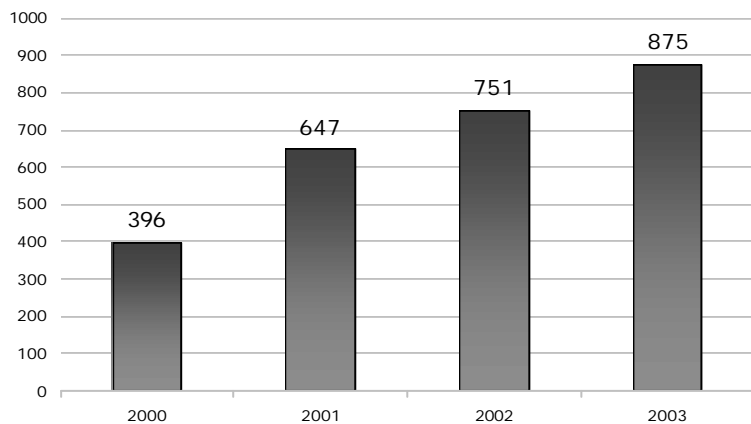
**2001**

**2000**

**Other information**

Number of employees	875	751	647	396
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**Human resources**



## LETTER TO THE SHAREHOLDERS

To our shareholders,

Throughout 2003, despite global economic uncertainty, Reply has confirmed its solid positioning and has achieved important results: increase in revenues, positive and essentially higher than market average margins, positive cash flows in spite of significant investments charged directly to the statement of income in the year.

The major reason for such performances lays in our model which is based on three fundamental values. The first is related to the network organization of the companies which allows more flexibility and dynamism, typical of highly specialized realities combined with solidity and methodology, typical of big organizations.

The second value lays in the expertise of our people, their culture, their studies, their attention to quality, their seriousness and the ability to evaluate results.

The quality of services and solutions and the satisfaction of customers represents the third value that we seek and support. We intend on guaranteeing this quality in order to propose customers solutions and promising technology able to create efficiency and a competitive advantage.

In 2004 we hope to strengthen our traditional business and seek new opportunities in segments with a high growth potential such as the Digital Asset Management, Mobility, RFID, Web Services, Open Source and the Security segments.

The first months of 2004 have marked a positive trend in revenues and profitability; in general, I believe that the competitive advantage that we have created will allow us to operate in order for the Group to expand and to continuously create greater value for our Shareholders.

**The Chairman**

Mario Rizzante



## DIRECTORS' REPORT ON OPERATIONS



## GROUP DISTINCTIVE FEATURES

Reply was founded as an answer to the middle 90's technological evolution concerning communication and the new conception of doing business.

Procedures, technology, applications are all rings of a value chain connected to ever so smaller sequences. Increasing effectiveness of procedures, availability of information to anyone and anywhere, the ability to make decisions in real time are objectives that require business capability but also complete domain of consolidated solutions and the ability to implement them timely to different technological platforms.

In order to provide its clients with the necessary instruments to reformulate strategies and organizational models in the new scenario, Reply, one of the leading Italian companies in the "e-business" field, has developed an offer of integrated services that include:

- Consulting (strategic and technological, concerning communication, organization, and procedures),
- Web Integration (configuration and integration of various technological platforms. Communication and business consulting being merged with highly valued informative solutions)
- Web Application Management (management, monitoring and continuous evolution of the web architecture applications).

Reply works by means of subsidiary companies having specific knowledge, expertise, and skills. This allows Reply to be flexible and dynamic, typical features of small enterprises, but at the same time, with the ability to design, develop and organize, characteristics of an entity of vast dimension.

In addition to the proprietor software, Reply works on other software developed by a selected number of vendors (Reply's strategic partners), with the purpose of satisfying all the clients' needs and of keeping a high rate of expertise on innovative technologies.

Reply's business offers are mainly addressed to the industry and telecommunication markets.

The Reply "Business-Model" is characterized by some distinctive factors that suitably place the Company in the field of e-business services.

These factors are:

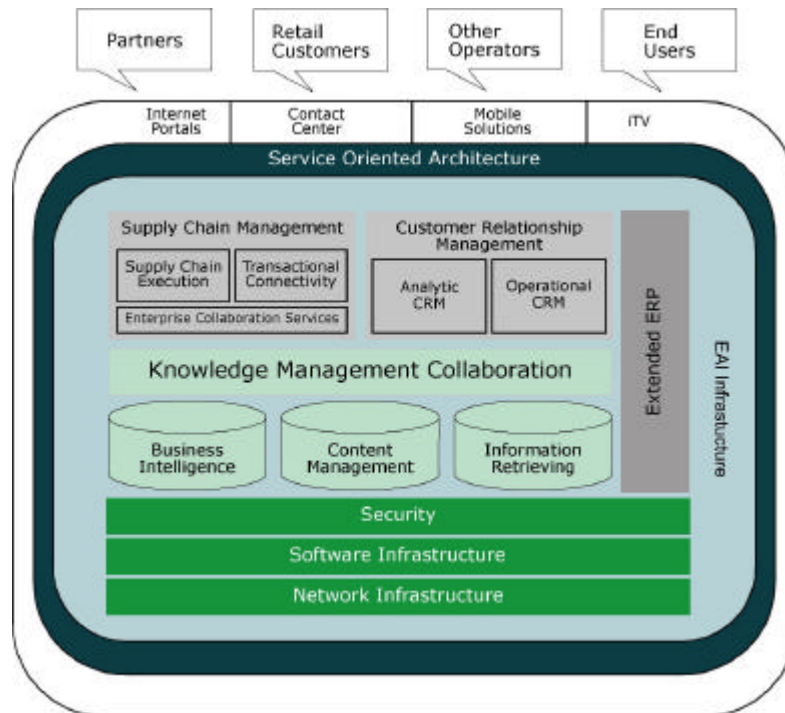
- a) Focalization of services offered;
- b) Accomplished long-term relationships with great industries and main operators in the telecommunication scenario;
- c) International strategic agreements;
- d) Significant partnership agreements with some of the major "software vendors";
- e) A specialized and consolidated Group of management, strongly profit oriented;
- f) Flexible structure, able to anticipate the market evolutions, new organizational models and technological innovations;
- g) Professional team members, coming from the most prestigious universities, that work together in order to achieve rapid and excellent results.

Reply's strategic objective is aimed at consolidating a leadership position on the Italian E-business and service market and to expand on the international markets.

Reply's current business model, characterized by a network of operational and flexible companies and its portfolio of clients will enable expansion on the national and international markets.

## BUSINESS SOLUTIONS

Reply is specialized in creating effective business solutions based on innovative technologies. What characterizes Reply's services is the ability to be one step ahead in the development of business models and new technology and the swiftness with which it is able to transform such knowledge in a competitive edge and efficiency for its clients.



Reply intervenes in the value chain in those aspects where interaction with clients, employees and partners is relevant.

Reply's value is acknowledged through its ability to assist its clients in the realization of their projects by introducing innovation and quality along with its experience in specific sectors.

Reply's services are mainly addressed at the following fields:

- Extended Enterprise
- Technological Architectures and Infrastructures
- Digital Media & Content

The different lines of offer are also integrated in the following industrial segments:

- Telecommunication and Media
- Industry and Services
- Banking and Financial Services
- Public Administration/E-Government

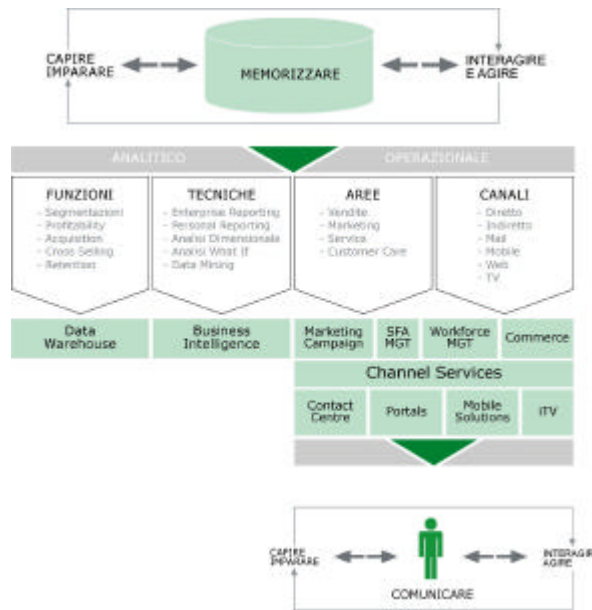
### **EXTENDED ENTERPRISE**

The new communication technologies, which have allowed the creation of extended enterprises, based on the integration of different and distinct functional units of the production cycle, are now supporting their growth towards even more open models where the availability and access to updated information in real time has become the competitive and often successful element.

Reply approaches the different operational models of the Extended Enterprise by designing solutions and applications of Customer Relationship Management and Supply Chain Management based on market leading products and applications and based on its proprietor platform for the Supply Chain Execution (Click Reply™).

### **Customer Relationship Management**

Creating CRM solutions means identifying a relationship strategy: by determining a correct cultural behavior in order to consider the client as an integral part of the company organization, by redesigning, when necessary, company procedures and by projecting application architecture that support Marketing, Sales and Assistance activities.

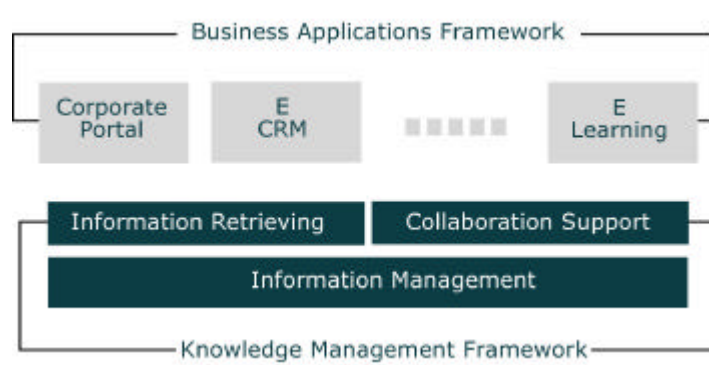


CRM

Reply intervenes in internal procedures and skills by redesigning, where necessary, company procedures and by developing architectural applications that support marketing, sales and assistance activities.

### Knowledge Management

In the new era of knowledge, corporate decisions have become more oriented at maximizing the creation of value. Knowledge and information are the most important assets for a company. The integration, organization and the use of such assets, according to models based on collaboration, have become objective strategies.

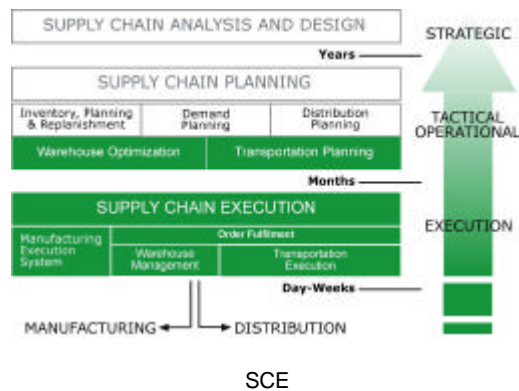


KM

Reply supports companies in the realization of advanced Knowledge Management solutions, by collaborating in the definition and organization of procedures at the basis of Knowledge systems and by offering its knowledge and its System Integration skills on specific technological sectors.

## Supply Chain Management

Flexibility and dynamics require an integrated approach to controls and management of refurbishment, production and distribution procedures. The need, therefore, to redefine and re-engineer procedures regarding purchases, control of production, dislocation of warehouses and production units, control of stock rotation, shipping and distribution of goods has become crucial. The availability of new technology solutions and the velocity of communication have allowed to increment the efficiency of Supply Chain Management.



Reply helps its clients in integrating their operational partners by constructing optimized Supply Chain Execution.

Reply bases its integrated solutions for the Supply Chain on the proprietor suite Click Reply™.

## **TECHNOLOGICAL ARCHITECTURES AND INFRASTRUCTURES**

### **Multi-channels**

By combining experience matured in integrating applications with skills on new Internet and Wireless communication technology, Reply supports its customers in the development and realization of multi-channeled solutions, offering consulting services and solutions aimed at:

- Supporting evolution towards multi-channeled business models;
- Managing transition from legacy platforms to integrated architectures;
- Developing and managing applications for new communication channels;
- Developing specific graphic interfaces for the diverse communication channels and/or devices;
- Managing the net and device infrastructures.

### **Infrastructures**

Constructing solid infrastructures means making applications and services available on a network characterized by high reliability but also able to guarantee maximum information security.

Within an infrastructural framework, Reply has defined teams that are specialized in major technologies able to manage complex projects having an infrastructural nature.

Reply offers its customers complete consulting on the management of risks associated with an information system: from the identification of the threats and vulnerabilities to the definition, development and implementation of the related counter-measures.

## **Web Management**

Designing and realizing e-business solutions is only the first step of the whole life cycle of a project. A new challenge consists in being able to excel in management activities and in continuous evolution that are necessary in order to successfully face the growth of functionality, users and volume of data.

Reply offers support for:

- **Application Layer:** monitoring, trouble ticketing, administration, help desk, day-to-day management, management correction, management evolution;
- **Infrastructure Layer:** 24x7 service management, management of functional evolution, technological upgrade, monitoring, event management, help desk, human resource management;
- **Value added services:** proactive capacity planning, data analysis services.

## **DIGITAL MEDIA & CONTENT**

In a framework where technological evolution continuously modifies horizons and communication potentials, it is essential that an enterprise is equipped with the capability of developing specific contents for the different media available, bearing always in mind the final customer's point of view.

Reply integrates Communication and Creativity in order to create innovative contents and services that are able to exploit the potentials of new digital channels.

- Internet
- Interactive Television
- Mobile

Within the *Digital Media* framework, Reply is engaged in the development of solutions that require the capability of integrating diverse professionalism by taking advantage of the convergence between new media (Internet, mobile phones, CD) and traditional means of communication (video and press).

## **INDUSTRIAL FIELDS**

### **Telecommunication and Media**

The Telecommunication market, in the past few years, has evolved from mere connection suppliers to service value added suppliers. The net infrastructures and the available applications allow the creation of a new generation of converging services, made available to customers any time and anywhere. Services and their content are always more related to the users (business, consumer, employee) of terminals (Smart phone, PDA, PC, etc.) and business models. Wireless applications and those based on Internet standards require an ever more sophisticated approach in the planning stage and in that of development. The increasing volume of information received and transmitted requires complex infrastructures such as the storage area network.

Reply integrates the knowledge of technology and client-side architectures with a solid experience on procedures and infrastructures typical of the Telecommunication segment.

## **Industry and services**

The spreading of new channels of communication, the adoption of open standards and technologies based on components help further reduce the border between enterprises, clients and suppliers, allowing the creation of a digital enterprise model that enables:

- A quick response to clients' feedback and requests;
- The optimization of production;
- To reduce "time to market" of personalized products.

In order to support customers in this evolution phase, aimed at realizing an informative backbone able to interact with the entire value chain, Reply integrates functional skills with application solutions in the CRM and SCM fields.

## **Banks, Insurance Companies and Financial Operators**

Banks, Insurance Companies and Financial Institutions are directing their attention to the development of informatics systems that, aside from being of easy implementation and management, simplify, strengthen and generate more efficient customer and partner relationships.

Reply is specialized in strategic consulting, in the development and realization of infrastructures and multi-channeled services for Banks, Insurance Companies and Financial Institutions.

## **Public Administration**

The evolution towards personalized services executed in real time, guaranteeing access to customers, rendering services for PC, palms, television, mobile phones, maintaining data and information coherency between offices: these are the challenges that the Public Administration has to currently face.

Administrative offices use new technologies more frequently in order to manage relations with citizens, exploit and manage more efficiently the entire information wealth and guarantee its employees access to daily information.

Reply's initiatives for e-government are aimed at creating solutions that allow:

- Citizens to receive and gain access to services on-line, join in training programs and to take active part in management of public goods;
- Enterprises to participate in the public service network, gain access to on-line services and to develop partnerships with the public administration in order to encourage economic development;
- Employees and directors to concentrate on more value added activities, to redefine relations with the public and to improve efficiency.

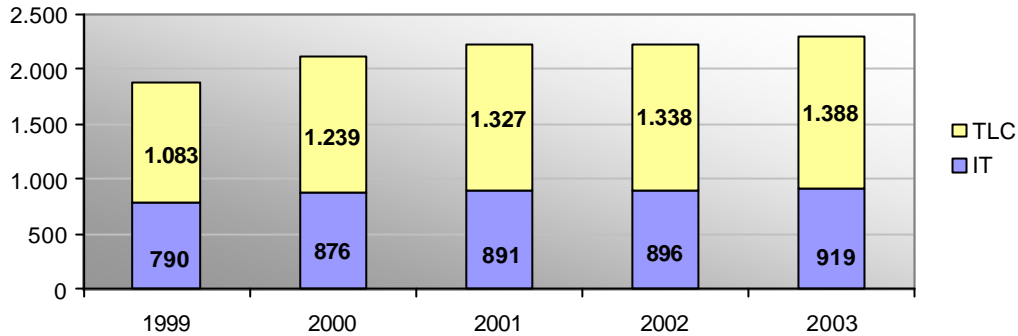
In the Public Administration field Reply has matured experience in these past years on more advanced on-line services, on promptness of execution and professionalism of its consultants, by integrating applications and skills in order to maximize efficiency in the realization of specific solutions.



## THE REFERENCE MARKET

Reply proposes integrated services and solutions for e-business, key component of the ICT market.

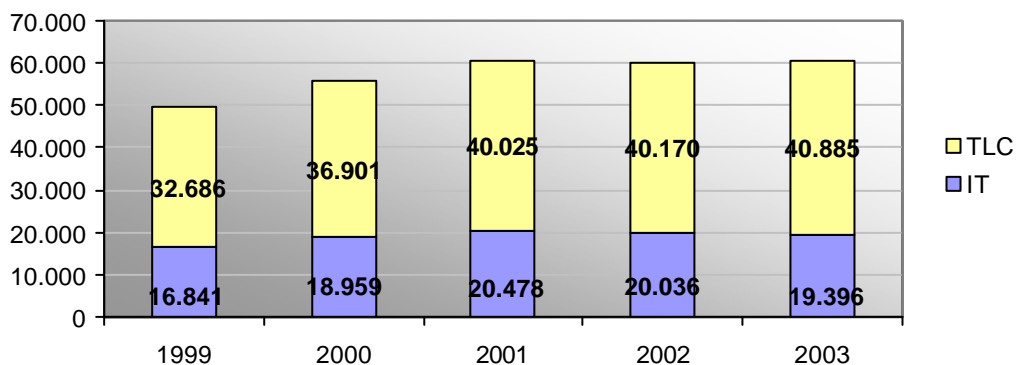
In 2003 the ICT global market stood at 2.307 billion USD marking a mere 3.2% increase compared to the previous year (source: Assinform – NetConsulting).



GLOBAL ICT MARKET

The Italian ICT market trend was positive but recorded a modest increase (+0.1%) confirming the enduring of a substantial standstill which is strictly related to the contraction of investments in innovation and to a zero growth rate of the Gross National Product (+0.3%). As a whole aggregate demand of informatics and telecommunication in Italy stood at 60.281 million euros against 60.206 million euros in 2002. In 2003 the two segments have shown different evolution.

The telecommunication market experienced a change, thanks to pressure of services, and investments made in previous years, whereas in the informatics sector the critical matters that arose in 2002 were stressed even more when for the first time, after having experienced two digit growth rates, the growth was null.



ITALIAN ICT MARKET

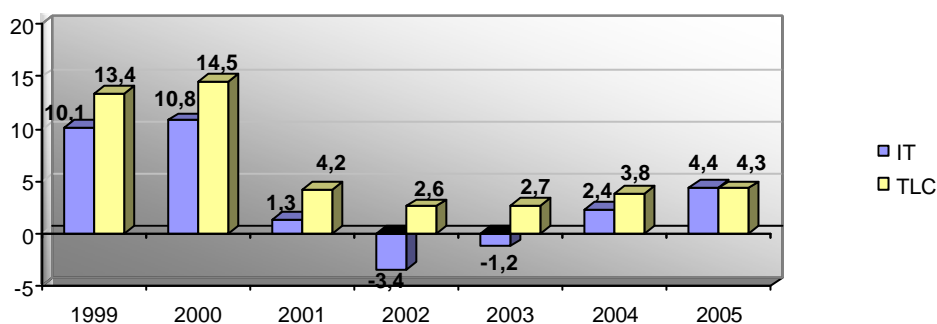
The IT market stood at 19.396 million euros in 2003 with a further and heavier retraction of demand: -3.2% in 2003 compared to -2.2% recorded in 2002. For the first time after twenty years of constant growth, the Software and Service segments recorded a decrease in sales (-2.2%) coming to a 13.378 million euro halt and contributing in large measure to the contraction of the entire IT market.

The Service industry marked a turnover of 9.371 million euros (-4.0%), whereas the software industry, recording a turnover of 4.007 million euros, increased by 2.2% compared to 2002. The increase in the software industry owes to the launch of new integration instruments, to the upgrade integrated applications and to investments in explicit areas such as security, CRM, and Business Intelligence. The decrease in the service industry is the result of the drop in demand related to the start of new projects and to application maintenance not counterbalanced by the demand for outsourcing and application management services increase, the only demand which marked a significant increase (+2.6%).

In 2003 the telecommunication market generated an overall turnover of 40.885 million euros, mainly owing to mobile telephone services, totaling in 2003 15.820 million euros. In Italy as a whole, fixed and mobile services went from 30.365 million euros to 31.900 million euros, increasing by 5.1%: the business area (+3.6%) reached 12.140 million euros whereas the consumer area (+6.0%) totaled 19.760 million euros.

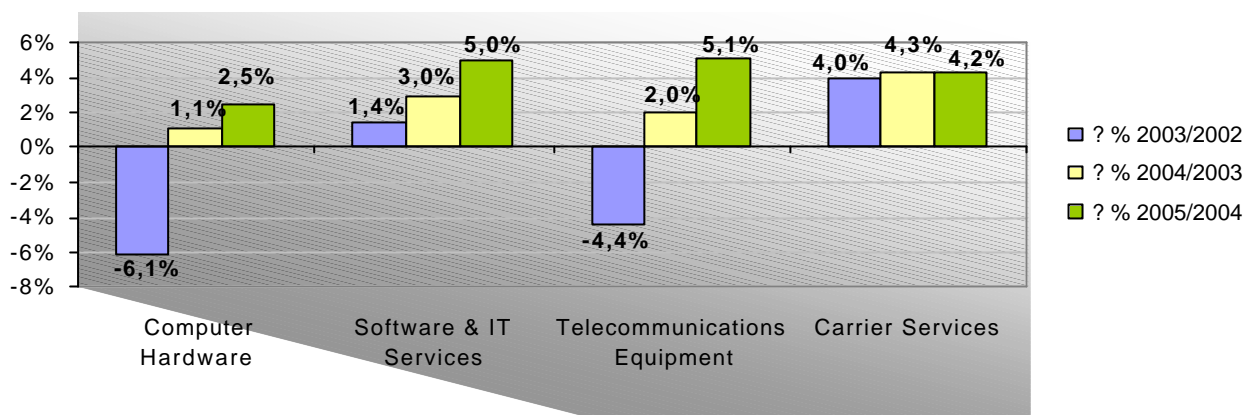
The year 2003 was also the first year in which the mobile component (apparatus, services and terminals) over performed the fixed component reaching 21.041 million euros (+6.7%).

Throughout 2004-2005, according to EITO (European Information Technology Observatory), the crisis that strongly characterized the ICT market in the three-year period 2001-2003 has slowed down and the progress will be gradual. In Europe, new factors that should allow the take off of new investments in the ICT industry have been identified: heavy access to broad band at decreasing costs, multi-platform convergence of different channels, (fixed and mobile telecommunication, Wi-Fi, Digital and cable TV), development of the new digital content industry.



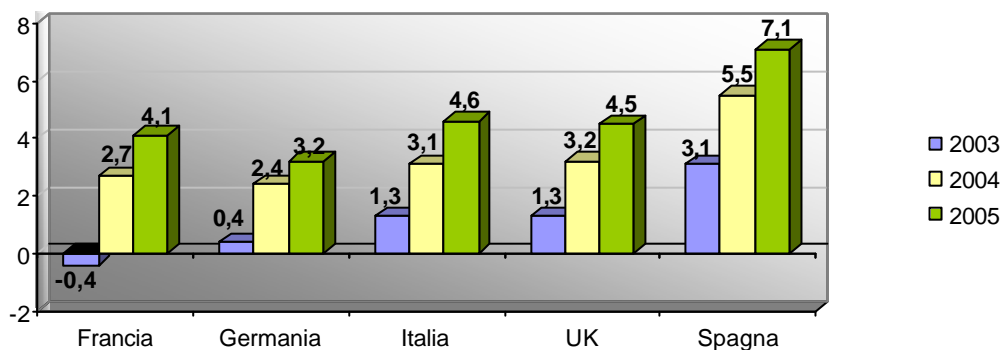
EUROPEAN ICT MARKET

In 2004 total turnover in the European ICT market is expected to reach 611 billion euros (+3.1%) and 638 billion euros in 2005 (+4.4%). The European IT market should record an increase of 2.4% in 2004 and 4.4% in 2005. Major improvements are expected in the telecommunication market that should increase by 3.8% in 2004 reaching 317 billion euros and 4.3% in 2005. The propagation of DSL broad bands, the progress of 2.5 and 3G mobile technology and the development of multimedia applications have contributed to the acceleration of the positive trends.



EUROPEAN ICT MARKET – by segment

Italy should follow the European trend with an overall growth of the ICT market equal to 3.1% in 2004 and 4.6% in 2005. The IT market is expected to grow by 1.7% in 2004 and 4.1% in 2005, pulled by the IT services and software industry, whereas the TLC market is expected to increase by 3.9% in 2004 and by 4.9% in 2005.



EUROPEAN ICT MARKET – by country

## GROUP RESULTS

Reply operates through a network of companies; each specialized in a specific business line and through approximately 900 employees.

The Group's activities are concentrated in three distinct business areas:

- *E-Business Consulting* (strategic, organizational and procedural consulting);
- *E-Business Communication* (multimedia communication and web-marketing services);
- *E-Business Implementation* (design and implementation of Internet systems, portals, web sites and mission critical solutions for web infrastructure).

Reply has also developed proprietor software systems and contemporarily has drawn up important work agreements with some of the leading global "software vendors".

Reply S.p.A. has been listed on the New Market of Borsa Italiana since December 6, 2000.

In 2003, Reply achieved great positive levels of revenues and profitability and much higher than the average performances of the sector, despite heavy investments that were charged to the statement of income during the fiscal year.

Strong technological skills combined with high quality of services offered and an excellent perception of the group have allowed to achieve positive results despite unfavorable market conditions.

More specifically, consolidated revenues amounted to 86,0 million euros (77,1 million euros in 2002) and marked an increase of 11.4%; gross operating margin, amounted to 10,3 million, 12% of revenues and EBIT amounted to 6,5 million euros 7.5% of revenues.

As of 31 December 2003 Reply's total net equity amounted to 50,1 million euros.

The net financial position as at 31 December 2003 remains positive standing at 3,6 million euros (4,1 million euros as of 31 December 2002) despite a 7,5 million euro absorption of liquidity due to investments and financial asset investments.

Total investments in tangible assets totaled 1,0 million euro.

## Reclassified consolidated statement of income

The economic and financial trend of the Group can be analyzed in the reclassified statement of income shown below, compared with prior year figures:

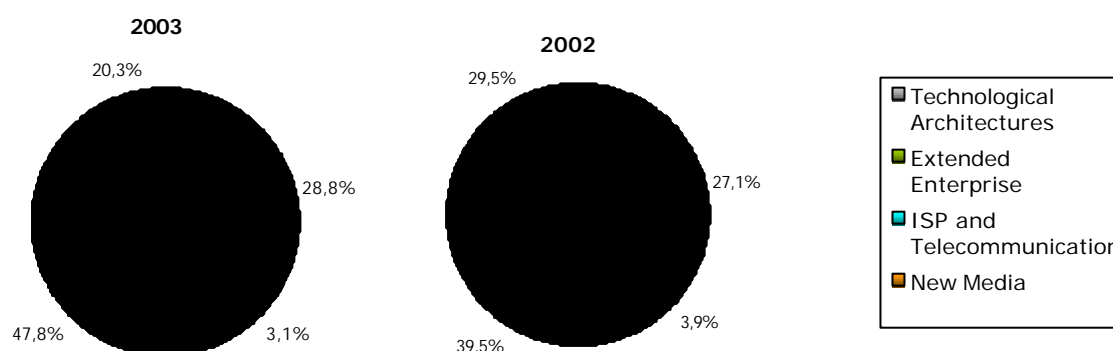
(thousand euros)	2003		2002	
Revenues from sales and services (*)	85.511		76.674	
Other revenues	459		467	
<b>Value of production</b>	<b>85.970</b>	<b>100,0</b>	<b>77.141</b>	<b>100,0</b>
Raw materials, supplies and merchandise, net of change in inventory	(3.266)	(3,8)	(2.309)	(3,0)
Services	(25.303)	(29,4)	(22.478)	(29,1)
Leases and rentals	(2.488)	(2,9)	(1.574)	(2,0)
Other operating costs	(1.292)	(1,5)	(676)	(0,9)
<b>Value added</b>	<b>53.621</b>	<b>62,4</b>	<b>50.104</b>	<b>65,0</b>
Personnel costs and directors' remuneration	(43.304)	(50,4)	(37.780)	(49,0)
<b>Gross operating income (EBITDA)</b>	<b>10.317</b>	<b>12,0</b>	<b>12.324</b>	<b>16,0</b>
Amortization and depreciation	(2.936)	(3,4)	(2.303)	(3,0)
<b>EBIT before amortization of listing expenses</b>	<b>7.381</b>	<b>8,6</b>	<b>10.021</b>	<b>13,0</b>
Amortization of listing expenses	(910)	(1,1)	(910)	(1,2)
<b>Operating income (EBIT)</b>	<b>6.471</b>	<b>7,5</b>	<b>9.111</b>	<b>11,8</b>
Financial income/(expenses), net	11	0,0	181	0,2
Adjustments to financial assets	(218)	(0,2)	-	-
<b>Income before extraordinary items</b>	<b>6.264</b>	<b>7,3</b>	<b>9.292</b>	<b>12,0</b>
Extraordinary income/(expenses), net	241	0,3	(84)	(0,1)
<b>Result before taxation</b>	<b>6.505</b>	<b>7,6</b>	<b>9.208</b>	<b>11,9</b>
Income taxes	(4.288)	(5,0)	(5.458)	(7,1)
Minority interest	786	0,9	(215)	(0,3)
<b>Net income</b>	<b>3.003</b>	<b>3,5</b>	<b>3.535</b>	<b>4,6</b>

(\*) Change in work in progress included

During 2003 the Group's revenues amounted to 86 million euros with an increase of 11.4% compared to 2002.

Breakdown of 2003 and 2002 revenues by business line is illustrated below:

	2003	%	2002	%
<b>(thousand euros)</b>				
Technological Architectures	40.874	47,8%	30.286	39,5%
Extended Enterprise	17.359	20,3%	22.619	29,5%
ISP and Telecommunications	24.627	28,8%	20.779	27,1%
New Media	2.651	3,1%	2.990	3,9%
<b>Total revenues</b>	<b>85.511</b>	<b>100%</b>	<b>76.674</b>	<b>100%</b>



*Technological Architectures* represents the largest area in terms of percentage of revenues, amounting to 47.8% in 2003 (39.5% in 2002) marking an increase of 35% within the Italian Information Technology framework that in the same period recorded a contraction of 3.2%.

The *Extended Enterprise* business line recorded a decrease in terms of incidence on revenues reaching 20.3% demonstrating the critical market conditions leading to the saturation of investments in CRM and SCM solutions.

The increase of the *ISP and Telecommunication* business line amounting to 19% is comparable to the Italian telecommunication market that increased by 0.1% in 2003.

The *New Media* business line represents a marginal sector for the Group. This market is in a recessive cycle with regards to spending in communication services.

In 2003 Reply's offer is further intensified through the acquisition of IrisCube, a company with solid references on the Finance market (multi-channeled solutions for banks, insurance companies and financial institutions and specific technological skills on applications) and in the telecommunication market (development and realization of applications for mobile networks).

EBITDA stood at 10,3 million representing 12% of revenues; the decrease of approximately four percentage points compared to 2002 is due to:

- the significant and enduring pressure on prices that has characterized the sector in 2003;
- Consolidation of IrisCube, purchased in July 2003 and undergoing a restructuring phase;
- Investments in the *PA*, *Microsoft Business Solutions*, *Bill to Cash* and *Digital Content Media* businesses, entirely charged to the statement of income in 2003.

Increase in amortization (+20%) is mainly due to goodwill deriving from consolidation of Sysproject Reply S.r.l., the acquisition of XYZ Reply S.r.l.'s minority interest and from the acquisition of IrisCube.

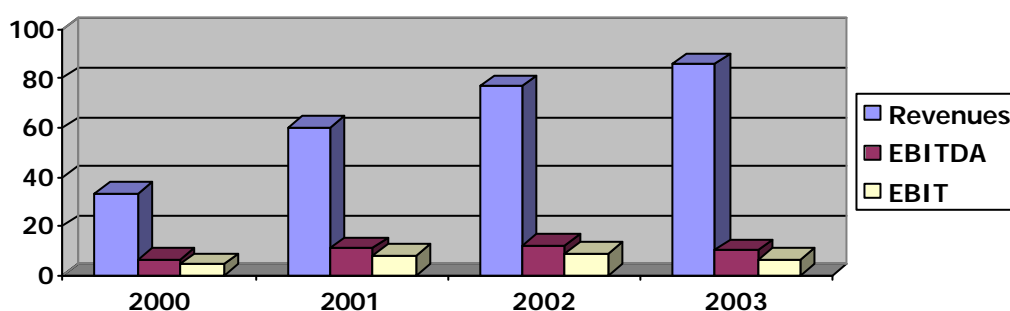
EBIT, totaled 6,5 million euros, after having deducted 3,8 million euros of amortization and representing 7.5%.of revenues.

Income before extraordinary items, standing at a negative 0,2 million euros, includes interest expenses for 0,3 million euros mainly related to the utilization (6,6 million euros) of the credit facility (35,5 million euros), undersigned in June 2003 for M&A operations, interest income and income from security investments for 0,3 million euros and for negative 0,2 million euros related to adjustments to financial assets of the equity investment in Santer (49%) S.p.A. consolidated according to the equity method.

Net extraordinary income (expenses), amounting to 0,2 million euros, includes income deriving from the increase in employment (1,3 million euros, art. 7 Law 388/2000); extraordinary expenses related to the restructuring plan of IrisCube (0,5 million euros), adherence to the "fiscal remission" amnesty (0,4 million euros) and prior year expenses (0,2 million euros).

The Group's net income stood at 3 million euros, after having deducted an average fiscal rate of 66%, due mainly to non-tax deductible items for IRAP purposes (2,3 million euros).

### Economic-financial figures



### **Analysis of the Group Balance Sheet**

The Group balance sheet as of 31 December 2003, compared to 31 December 2002 is provided below:

(thousand euros)	31/12/2003		31/12/2002		Change
	(a)	%	(b)	%	(a-b)
<b>Current assets</b>					
Financial receivables and securities	13.032	14,7	7.995	10,1	5.037
Operating assets	56.724	63,7	53.720	67,9	3.004
<b>Total current assets</b>	<b>69.756</b>	<b>78,4</b>	<b>61.715</b>	<b>77,9</b>	<b>8.041</b>
<b>Non-current assets</b>					
Financial receivables and securities	626	0,7	432	0,5	194
Other assets	18.640	20,9	17.050	21,5	1.590
<b>Total non-current assets</b>	<b>19.266</b>	<b>21,6</b>	<b>17.482</b>	<b>22,1</b>	<b>1.784</b>
<b>TOTAL ASSETS</b>	<b>89.022</b>	<b>100,0</b>	<b>79.197</b>	<b>100,0</b>	<b>9.825</b>
<b>Current liabilities</b>					
Financial liabilities	2.761	3,1	3.834	4,8	(1.073)
Operating liabilities	22.812	25,6	22.406	28,3	406
<b>Total current liabilities</b>	<b>25.573</b>	<b>28,7</b>	<b>26.240</b>	<b>33,1</b>	<b>(667)</b>
<b>Non-current liabilities</b>					
Long term financial liabilities	6.640	7,5	30	0,0	6.610
Other non-current liabilities	5.918	6,6	3.341	4,2	2.577
<b>Total non-current liabilities</b>	<b>12.558</b>	<b>14,1</b>	<b>3.371</b>	<b>4,3</b>	<b>9.187</b>
<b>Total liabilities</b>	<b>38.131</b>	<b>42,8</b>	<b>29.611</b>	<b>37,4</b>	<b>8.520</b>
<b>Total Shareholders' equity</b>	<b>50.891</b>	<b>57,2</b>	<b>49.586</b>	<b>62,6</b>	<b>1.305</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>89.022</b>	<b>100,0</b>	<b>79.197</b>	<b>100,0</b>	<b>9.825</b>

Total assets as at 31 December 2002 amounted to 79.197 thousand euros and as at 31 December 2003 amounted to 89.022 thousand euros, with an increase of 9.825 thousand euros.

The change is related to:

- Change in current assets of 8.041 thousand euros owing to an increase in financial assets of 5.037 thousand euros and to an increase in operating assets amounting to 3.004 thousand euros;



- A 1.784 thousand euro change in non-current assets due to goodwill arising from consolidation of IrisCube Reply S.p.A. purchased in the fiscal year.

Long term financial liabilities are related to the utilization of the credit facility (35,5 million euros), undersigned in June 2003 for new M&A operations. A detailed description of such facility is provided at the Notes to the Financial Statements.

The increase in non-current liabilities, which includes the reserve for risks and losses and the employee termination indemnity, is related to the change in consolidation and to the reorganization and restructuring plan.

The ratio between current operating assets, amounting to 56.724 thousand euros (53.720 euros as at 31 December 2002) and current operating liabilities, totaling 22.812 thousand euros (22.406 thousand euros as at 31 December 2002), is 2.5 (2.4 as at 31 December 2002).

### **Analysis of the economic and financial structure**

Detail of the net invested capital as at 31 December 2003 and the related funds is detailed in the table below:

(thousand euros)	31/12/2003		31/12/2002		Change
	(a)	%	(b)	%	(a-b)
Current operating assets	56.724		53.720		3.004
Current operating liabilities	(22.812)		(22.406)		(406)
<b>Net current operating assets</b>	<b>33.912</b>		<b>31.314</b>		<b>2.598</b>
<b>Non-current assets</b>					
Non-current assets	19.266		17.482		1.784
<b>Net invested capital (A)</b>	<b>53.178</b>	<b>100,0</b>	<b>48.796</b>	<b>100,0</b>	<b>4.382</b>
M/L term non-financial liabilities	5.918	11,1	3.341	6,8	2.577
Net Shareholders' equity	50.891	95,7	49.586	101,6	1.305
<b>Total non-financial funds</b>	<b>56.809</b>	<b>106,8</b>	<b>52.927</b>	<b>108,4</b>	<b>3.882</b>
<b>Net financial position (A-B)</b>	<b>(3.631)</b>	<b>(6,8)</b>	<b>(4.131)</b>	<b>(8,4)</b>	<b>500</b>

Net invested capital as at 31 December 2003 amounted to 53.178 thousand euros, compared to 48.796 thousand euros as at 31 December 2002 with a difference of 4.382 thousand euros due mainly to the increase in net current operating assets and to equity investments.

Net invested capital was funded by medium/long term non-financial liabilities, including the reserve for employee termination indemnity (4.705 thousand euros) and the reserve for risks and losses (1.213 thousand euros) for a total of 5.918 thousand euros and also funded by Shareholder's equity, 50.891 thousand euros, with a residual net financial liquidity of 3.631 thousand euros.

### **Analysis of net invested capital**

<b>(thousand euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a-b)</b>
Work in progress and inventories	4.393	6.946	(2.553)
Third party trade receivables, net	46.072	43.956	2.116
Other assets	6.259	2.818	3.441
<b>Current operating assets (A)</b>	<b>56.724</b>	<b>53.720</b>	<b>3.004</b>
Third party trade payables	9.680	7.471	2.209
Other liabilities	13.132	14.935	(1.803)
<b>Current operating liabilities (B)</b>	<b>22.812</b>	<b>22.406</b>	<b>406</b>
<b>Net invested capital (A-B)</b>	<b>33.912</b>	<b>31.314</b>	<b>2.598</b>
<b>% of revenues</b>	<b>39,4%</b>	<b>40,6%</b>	

### **Net financial position**

Detail of the Group's net financial position as at 31 December 2003 analyzed by maturity date and compared to 31 December 2002 figures is provided below:

<b>(thousand euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
Bank and cash on hand	10.319	4.422	5.897
Financial assets not held as fixed assets	2.713	3.573	(860)
Due to banks	(2.752)	(3.825)	1.073
Due to other providers of finance within 12 months	(9)	(9)	-
<b>Cash and short term borrowings, net</b>	<b>10.271</b>	<b>4.161</b>	<b>6.110</b>
Due to banks beyond 12 months	(6.640)	(30)	(6.610)
<b>Long term financial position</b>	<b>(6.640)</b>	<b>(30)</b>	<b>(6.610)</b>
<b>Total net financial position</b>	<b>3.631</b>	<b>4.131</b>	<b>(500)</b>

The net financial position as at 31 December 2003 amounted to 3.631 thousand euros with a decrease of 500 thousand euros compared to 31 December 2002, detailed as follows:

	2003	2002
<b>(thousand euros)</b>		
Cash flow generated from operating activities	10.199	8.654
Change in working capital	(3.153)	(11.532)
<b>Cash flow from operating activities (A)</b>	<b>7.046</b>	<b>(2.878)</b>
<b>Cash flow used for investment activities (B)</b>	<b>(5.848)</b>	<b>(9.458)</b>
<b>Cash flow used for financial activities (C)</b>	<b>(1.698)</b>	<b>(30)</b>
<b>Change in net financial position (A+B+C)</b>	<b>(500)</b>	<b>(12.366)</b>
Net financial position at beginning of year	4.131	16.497
Change in net financial position	(500)	(12.366)
<b>Net financial position at year-end</b>	<b>3.631</b>	<b>4.131</b>

Analytical detail of the above cash flow movements is shown in the attached statement of sources and application of funds.

### **Reply on the Stock Market**

During 2003 the Italian stock market increased by 14.9% compared to year end 2002. The market capitalization of companies listed on the Italian markets increased from 458,0 billion euros in 2002 to 487,4 billion euros in 2003 (37.6% of GDP), in spite of a reduction in the number of companies listed (279 compared to 295 at year end 2002).

The Numtel index – index of the New Market in which Reply is listed – recorded an annual change of 27% for a total capitalization of 8,3 million euros compared to the 6,4 million euros in 2002.

In such a context, the Reply share (REY.MI) market trend, deducted the excellent trend recorded in the previous years and if the heavy market contraction is considered, the Reply share demonstrated an excellent price performance. Reply's share during 2003 was priced at 10,689 euros per share (official close as of 30 December 2002) to 8,644 euros as at 30 December 2003 (-19,1%).

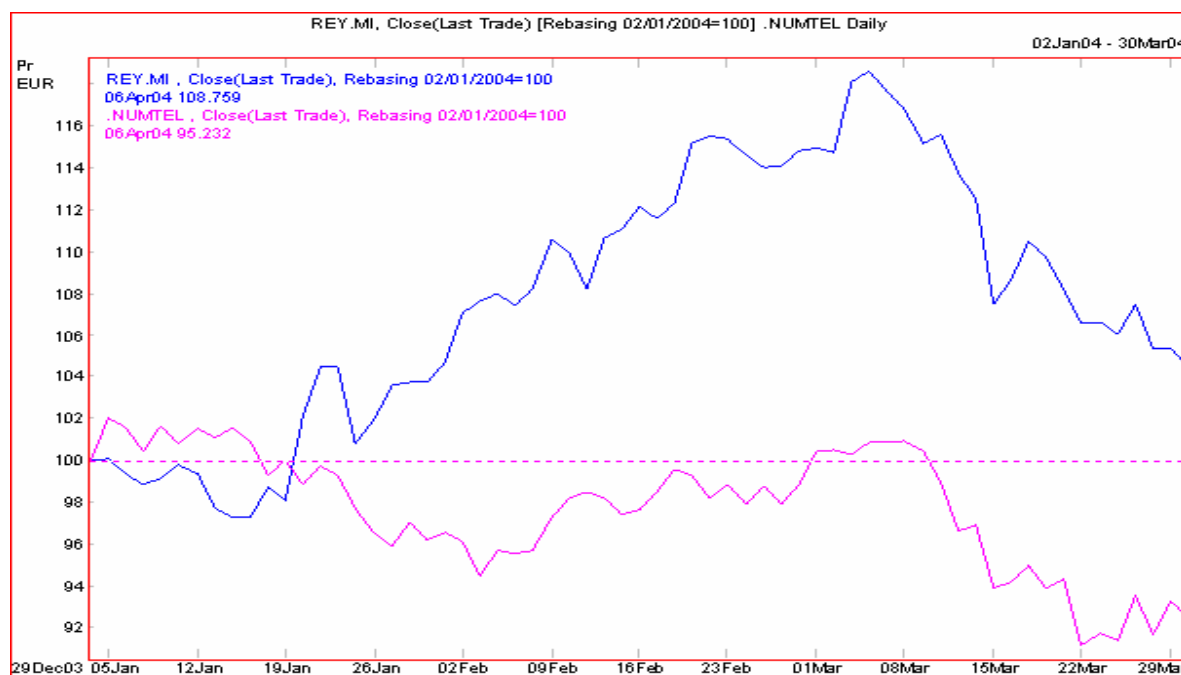
On the other hand, since Reply's listing, the share has largely outperformed, by 20 percentage points the reference market, recording more constant and stable levels compared to the Numtel index.

During 2003, the major financial institutions demonstrated appreciation for Reply's share by constantly proposing research on the Group (9 active coverage with positive recommendation).

Italian and foreign investment institutions also showed interest and at present constitute a significant presence in Reply's shares.

Investor relation activities were also intense, management was involved in meeting investors in Italy and abroad.

The following graph shows the positive trend in the first months of 2004:



### **Human resources**

The number of employees as at 31 December 2003 were 875 compared to the 751 as at 31 December 2002.

Personnel mainly comprise University graduates in Electronic and Informatics Engineering, Business and Economics from the best universities.

### **Research and development activities**

Reply supplies services and solutions for *E-business* at high technologic content in a market in which innovation assumes primary importance.

Research activities include the updating and the improvement of services to propose on the market. In particular, research and development of the Group is aimed at updating and improving proprietor software.

These activities are charged to the statement of income in the year in which they are incurred.

## ACQUISITIONS OF THE YEAR

In the month of July 2003 Reply concluded negotiations for the acquisition of 51% of IrisCube S.p.A.. IrisCube is a major Information Technology company, present in Italy since 1991 offering specialized consulting services related to Mobile and Wireless businesses and application solutions in the banking, insurance and finance areas; integrated solutions addressed at corporate banking and mobile banking.

Such acquisition led Reply to invest 3,6 million euros through the subscription of a share capital increase of 3 million euros, an additional 0,4 million euros for the acquisition of pre-emptive rights on the IrisCube shares and 0,2 million euros related to incidental charges.

Following the acquisition, Reply controls 51% of IrisCube, 43.58% is controlled by the management of the company and the residual 5.42% belongs to the venture capital CIR Ventures.

Through IrisCube, Reply reinforces its competitive positioning in the Finance and Mobile markets, in terms of strategic consulting and in terms of technological and application solutions; with the entry of IrisCube, Reply inherits a significant and consolidated portfolio of clients comprising banks, insurance companies and primary European telecommunication companies.

Such operation is intended as strategic development for Reply, achieved internally and through acquisitions with the scope of expanding and completing services thanks to the integration of skills and to the development of synergies.

IrisCube will allow to significantly reinforce Reply's services addressed to the Finance and Telecommunication markets, as a result of the solid reputation and the superb quality of technological solutions that Reply has accomplished.

In the Mobile business, IrisCube strengthens Reply's business development plan, started in 2002, and entirely dedicated to the study, development and realization of applications for the mobile network.

With respect to the Finance market, Reply, with the entry of IrisCube, enriches its offer related to infrastructures and multi-channeled solutions for banks, insurance companies and financial institutions, in terms of application skills and in terms of specific technologies.

## THE PARENT COMPANY REPLY S.p.A.

The Parent Company Reply S.p.A. mainly carries out the operational, co-ordination and the technical and quality management of the Group as well as the administration, finance and marketing activities for its subsidiaries.

The financial structure of the company, compared to the previous year is outlined below:

(thousand euros)	31.12.2003 (a)	31.12.2002 (b)	Change (a-b)
Tangible assets	520	631	(111)
Intangible assets	2.119	3.511	(1.392)
Financial fixed assets	18.489	15.202	3.287
<b>Total fixed assets</b>	<b>21.128</b>	<b>19.344</b>	<b>1.784</b>
<b>Net working capital</b>	<b>8.871</b>	<b>12.211</b>	<b>(3.340)</b>
<b>NET INVESTED CAPITAL</b>	<b>29.999</b>	<b>31.555</b>	<b>(1.556)</b>
M/L term non financial liabilities	424	2.478	(2.054)
Shareholders' equity	48.840	47.841	999
Net financial position	(19.265)	(18.764)	(501)
<b>TOTAL FUNDS</b>	<b>29.999</b>	<b>31.555</b>	<b>(1.556)</b>

Change in fixed assets is mainly a result of equity investments, fully detailed at the Notes to the Financial Statements.

Net invested capital, totaling 29.999 thousand euros was funded by medium/long term non-financial liabilities, including the reserve for employee termination indemnity (358 thousand euros) and the reserve for risks and losses (66 thousand euros) for a total of 424 thousand euros and also funded by Shareholder's equity, 48.840 thousand euros, with a residual net financial liquidity of 19.265 thousand euros.

Changes in balance sheet items are fully analyzed and detailed in the Notes to the Financial Statements.

The statement of income of the Parent Company is detailed below:

<b>(thousand euros)</b>	<b>2003</b>	<b>2002</b>	<b>Change</b>
Revenues from operational activities	9.395	8.237	1.158
Revenues from sales and services	31.819	17.133	14.686
Purchases, services and other costs	(36.564)	(21.748)	(14.816)
Personnel and related costs	(3.743)	(2.983)	(760)
<b>Gross operating income</b>	<b>907</b>	<b>639</b>	<b>268</b>
Amortization and Depreciation	(1.953)	(1.866)	(87)
<b>Operating income</b>	<b>(1.046)</b>	<b>(1.227)</b>	<b>181</b>
Financial income/(expenses), net	818	1.013	(195)
Income from equity investments	4.000	6.547	(2.547)
Write-down of equity investments	(2.260)	-	(2.260)
Extraordinary income/(expenses), net	(191)	(23)	(168)
<b>Result before taxation</b>	<b>1.321</b>	<b>6.310</b>	<b>(4.989)</b>
Income taxes	495	(2.154)	2.649
<b>Net result</b>	<b>1.816</b>	<b>4.156</b>	<b>(2.340)</b>

Revenues from operational activities are mainly related to:

- Royalties on the Reply trademark for 2.191 thousand euros (2.119 thousand euros in 2002);
- Activities carried out centrally for the subsidiary companies for 4.603 thousand euros (4.077 thousand euros in 2002);
- Management services for 2.014 thousand euros (1.951 thousand euros in 2002).

Revenues from sales and services are related to agreements that Reply S.p.A. has reached with important clients, and which Reply S.p.A. then subcontracts to the subsidiaries. These types of contracts were more frequent in 2003 and this explains the difference compared to the previous year.

Gross operating income, influenced solely by operational activities, stood at 907 thousand euros (639 thousand euros in 2002).

Operating income in 2003 marked a negative result of 1.046 thousand euros, after having deducted amortization expenses of 1.953 thousand euros related to listing expenses (910 thousand euros) and to the "Reply" trademark (342 thousand euros).

The net financial result of 818 thousand euros includes interest income and interest from security investments (1.085 thousand euros) and interest expenses related to the utilization (6,6 million euros) of the credit facility (35,5 million euros), undersigned in the month of June 2003 for new M&A operations.

Income from equity investments refers to dividends from subsidiaries, recorded on accrual basis (4.000 thousand euros); the change compared to the year-ended 2002 is mainly due to the different fiscal treatment of the tax credit.

The write-down of equity investments of 2.260 thousand euros was carried out in order to align the original carrying value of such investments to the presumed recoverable value on the basis of prospected results as the carrying value of these investments was greater than the consolidation value of the same. The related deferred tax credit was accrued.

Net result for the year-ended 2003 amounted to 1.816 thousand euros and includes 92 thousand euros related to current tax and 587 thousand euros referred to prepaid tax.

### **Shares held by Directors and Statutory Auditors of the Parent Company and of its subsidiaries**

At the balance sheet date the following members of the Board of Directors and Statutory Auditors directly hold shares in the Company:

- Tatiana Rizzante, non executive Director, holds 2,260 ordinary shares;
- Mario Rizzante, Chairman, holds 1,280 ordinary shares;
- Oscar Pepino, Chief Executive Officer, holds 730 ordinary shares.

At the balance sheet date the following members of the Board of Directors indirectly hold shares in the Company:

- Messer Mario Rizzante, Sergio Ingegnatti, Oscar Pepino hold 51%, 18% e 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin;
- Alika S.r.l. holds 99.94% of Alister Holding, company governed by Luxemburg laws, which holds 100% of Iceberg's share capital, company governed by Luxemburg laws with headquarters at 400, route d'Esch, Luxemburg;
- Iceberg holds 4,807,538 Company shares, equivalent to 58.90% of the Company's share capital.



## INTERCOMPANY TRANSACTIONS AND WITH RELATED PARTIES

Financial and business transactions between Reply S.p.A. and its subsidiaries are carried out at normal market conditions and are eliminated during consolidation.

Such transactions are mainly related to:

- Licensing of the “Reply” trademark consisting in a 3% fee on third party revenues;
- Administration services, marketing and quality management;
- Management services;
- Office rental;
- Financial loans yielding interest: 3 month Euribor with a spread of 2 percentage points;
- Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies.

The financial and economic effects arising from such transactions are summarized below:

**(thousand euros)**

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<b>Financial transactions</b>	
Financial receivables	18.171
Receivables from dividends	4.000
Trade and other receivables	6.760
Trade payables	15.315
<b>Economic Transactions</b>	
Revenues from royalties	2.191
Revenues from services	4.057
Revenues from management services	2.586
Revenues from other charges	561
Cost for licenses	81
Costs for professional services	29.816
Miscellaneous expenses	83
<u>Interest income on loans</u>	<u>822</u>

Transactions carried out in 2003 at normal market conditions with related parties (that as of the closing date are Erfurt S.r.l. and its subsidiary, Axcel S.r.l.) were connected mainly to general services and consulting. The object, cost, form and execution terms of such transactions are not to be considered as having negative effects as far as protection of the business wealth is concerned.

Pursuant to art. 150, 1 of the Italian Legislative Decree n. 58 of 24 February 1998, no transactions have been carried out by the members of the Board of Directors that might be in potential conflict of interests with the Company.

## **CORPORATE GOVERNANCE**

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

### **Role and tasks of the Board of Directors**

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

The Board of Directors primarily carry out a management and control function with relation to the general activities of the company and the subsidiary companies.

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

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

During 2003 the Board of Directors met 8 times and is expected to meet at least 7 times in 2004.

### **Members of the Board of Directors**

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

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

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

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

Amongst the non-executive directors, 2 have the characteristic of being independent according to the definition provided by the Self-disciplinary Code.

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

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

## **Nomination of directors**

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

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

## **Chairman of the board and chief executive officers**

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

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

The Directors disjointly control the ordinary administration of the company.

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

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

## **Directors' remuneration**

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

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

During 2003 the Remuneration Committee met 4 times.

## **Internal Control Committee**

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

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

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

During 2003 the Internal Control Committee met twice.

## **Transactions with related parties**

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

Related parties are those defined in CONSOB's circular nr. 2064231 dated 30 September 2002.

## **Relations with institutional investors and shareholders**

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

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

## **Disclosures to the board of directors and processing of confidential information**

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

Furthermore, all employees, and in particular those having a managing position, have been instructed as to their duties concerning confidentiality of information of a listed company and must verify that the chief executive officer's directions are followed.

## **Internal dealing**

In 2002, the Board of Directors, in view of the implementation of the changes introduced during the year by the Market Authorities to the "Regulation to the New Market Organized and Managed by Borsa Italiana S.p.A.", has approved the behavior code concerning "internal dealing" with the purpose of controlling the flow of information of "important people" to the company and the obligation of the latter to notify the market about transactions communicated by these people in the form and in the terms indicated in the abovementioned Code.

A part from Directors and Statutory Auditors of Reply S.p.A., the other "important people" to whom the Code is addressed are:

- Chief Financial Officer/Managing Director;
- Investor Relator;
- Directors invested with proxy of major subsidiary company whose weight on consolidated revenues equals or is greater than 5%.

## **Annual General Meeting**

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

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

## **Statutory Auditors**

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

## STOCK OPTION PLANS

The Extraordinary Shareholders' Meeting of Reply S.p.A. on 26 June 2001 and on 11 June 2002 resolved the increase of the share capital with exclusion of stock option rights in compliance with art. 2441, paragraph 8 and art. 2441 paragraph 5 of the Italian Civil Code. Such stock option plans are detailed as follows:

- 250,000 new ordinary shares were issued with a par value of 0,52 euros in favor of employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 130.000 euros. The stock option plan was in force until 30 June 2003 for the rights assignment; 31 December 2005 is the deadline for the subscription of the share capital increase;
- 200,000 new ordinary shares were issued with a par value of 0,52 euros in favor of directors and employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 104.000 euros. The stock option plan will be in force until 30 June 2004 for the rights assignment; 31 December 2006 is the deadline for the subscription of the share capital increase.

Both stock option plans have the following purposes:

- to develop the loyalty of employees by strengthening the connection between their interests and those of the Shareholders of Reply;
- to encourage employees to achieve the Group's growth targets;
- to motivate employees and involve them in participating in the future economic results of the Group;
- to strengthen the relations between the Group and its employees by developing their loyalty and sense of responsibility.

Reply S.p.A.'s Board of Directors, in charge of the stock option plan, has resolved the assignment of 354,300 pre-emptive rights of which 183,900 have expired but were not exercised.

## **OTHER INFORMATION**

### **Treasury Shares**

In compliance with paragraph 2 of art. 2428 of the Italian Civil Code numbers 3) and 4), at the balance sheet date, the Parent Company holds 45,837 treasury shares, amounting to 349.680 euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same value.

At the balance sheet date the Company does not hold shares of other holding companies.

### **Legal and arbitration processes**

At the balance sheet date the Group companies are not undergoing legal or arbitration processes that could influence directly or indirectly its economic and financial position.

Furthermore, none of the Group companies are in litigation with fiscal authorities nor have they received notice of assessment for the tax periods of the fiscal accounting years examined herein.

### **Programmed Security Document**

In compliance to paragraph 26, annex B) of Legislative Decree nr. 196 dated 30 June 2003, the company informs, in capacity of proprietor of confidential and personal information, that the Programmed Security Document (DPS) is presently being updated according to provisions set out by the Code regulating the safekeeping of confidential and personal information, and that it will be completed by the latest, June 30, 2004.

### **Adoption of international accounting principles**

The European Ruling nr. 1606/2002 provides that all companies listed in EC markets, starting fiscal year 2005, must adopt "International Financial Reporting Standards" (IFRS) for the drawing up of the consolidated financial statements.

The Italian legislation, considering the faculty allowed by the aforesaid Ruling, under Community Law 2003 (Law nr. 306 dated October 31, 2003), has extended such obligation to the Parent Company's financial statements.

During 2003 Reply S.p.A. started a specific analysis and evaluation process in order to classify the major differences between Italian GAAP, US GAAP and International financial reporting standards and to identify the major issues related to procedures and informatics system affected by the introduction of IFRS.

With respect of the present principles in use the major impacts concern:

- disclosures concerning goodwill, as per US GAAP, it is not amortized and the recoverable value must be verified, at least annually, in order to identify a loss in carrying value (Impairment test);
- capitalization of research and development costs that meet requirements of IAS 38, currently such costs are charged to the statement of income when incurred;
- expenses related to expansion and start-up, according to IAS 38 such expenses must be charged to the statement of income when incurred whereas at present, in compliance to Italian GAAP, they are capitalized. Charges related to increase in share capital, incidental



costs on financial loans, are deducted from the related shareholder equity reserves or from financial loans;

- the use of actuarial techniques for the evaluation of employee severance indemnities and the employee benefits;
- the adoption of the percentage of completion method for the evaluation of work in progress;
- disclosures on segment information;
- the adoption of the "fair value" criteria for evaluation of financial derivative instruments.

With respect of the aforementioned issues, within the Parent Company, specific projects are underway in order to identify operational procedures and in depth studies in view of the evolving regulations.

## **EVENTS SUBSEQUENT TO 31 DECEMBER 2003**

### **Share capital increase**

In view of contractual agreements stipulated at the time the subsidiary companies Blue Reply S.r.l. and Planet Reply S.r.l. were constituted, the options "put", to be exercised by the minority shareholders (and "call" by Reply), for minority interest of 12% and 20% respectively of the above mentioned companies, have expired.

Reply S.p.A. intends on purchasing the aforementioned minority interests against increase of the share capital with the exemption of the pre-emptive rights of the current shareholders.

On March 8, 2004 in order to carry out the above mentioned operations, the Board of Directors resolved, in compliance with article 2343 C.C., the nomination of an expert, in charge of drawing up an avowed report concerning the value of the minority interests, was requested at the Turin Court by the benefiting party on behalf of and in the interest of the conferring party.

Following the aforesaid request, the President of the Turin Court, with injunction dated March 17, 2004, nominated the expert, Mr. Enrico Aldera.

### **Stock options**

The Directors deem necessary, in view of the objectives and characteristics of the stock option plans already resolved and close to expiration, to propose to the Shareholders in the forthcoming Annual General Meeting, an increase of the share capital against payment, with the exclusion of pre-emptive rights and with a share premium, in accordance with article 2441, paragraph 5 of the Civil Code, reserving the undersigning of the same to the directors of the company and directors of the subsidiary companies.

Under the new stock option plan 200,000 shares of nominal value 0,52 euros each are foreseen.

## OUTLOOK FOR 2004

In 2003 Reply was able to achieve a growth rate greater than the average rate of the market sector investing in order to reinforce its presence on the market and to develop new areas. In specific, Reply has increased its presence in the Public Administration segment and within the Value Added Services for Telecommunication and Media area.

Reply's expansion programs for 2004 are focused on further strengthening the traditional business lines and the search of new opportunities in segments presenting high growth rates such as *Digital Asset Management, Mobility, RFID, Web Services, Open Source* and *Security*.

As far as the technological lines are concerned, Reply, alongside the consolidation of its present offer, intends on developing the component related to new architectures addressed to services based on Web Services and on enriching mobile solutions related to multi-channeled architectures.

Reply plans on emphasizing its offer regarding VAS (Value Added Services) solutions in the ever more important segments of Telecommunication and Media.

Trends in the first few months of 2004 are positive in terms of turnover and profitability; in general the competitive advantage achieved by Reply is expected to allow further growth in 2004.

## ALLOCATION OF THE PARENT COMPANY'S NET RESULT OF THE YEAR

Reply S.p.A.'s financial statements for the year-ended 2003, recorded a net result of 1.815.689 euros and net equity amounted to 48.840.287 euros detailed below

<b>(in euros)</b>	<b>31/12/2003</b>
Share capital	4.244.344
Additional paid-in capital	14.189.548
Legal reserve	467.933
Reserve for treasury shares on hand	349.680
Other reserves	22.898.353
Retained earnings	4.874.740
<b>Total Share Capital and Reserves</b>	<b>47.024.598</b>
Net result of the year	1.815.689
<b>Total</b>	<b>48.840.287</b>

The Board of Directors proposes to the Shareholders to allocate the net result of the year amounting to 1.815.689 euros, as follows:

- 90.785 euros to the legal reserve;
- 979.464 euros as dividends to the shareholders, in the amount of 0,12 euros per ordinary share having the right and that are in circulation at the fixed payment date, 8 July 2004, excluding treasury shares;
- 745.440 euros to the extraordinary reserve.

Turin, 19 April 2004

For the Board of Directors  
**The Chairman**  
(Mario Rizzante)



REPLY

CONSOLIDATED FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2003

# REPLY

## CONSOLIDATED BALANCE SHEET

(thousand euros)

<b>ASSETS</b>	<b>31/12/2003</b>	<b>31/12/2002</b>
<b>A) AMOUNT DUE FROM SHAREHOLDERS</b>	28	28
<b>B) FIXED ASSETS</b>		
I <i>Intangible fixed assets</i>		
1 Start-up and expansion costs	986	1.877
3 Industrial patents and intellectual property rights	223	261
4 Concessions, licenses, trademarks and similar rights	502	840
5 Goodwill	216	120
7 Other	608	459
8 Consolidation differences	8.700	5.961
<i>Total intangible fixed assets</i>	<b>11.235</b>	<b>9.518</b>
II <i>Tangible fixed assets</i>		
1 Land and buildings	76	79
2 Plant and machinery	211	156
3 Industrial and commercial equipment	39	24
4 Other assets	1.674	1.651
<i>Total tangible fixed assets</i>	<b>2.000</b>	<b>1.910</b>
III <i>Financial fixed assets</i>		
1 Equity investments in:		
b) associated companies	5.403	5.621
c) other companies	2	1
	<b>5.405</b>	<b>5.622</b>
2 Receivables:		
d) other	626	432
	<b>626</b>	<b>432</b>
<i>Total financial fixed assets</i>	<b>6.031</b>	<b>6.054</b>
<b>Total fixed assets (B)</b>	<b>19.266</b>	<b>17.482</b>

(thousand euros)

	31/12/2003	31/12/2002
<b>C) CURRENT ASSETS</b>		
I <i>Inventories</i>		
3 Contract work in progress	3.351	6.780
4 Finished products and goods for resale	1.042	166
<i>Total inventories</i>	<b>4.393</b>	<b>6.946</b>
II <i>Receivables</i>		
1 Trade receivables	46.072	43.956
5 Other	5.767	2.322
<i>Total receivables</i>	<b>51.839</b>	<b>46.278</b>
III <i>Financial assets not held as fixed assets</i>		
5 Treasury shares	350	98
6 Other securities	2.345	3.450
<i>Total financial assets not held as fixed assets</i>	<b>2.695</b>	<b>3.548</b>
IV <i>Liquid funds</i>		
1 Bank and post office deposits	10.228	4.366
3 Cash on hand	91	56
<i>Total liquid funds</i>	<b>10.319</b>	<b>4.422</b>
<b>Total current assets (C)</b>	<b>69.246</b>	<b>61.194</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>	482	493
<b>TOTAL ASSETS</b>	<b>89.022</b>	<b>79.197</b>

(thousand euros)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>31/12/2003</b>	<b>31/12/2002</b>
		<hr/>	<hr/>
<b>A</b>	<b>SHAREHOLDERS' EQUITY</b>		
<i>I</i>	<i>Share capital</i>	4.244	4.244
<i>II</i>	<i>Additional paid-in capital</i>	14.190	14.190
<i>IV</i>	<i>Legal reserve</i>	468	260
<i>V</i>	<i>Reserve for treasury shares on hand</i>	350	98
<i>VII</i>	<i>Other reserves</i>	22.898	20.018
<i>VIII</i>	<i>Retained earnings (accumulated losses)</i>	4.902	6.543
<i>IX</i>	<i>Group net result</i>	3.003	3.535
	<b>Group Shareholders' equity</b>	<hr/> <b>50.055</b> <hr/>	<hr/> <b>48.888</b> <hr/>
<i>X</i>	<i>Minority interest</i>	836	698
	<b>Total Shareholders' equity</b>	<hr/> <b>50.891</b> <hr/>	<hr/> <b>49.586</b> <hr/>
<b>B</b>	<b>RESERVE FOR RISKS AND CHARGES</b>		
1	Employee pensions and similar obligations	408	344
2	Income tax reserve	74	-
3	Other	731	102
	<b>Total reserve for risks and charges (B)</b>	<hr/> <b>1.213</b> <hr/>	<hr/> <b>446</b> <hr/>
<b>C</b>	<b>RESERVE FOR EMPLOYEES TERMINATION INDEMNITIES</b>	<b>4.705</b>	<b>2.895</b>
<b>D</b>	<b>PAYABLES</b>		
3	Due to banks		
	- within 12 months	2.752	3.825
	- beyond 12 months	6.640	30
4	Due to other providers of finance		
	- within 12 months	9	9
5	Advances	1.950	6.031
6	Trade payables	9.680	7.471
11	Due to tax authorities	3.474	3.389
12	Due to social security authorities	2.847	2.426
13	Other payables	4.280	3.014
	<b>Total payables (D)</b>	<hr/> <b>31.632</b> <hr/>	<hr/> <b>26.195</b> <hr/>
<b>E</b>	<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>	581	75
	<b>TOTAL LIABILITIES</b>	<hr/> <b>89.022</b> <hr/>	<hr/> <b>79.197</b> <hr/>



(thousand euros)

	31/12/2003	31/12/2002
<b>MEMORANDUM ACCOUNTS</b>		
Guarantees issued on behalf of related parties	983	496
Guarantees received from third parties	1.456	576
Risks for pledges on shares	6.628	-
Commitments for lease contracts	1.719	1.881
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>10.786</b>	<b>2.953</b>

# REPLY

## CONSOLIDATED STATEMENT OF INCOME

(thousand euros)

	2003	2002
<b>A VALUE OF PRODUCTION</b>		
1 Revenues from sales and services	88.999	75.065
3 Change in work in progress	(3.488)	1.609
4 Capitalized production	-	245
5 Other income	459	222
<b>Total value of production (A)</b>	<b>85.970</b>	<b>77.141</b>
<b>B COSTS OF PRODUCTION</b>		
6 Raw materials, consumables and goods for resale	4.122	2.343
7 Services	29.601	26.511
8 Lease and rentals	2.488	1.574
9 Personnel		
a) salary and wages	28.175	24.685
b) social security charges	8.670	7.415
c) employee termination indemnities	1.870	1.582
d) employee pensions and similar obligations	65	65
e) other	226	-
	<b>39.006</b>	<b>33.747</b>
10 Amortization, depreciation and write-downs		
a) amortization of intangible fixed assets	2.715	2.228
b) depreciation of tangible fixed assets	1.131	985
d) write-down of receivables recorded as current assets and liquid funds	393	259
	<b>4.239</b>	<b>3.472</b>
11 Changes in inventories of raw material, consumables and goods for resale	(856)	(34)
12 Provisions for risk	200	-
14 Other operating costs	699	417
<b>Total costs of production (B)</b>	<b>79.499</b>	<b>68.030</b>
<b>Difference between value and cost of production (A-B)</b>	<b>6.471</b>	<b>9.111</b>

(thousand euros)

	2003	2002
<b>C FINANCIAL INCOME AND EXPENSES</b>		
16 Other financial income		
b) from securities held as fixed assets	259	343
d) Other		
- other	184	100
<i>Total financial income</i>	<u>443</u>	<u>443</u>
17 Interest and other financial expenses		
- other	(432)	(262)
<i>Total financial expenses</i>	<u>(432)</u>	<u>(262)</u>
<b>Total financial income and expenses (C)</b>	<u><b>11</b></u>	<u><b>181</b></u>
<b>D ADJUSTMENTS TO FINANCIAL ASSETS</b>	<b>(218)</b>	-
<b>E EXTRAORDINARY INCOME AND EXPENSES</b>		
20 Income	1.930	279
21 Expenses	(1.689)	(363)
<b>Total extraordinary income and expenses (E)</b>	<u><b>241</b></u>	<u><b>(84)</b></u>
<b>RESULT BEFORE TAXATION</b>	<u><b>6.505</b></u>	<u><b>9.208</b></u>
22 Income taxes	4.288	5.458
<b>NET RESULT BEFORE MINORITY INTEREST</b>	<u><b>2.217</b></u>	<u><b>3.750</b></u>
23 Minority interest income/(loss)	786	(215)
<b>NET RESULT</b>	<u><u><b>3.003</b></u></u>	<u><u><b>3.535</b></u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## **FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements as at 31 December 2003 have been prepared in accordance with the related provisions enclosed in the Italian Legislative Decree No. 127 dated April 9, 1991. Such financial statements consist of the balance sheet (prepared using the format specified in articles 2424 and 2424 bis of the Italian Civil Code, as suitably amended), the statement of income (prepared using the format specified in articles 2425 and 2425 bis of the Italian Civil Code, as suitably amended) and these explanatory notes.

These notes explain, analyze and, in some cases, supplement the data reported on the face of consolidated financial statements with the information required by article 38 and with other provisions of Italian Decree No. 127/1991. Additional information is provided in order to present a true and fair view of the state of the Group, even where this is not required by specific legislation.

The amounts indicated in the consolidated financial statements are expressed in thousand euros.

## **ACTIVITY OF THE GROUP**

Founded in 1996, Reply operates through a network of companies; each specialized in different business offers.

The Group's activities are focused in the e-business consulting (strategic, organizational and procedures consulting), e-business communication (multimedia communication and web-marketing services) and e-business implementation (development and implementation of internet systems, portals, sites and mission critical applications for the multi-channeled architectures).

Reply has also developed proprietor software and has reached agreements with some of the world's major "software vendors".

Reply is listed on the New Market of Borsa Italiana [REY.MI].

## CONSOLIDATION

The consolidated financial statements include the financial statements as of 31 December 2003 of Reply S.p.A. and of the subsidiary companies, in which Reply S.p.A. directly or indirectly holds the majority of the voting rights.

The companies included in the year-end consolidation are listed in the enclosed table.

The financial statements utilized for consolidation purposes were those approved by the Shareholder's meeting of the individual companies or prepared by the respective Board of Directors.

The reconciliation between net equity and net profits resulting from Reply S.p.A.'s financial statements, Parent Company, and the group consolidated net equity and net profits is provided at the net consolidated equity section.

The most significant changes that have occurred in the consolidation area of Reply Group compared to the year 2002 are the following:

- consolidation of Twice Reply S.r.l., constituted in July 2003;
- consolidation of IrisCube S.p.A. and its subsidiary companies, group purchased in July 2003.

Subsequent to the company reorganization plan, Creative Reply S.r.l. has been incorporated in XYZ Reply S.r.l. (with effect 1 July, 2003).

In order to facilitate the integration of IrisCube Group, in the last quarter of 2003 several company transactions took place which involved the complete split of Acquent Reply S.r.l. and Cluster Reply S.r.l. in favor of other group companies. Such operations did not involve change in consolidation.

## CONSOLIDATION PRINCIPLES

The most significant consolidation principles adopted for the preparation of the consolidated financial statements are as follows:

- a. The assets and liabilities of the subsidiary companies are consolidated on a line-by-line basis according to the line-by-line consolidation method; the carrying amount of investments held by the Parent Company and other subsidiaries is eliminated against the related shareholders' equity.
- b. When a company is consolidated for the first time, any positive differences arising from the elimination of its carrying value, as indicated at point a., are allocated, where applicable, to the assets of the subsidiary. If the entire difference cannot be allocated to such assets it is then classified as "consolidation differences" as it represents income-earning capacity of the companies acquired, and it is amortized over the period that it is expected to benefit.  
Negative differences are classified as "Reserve for risks and charges arising from consolidation" if they reflect estimated future losses; otherwise they are classified as part of "Consolidation Reserve" within Shareholders' equity.

- c. Intercompany receivables and payables, costs and revenues and all significant transactions between consolidated companies, including the payment of dividends, are eliminated. Unrealized intercompany profits, gains and losses arising from transactions between Group companies are also eliminated.
- d. The minority interests in net equity and net result for the year are classified separately in the consolidated shareholders' equity and statement of income.
- e. Adjustments and accruals carried out solely for fiscal purposes are eliminated, taking into account any related tax impact.
- f. Balance sheet items expressed in foreign currency are translated in euros at the year-end exchange rate, whereas the Income Statement items are translated in euros at the average rate of the year. The difference arising as a result of the year-end exchange rate and the average rate and the differences arising from translation of assets and liabilities at historic rates and year-end rates are posted at the item "Reserve for translation differences".

## ACCOUNTING PRINCIPLES

The accounting principles adopted comply with article 2426 of the Italian Civil Code, with CONSOB indications and with the Italian accounting principles issued by the National Board of "Dottori Commercialisti and of Ragionieri"; where lacking reference is made to those issued by the International Accounting Standards Board (IASB). The accounting principles are in line with the ones adopted in the previous year.

### Intangible Fixed Assets

Intangible fixed assets are recorded at purchase or production cost, including related charges; book value is amortized on a straight-line-basis in relation to the residual period they are expected to benefit. In compliance with accounting principle Nr. 24 the costs incurred by the Parent Company for the listing in the New Market, have been included in start-up and expansion costs, with approval by the Statutory Auditors.

The duration of the amortization plans is based on the estimated useful lives of the related assets. More specifically:

	<u>Rate</u>
Start-up and expansion costs	20%
Industrial patents and intellectual property rights	33%
Concessions, licenses, trademarks and similar rights	20%
Goodwill	10%
Leasehold improvements	20%
Other intangible assets	20%
Consolidation differences	10%-20%

Goodwill and Consolidation differences are amortized in compliance with the accounting principles of the market sector in which the Group operates. More specifically amortization is calculated on a pro-ratio basis starting from the first year of acquisition.

Intangible assets are written down to reflect a permanent impairment of value, regardless of the amortization already accounted for. Their book value is reinstated in subsequent years if the reasons for such write-down no longer apply.

### **Tangible fixed assets**

Tangible fixed assets are generally recorded at purchase or construction costs including related charges and other direct or indirect expenses reasonably attributable to the individual assets. Neither monetary nor economical revaluations have been made to the historical cost of the assets.

Depreciation is calculated on a straight-line basis (from the year the asset is put in use which normally corresponds to the first year in which asset is used) using rates that reflect the estimated useful lives of the related assets. In the year of acquisition such assets are depreciated at 50% of the normal rate, in consideration of their shorter period of use. Acquisitions with a unit value of less than 516,46 euro are recorded in the statement of income in the year in which they are incurred.

The annual depreciation rates applied are as follows:

	<u>Rate</u>
Land and building	3%
Plants and machinery	40%-50%
Industrial and commercial equipment	30%
Furniture and fittings	24%
Electronic office equipment	40%
Office equipment	24%
Mobile telephones	40%
Automobiles	50%

Assets acquired under finance leases are recorded at their fair value at the start of the lease and the capital portion of the lease installments is recorded as a liability. Such assets are depreciated on a straight-line basis over their economic useful lives, on the same basis as other tangible fixed assets.

Tangible assets are written down to reflect a permanent impairment of value, regardless of the amortization already accounted for. Their book value is reinstated in subsequent years if the reasons for such write-down no longer apply.

Ordinary maintenance costs are fully expensed as incurred, while improvement expenditures are allocated to the related assets and depreciated over their residual useful lives.

### **Equity investments**

Investments in associated companies are accounted for using the equity method. The positive differences arising between the carrying value and the corresponding net equity at the acquisition date are included in the carrying value of the equity investment and amortized at constant rates that reflect the estimated recovery value. Such amortization, along with

minority interest of said investments are recorded at the consolidated statement of income as "Adjustments to financial assets".

Investments in subsidiary companies that are not consolidated on a line-by-line basis because not considered significant or not yet operational, or those in which less than 20% of the share capital is held, are carried at cost. Such investments are written down to reflect a permanent impairment in value. Their book value is reinstated in subsequent years if the reasons for such write-down no longer apply.

### **Inventories**

Work in progress, for "on-stream" projects having a long-term nature are valued according to the agreed upon revenues and the stage of completion.

Work in progress for contracts having duration of less than twelve months has been recorded based on costs.

Finished products and goods for resale are valued at the lower of purchase or specific production cost of each component in stock, including all directly chargeable costs, and their net realizable value.

### **Accounts receivable and accounts payables**

Accounts receivable are recorded at their estimated realizable value. Accounts payable are stated at face value.

### **Financial assets not held as fixed assets**

Such assets are valued at the lower of purchase cost and their realizable market value. The original value of these securities is reinstated in future accounting periods if the reasons for such write-down no longer apply.

### **Treasury shares**

Treasury shares are stated at cost and valued according to the LIFO method and eventually reduced to their estimated realizable value. An unavailable reserve denominated "Reserve for treasury shares on hand" is posted at Shareholders' equity for the same amount.

### **Liquid funds**

Cash at banks and on hand are recorded at face value.

### **Accruals and Deferrals**

Accrued income and expenses are recorded to match costs and revenues in the accounting periods to which they relate. Prepaid expenses and deferred income relate to costs and revenues originating in the current period but related to future periods.



## **Reserves for risks and charges**

Reserves for risks and charges are recorded to cover known or likely future losses or liabilities the timing or extent of which are uncertain at year-end. The provisions made reflect the best estimate based on the information available.

## **Reserve for employee termination indemnities**

This reserve reflects the liability for severance indemnities accrued for each employee and determined in accordance with current legislation and labor contracts at the balance sheet date.

Such liability is subject to an index-based revaluation in accordance with the current legislation.

## **Revenue recognition**

Revenues from services are recognized at the time of execution.

Revenues from the execution of specific contracts are recognized upon customer approval of the completion of the work or according to the percentage of completion method.

Revenues from sales of products are recognized when title is passed to the client, which is generally at the time of shipment.

Contribution grants are recorded to the statement of income in the accounting period which they can be recognized with reasonable certainty.

## **Income taxes**

Current income taxes are provided on the basis of taxable income for the year, in accordance with the current Italian legislation.

The net balance between deferred tax assets and liabilities is also accounted for.

Deferred tax assets arise from costs and expenses, which are not tax deductible at year-end, from consolidation adjustments and from benefits on tax losses carried forward; deferred tax assets are only accounted for if there is a reasonable belief that they will be recovered.

Deferred tax liabilities refer to transactions where taxation is deferred to future years (such as gains on the disposal of tangible and intangible fixed assets) or to consolidation adjustments (lease transactions recorded as finance leases).

## **Translation of foreign currency items**

At year-end short-term receivables and payables denominated in foreign currency, including short-term portions of long-term receivables, payables and investment funds, are translated and recorded using the year-end exchange rate.

Non-current receivables and payables denominated in foreign currency are translated and booked at the year-end exchange rate. If net exchange loss arises from the translation of long-term receivables and payables, this is charged to the statement of income. On the other hand resulting net exchange gain is not recognized, on a prudent basis.

## **Derivative Contracts**

Derivative instruments are aimed at interest rate risk hedging on medium to long term financial loans; the interest rate differentials are recorded as "financial income/expenses" at the statement of income.

## **OTHER INFORMATION**

### **Exceptions allowed under paragraph 4 of art. 2423 of the Italian Civil Code.**

No exceptions allowed under art. 2423 paragraph 4 of the Italian Civil Code have been taken advantage in drawing up the consolidated financial statements.

## NOTES TO ASSETS RECORDED IN THE CONSOLIDATED BALANCE SHEET

### B) FIXED ASSETS

#### I. Intangible fixed assets

Net intangible assets as at 31 December 2003 amounted to 11.235 thousand euros (9.518 thousand euros as at 31 December 2002).

(thousand euros)	Historical cost	Accumulated amortization	Net book value 31/12/2003
	<hr/>	<hr/>	<hr/>
Start-up and expansion costs	4.745	(3.759)	986
Industrial patents and intellectual property rights	1.256	(1.033)	223
Concessions, licenses, trademarks and similar rights	1.716	(1.214)	502
Goodwill	290	(74)	216
Other	1.247	(639)	608
Consolidation differences	10.904	(2.204)	8.700
<b>Total</b>	<hr/> <b>20.158</b> <hr/>	<hr/> <b>(8.923)</b> <hr/>	<hr/> <b>11.235</b> <hr/>

Movements in intangible assets during 2003 are detailed below:

(thousand euros)	Net book value 31/12/2002	Increases	Change in consolidation	Amortization	Net book value 31/12/2003
Start-up and expansion costs	1.877	15	5	(911)	986
Industrial patents and intellectual property rights	261	49	150	(237)	223
Concessions, licenses, trademarks and similar rights	840	5	-	(343)	502
Goodwill	120	-	136	(40)	216
Other	459	216	157	(224)	608
Consolidation differences	5.961	3.420	279	(960)	8.700
<b>Total</b>	<b>9.518</b>	<b>3.705</b>	<b>727</b>	<b>(2.715)</b>	<b>11.235</b>

*Start-up and expansion costs* refer to charges related to the operations of share capital increase. More specifically, the amount recorded in the balance sheet, refers to costs incurred by the Parent Company in relation to the Global Offer of 1,970,000 ordinary shares representing approximately 24.14% of Reply S.p.A.'s share capital.

*Industrial patents and intellectual property rights* refer mainly to software patents purchased and used by the Parent Company for the management of centralized administration activities of the Group.

The item *Concessions, licenses, trademarks and similar* expresses the value of the "Reply" trademark granted to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on 9 June, 2000, in connection to the Company's share capital increase that was resolved and undersigned by the Parent Company Alister.

Such trademark is amortized over a 5-year period calculated from the date of acquisition.

*Goodwill* refers to the value of some businesses purchased by several subsidiary companies; amortization is calculated on a 5 to 10 year basis, in relation to the recoverable value.

The item *Other* mainly includes leasehold improvements and incidental charges incurred during 2003 (194 thousand euros) related to the syndicated financial loan with SanPaolo IMI for M&A operations. Such loan is fully detailed at the item "financial debts". The aforesaid charge is amortized over the duration of the contract.

*Consolidation differences* as at 31 December 2003 amounted to 8.700 thousand euros and reflect the goodwill arising from consolidation and are due to:

- acquisition of minority interest in @Logistics Reply S.r.l. (457 thousand euros), Cluster Reply S.r.l. (154 thousand euros), Sytel Reply S.r.l. (224 thousand euros), Business Reply S.r.l. (158 thousand euros) on 9 June 2000 through the parent company Reply's share capital increase;
- acquisition of 100% of YH Reply S.r.l.'s share capital in 2000 (15 thousand euros);
- acquisition, in 2001 and 2003, of 100% of XYZ Reply S.r.l.'s share capital (2.419 thousand euros);
- acquisition, during 2001, of 58% of e\*finance consulting Reply S.r.l.'s share capital (1.012 thousand euros);
- acquisition, in 2002, of 100% of Sysproject Reply S.r.l.'s share capital (1.665 thousand euros);
- acquisition, in 2003, of 51% of IrisCube Reply S.p.A.'s share capital (2.596 thousand euros).

## II. Tangible fixed assets

Tangible assets as at 31 December 2003 amounted to 2.000 thousand euros and are detailed as follows:

<b>(thousand euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
Buildings	76	79	(3)
Machinery	211	156	55
Electronic equipment	1.131	1.066	65
Ordinary office equipment	45	58	(13)
Furniture and fittings	438	494	(56)
Automobiles	40	22	18
Generic equipment	39	24	15
Mobile telephones	20	11	9
<b>Total</b>	<b>2.000</b>	<b>1.910</b>	<b>90</b>

Movements during 2003 in tangible assets are detailed in the table below:

(thousand euros)	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Historical cost	100	346	59	4.097	4.602
Accumulated depreciation	(21)	(190)	(35)	(2.446)	(2.692)
<b>Balance at 31 December 2002</b>	<b>79</b>	<b>156</b>	<b>24</b>	<b>1.651</b>	<b>1.910</b>
<u>Historical cost</u>					
Additions	-	111	4	872	987
Disposals	-	(4)	-	(147)	(151)
Change in consolidation	-	132	50	1.136	1.318
<u>Accumulated depreciation</u>					
Depreciation	(3)	(131)	(15)	(982)	(1.131)
Disposals	-	4	-	96	100
Change in consolidation	-	(57)	(24)	(952)	(1.033)
Historical cost	100	585	113	5.958	6.756
Accumulated depreciation	(24)	(374)	(74)	(4.284)	(4.756)
<b>Balance at 31 December 2003</b>	<b>76</b>	<b>211</b>	<b>39</b>	<b>1.674</b>	<b>2.000</b>

Total additions in 2003 amounted to 987 thousand euros, mainly related to computers and network equipment (642 thousand euros), plants (112 thousand euros) and office furniture (94 thousand euros).

In compliance with law nr. 72 of 1983, art. 10, no revaluations in accordance with specific laws have been made to the assets of the Group.

As at December 31 2003, 70.4% of the value of tangible assets has been depreciated compared to 58.5% year-ended 2002.

### III. Financial fixed assets

#### Equity investments

Equity investments as at 31 December 2003 amounted to 5.405 thousand euros compared to 5.622 thousand euros as at 31 December 2002, and comprised the following:

<u>(thousand euros)</u>	<u>31/12/2003</u>	<u>31/12/2002</u>	<u>Change</u>
Investments in associate companies	5.403	5.621	(218)
Investments in other companies	2	1	1
<b>Total</b>	<b>5.405</b>	<b>5.622</b>	<b>(217)</b>

The item *Investments in associate companies* amounting to 5.403 thousand euros, is related to the investment in Santer S.p.A., purchased in December 2002 through the subscription of a share capital increase. Such increase comprises 1.083 thousand euros related to the subscription of 49% of the share capital, 4.508 thousand euros of additional paid-in capital and 30 thousand euros of a contribution grant.

The change of 218 thousand euros is due to application of the net equity method.

*Investments in other companies* refer to the subscription of shares in the Unionfidi consortium.

## Financial receivables

*Other financial receivables include:*

<b>(thousand euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
Receivables from insurance companies	338	280	58
Guarantee deposits	288	152	136
<b>Total</b>	<b>626</b>	<b>432</b>	<b>194</b>

The change is due mainly to the insurance premium against Directors' severance indemnities and to guarantee deposits for office rentals.

## **C. CURRENT ASSETS**

### **I. Inventories**

Inventories amounted to 4.393 thousand euros, and are detailed as follows:

<b>(thousand euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
Contract work in progress			
- within 12 months	1.926	1.600	326
- beyond 12 months	1.425	5.180	(3.755)
	<u>3.351</u>	<u>6.780</u>	<u>(3.429)</u>
Finished products and goods for resale	1.042	166	876
<b>Total</b>	<b>4.393</b>	<b>6.946</b>	<b>(2.553)</b>



*Contract work in progress* included mainly the following activities:

- Implementation of applications for administration-accounting management on Oracle platform (Business Reply S.r.l.);
- Development of applications for logistic content management for Mediaset (Technology Reply S.r.l.);
- Development of the informatics system for on-line content management for Pagine-Gialle (Technology Reply S.r.l.);
- Informatics systems that enable the execution component of the supply chain (@Logisitcs Reply S.r.l.).

*Finished products and goods for resale* reflects the value of software licenses, that had not been implemented at year end. Revenues from such sales are expected to be greater than the amount posted at balance sheet.

## II. Receivables

Change in current assets compared to year-ended 2002 amounted to 2.116 thousand euros and is analyzed below.

### Trade receivables

Trade receivables, made up mainly of high rated clients and all collectable within the year, arise from normal sales transactions. Detail is as follows:

<b>(thousand euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
Domestic trade receivables	46.229	42.936	3.293
Foreign trade receivables	1.413	1.996	(583)
Credit notes to be issued	(501)	(289)	(212)
<b>Total</b>	<b>47.141</b>	<b>44.643</b>	<b>2.498</b>
Allowance for doubtful accounts	(1.069)	(687)	(382)
<b>Total trade receivables</b>	<b>46.072</b>	<b>43.956</b>	<b>2.116</b>

After an attentive analysis of each receivable account, as at 31 December 2003, the provision made for doubtful accounts amounted to 393 thousand euros.

## Other receivables

Detail is as follows:

<b>(thousand euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
Advances to suppliers	169	295	(126)
Receivables from tax authorities	2.345	1.253	1.092
Prepaid tax receivables	2.341	341	2.000
VAT receivables	196	250	(54)
Other receivables	716	183	533
<b>Total</b>	<b>5.767</b>	<b>2.322</b>	<b>3.445</b>

Change in *Other receivables* is mainly due to advance payments made on tax debts with respect to the real tax debt due at year-end.

Detail of *Prepaid tax* receivables is outlined below:

<b>(thousand euros)</b>	<b>31/12/2002</b>	<b>Statement of income 2003</b>	<b>Change in consolidation</b>	<b>31/12/2003</b>
Fiscal losses brought forward	-	69	1.386	1.455
Write-down of equity investments deductible in 5 years	-	597	-	597
Deferred amortization and fiscal deductibility	118	56	-	174
Consolidation and other adjustments	223	(108)	-	115
<b>Total</b>	<b>341</b>	<b>614</b>	<b>1.386</b>	<b>2.341</b>

There are no receivables that are due beyond five years, in compliance with article 2427 b).

### III. Financial assets not held as fixed assets

#### Treasury shares

Treasury shares are recorded at cost determined according to the LIFO method.

Movements in treasury shares during 2003 are detailed in the table below:

	Quantit y	Average price (euros)	Final balance (euros)
<b>Balance at 31/12/2002</b>	<b>16.088</b>	<b>6,08</b>	<b>97.762</b>
Increases	41.000	8,38	343.726
Disposals	(11.251)	8,16	(91.808)
<b>Balance at 31/12/2003</b>	<b>45.837</b>	<b>7,63</b>	<b>349.680</b>

Shareholders' equity includes an unavailable reserve for the same amount.

#### Other securities

(thousand euros)	31/12/2003	31/12/2002	Change
Receivables from disposal of securities	-	252	(252)
Securities issued by Italian Government	2.107	1.601	506
Mutual investment funds	87	1.579	(1.492)
Bonds	151	18	133
<b>Total</b>	<b>2.345</b>	<b>3.450</b>	<b>(1.105)</b>

The item *Securities issued by Italian Government* also includes securities issued by other public institutions (234 thousand euros) and guaranteed by the government.

*Bonds* include convertible bonds issued by primary banks and represent a temporary liquid investment.

With regards to financial assets, the comparison with their corresponding market value does not reveal hidden losses.

#### **IV. Liquid funds**

This item amounted to 10.319 thousand euros as at 31 December 2003, with an increase of 5.897 thousand euros compared to 31 December 2002 and reflects the amount of cash at banks and on hand at year end.

#### **D. ACCRUED INCOME AND PREPAID EXPENSES**

The ending balance of 482 thousand euros, with a decrease of 11 thousand euros compared to 31 December 2002, is mainly referred to prepaid expenses of lease contracts and other utility expenses, which are accounted for in accordance with the accruals accounting method.

## NOTES TO SHAREHOLDERS' EQUITY AND LIABILITIES RECORDED IN THE CONSOLIDATED BALANCE SHEET

### A) GROUP SHAREHOLDERS' EQUITY

The table below shows changes in the Group Shareholders' equity in the last two years:

	Share capital	Additional paid-in capital	Legal reserve	Reserve for treasury shares on hand	Extraord. reserve	Reserve for purchase of treasury shares	Retained earnings	Net result of the year	Total
<b>(thousand euros)</b>									
<b>Balance at 31/12/2001</b>	<b>4.244</b>	<b>13.152</b>	<b>78</b>	<b>91</b>	<b>63</b>	<b>21.000</b>	<b>3.145</b>	<b>3.842</b>	<b>45.615</b>
Allocation 2001 result:									
- legal reserve	-	-	182	-	-	-	-	(182)	-
- retained earnings	-	-	-	-	-	-	3.508	(3.508)	-
- to directors	-	-	-	-	-	-	-	(152)	<b>(152)</b>
Purchase of treasury shares	-	-	-	1.045	-	(1.045)	-	-	-
Disposal of treasury shares	-	1.038	-	(1.038)	-	-	-	-	-
Other changes	-	-	-	-	-	-	(110)	-	<b>(110)</b>
Result for the year 2002	-	-	-	-	-	-	-	3.535	<b>3.535</b>
<b>Balance at 31/12/2002</b>	<b>4.244</b>	<b>14.190</b>	<b>260</b>	<b>98</b>	<b>63</b>	<b>19.955</b>	<b>6.543</b>	<b>3.535</b>	<b>48.888</b>
Allocation 2002 result:									
- legal reserve	-	-	208	-	3.132	-	(1.421)	(1.919)	-
- retained earnings	-	-	-	-	-	-	-	(800)	<b>(800)</b>
- to directors	-	-	-	-	-	-	-	(816)	<b>(816)</b>
- dividends (0,10 per share)	-	-	-	-	-	-	-	(816)	<b>(816)</b>
Purchase of treasury shares	-	-	-	344	-	(344)	-	-	-
Disposal of treasury shares	-	-	-	(92)	-	92	-	-	-
Other changes:									
- change in consolidation	-	-	-	-	-	-	(128)	-	<b>(128)</b>
- other changes	-	-	-	-	-	-	(92)	-	<b>(92)</b>
Result for the year	-	-	-	-	-	-	-	3.003	<b>3.003</b>
<b>Balance at 31/12/2003</b>	<b>4.244</b>	<b>14.190</b>	<b>468</b>	<b>350</b>	<b>3.195</b>	<b>19.703</b>	<b>4.902</b>	<b>3.003</b>	<b>50.055</b>

As at 31 December 2003 the fully subscribed paid-in share capital of the Parent Company Reply S.p.A. amounted to 4.244 thousand euros.  
This is made up of 8,162,200 ordinary shares, par value 0,52 euros each.

## Stock option plans

The Extraordinary Shareholders' Meeting of Reply S.p.A. on 26 June 2001 and on 11 June 2002 resolved the increase of the share capital with exclusion of stock option rights in compliance with art. 2441, paragraph 8 and art. 2441 paragraph 5 of the Italian Civil Code. Such stock option plans are detailed as follows:

- 250,000 new ordinary shares were issued with a par value of 0,52 euros in favor of employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 130.000 euros. The stock option plan was in force until 30 June 2003 for the rights assignment; 31 December 2005 is the deadline for the subscription of the share capital increase;
- 200,000 new ordinary shares were issued with a par value of 0,52 euros in favor of directors and employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 104.000 euros. The stock option plan will be in force until 30 June 2004 for the rights assignment; 31 December 2006 is the deadline for the subscription of the share capital increase.

Reply S.p.A.'s Board of Directors, in charge of the stock option plan, has resolved the assignment of 354,300 pre-emptive rights of which 183,900 expired and not exercised.

The following table summarizes pre-emptive rights as at 31 December 2003:

Board resolution date	Nr. of rights (*)	Exercise price (euros)	Exercise period
13 November 2001	5.700	15,035	13/11/2003 – 13/05/2004
13 February 2002	12.900	16,776	13/02/2004 – 13/08/2004
22 April 2002	18.900	16,330	22/04/2004 – 22/10/2004
8 August 2002	14.400	13,198	08/08/2004 – 08/02/2005
26 September 2002	2.400	12,719	26/09/2004 – 26/03/2005
13 November 2002	59.800	10,618	13/11/2004 – 13/05/2005
13 February 2003	24.600	10,572	13/02/2005 – 13/08/2005
17 April 2003	9.000	8,934	17/04/2005 - 17/10/2005
26 September 2003	21.000	8,924	26/09/2005 – 26/03/2006
13 November 2003	1.700	9,058	13/11/2005 – 15/05/2006
	<b>170.400</b>		

(\*) net of rights fallen out of course of resigned employees

At present no pre-emptive rights have been exercised.

Group consolidated net equity as at 31 December 2003 amounted to 50.055 thousand euros (48.888 thousand euros as at 31 December 2002).

The reconciliation between shareholders' equity and net result of Reply S.p.A. and the corresponding consolidated amounts is detailed below:

(thousand euros)	31/12/2003		31/12/2002	
	Net equity	Net result	Net equity	Net result
<b>Reply S.p.A.'s financial statements</b>	<b>48.840</b>	<b>1.816</b>	<b>47.841</b>	<b>4.156</b>
Results of the subsidiary companies	10.834	3.244	10.070	6.115
Carrying value of investments in consolidated companies	(12.875)	2.260	(9.589)	-
Consolidation differences	8.700	(961)	5.961	(537)
Elimination of dividends from subsidiary companies	-	(323)	-	(1.624)
Elimination of dividends recorded on the accrual accounting basis by the Parent Company	(4.487)	(4.487)	(4.187)	(4.187)
Equity method valuation of investments	(218)	(218)	-	-
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	97	885	(510)	(173)
Minority interest	(836)	787	(698)	(215)
<b>Reply Group's consolidated financial statements</b>	<b>50.055</b>	<b>3.003</b>	<b>48.888</b>	<b>3.535</b>

## B) RESERVES FOR RISKS AND CHARGES

Detail of the *Reserve for risks and charges* is shown in the table below:

(thousand euros)	Balance at 31/12/2002	Accruals	Utilization	Change in consolidation	Balance at 31/12/2003
Employee pensions and similar obligations	344	64	-	-	408
Income tax reserve	-	74	-	-	74
Other					
- Company restructuring	102	200	(102)	-	200
- IrisCube restructuring	-	476	(73)	128	531
<b>Total</b>	<b>446</b>	<b>814</b>	<b>(175)</b>	<b>128</b>	<b>1.213</b>

### Employee pension and similar obligations

This item is related to the Companies' liability for Directors' severance indemnity.

The difference of 64 thousand euros, compared to the previous year, is related to the additional leaving indemnity conferred to several members of the Board of Directors for the year 2003 resolved by the individual company's Shareholders' Meeting.

### Income tax reserve

This reserve is related to the accrual of 74 thousand euros for taxation on dividends, in accordance with new tax rulings, recorded according to accrual accounting method and eliminated during consolidation.

### Other

*Other* reserves are related to:

- the restructuring plan aimed at forming, within the Reply Group, groups of homogeneous companies by business line;
- the restructuring plan of the IrisCube Group which includes employee leave incentives (388 thousand euros) and the advance interruption of office rental contracts (88 thousand euros).



## C) RESERVE FOR EMPLOYEE TERMINATION INDEMNITY

Movements in the reserve were as follows:

(thousand euros)	
<b>Balance at 31/12/2002</b>	<b>2.895</b>
Change in consolidation	673
Provision for the year	1.870
Utilization	(733)
<b>Balance at 31/12/2003</b>	<b>4.705</b>

The closing balance of the reserve is deemed adequate with regard to contractual obligations and to existing Italian laws.

The number of employees as at 31 December 2003 were 875, compared to 751 employees as at 31 December 2002.

## D) PAYABLES

As at 31 December 2003 payables amounted to 31.632 thousand euros, of which 9.401 thousand euros financial payables (3.864 thousand euros as at 31 December 2002) and 22.231 thousand euros trade and other payables (22.331 thousand euros as at 31 December 2002).

### Financial payables

(thousand euros)	31/12/2003			31/12/2002		
	Short term	M/L term	Total	Short term	M/L term	Total
Advances on invoices and bank overdrafts	2.732	-	2.732	3.746	-	3.746
Medium/long term borrowings	20	6.640	6.660	79	30	109
<b>Total due to banks</b>	<b>2.752</b>	<b>6.640</b>	<b>9.392</b>	<b>3.825</b>	<b>30</b>	<b>3.855</b>
Due to other providers of finance	9	-	9	9	-	9
<b>Total financial payables</b>	<b>2.761</b>	<b>6.640</b>	<b>9.401</b>	<b>3.834</b>	<b>30</b>	<b>3.864</b>

Medium and long-term borrowings, as at 31 December 2003, are detailed as follows:

Financial Institution	Balance at 31/12/03 (€/000)	Interest rate	Maturity date	Installment
Syndicated loan SanPaolo IMI	6.628	Euribor 6 months + 1,35%	31 December 2008	Half-year
SanPaolo IMI	13	Euribor 6 months + 1,25%	8 February 2005	Monthly post-dated
BIPOP	19	Euribor 6 months + 1,25%	1 January 2006	Monthly post-dated
<b>Total medium/long term borrowings</b>	<b>6.660</b>			

On June 30, 2003 the Parent Company Reply undersigned with SanPaolo IMI, pool leader of a group of banks, a contract for a medium term credit facility of a maximum of 35,5 million euros, to be used within 18 months following the contract date. At the balance sheet date such credit facility was used for 6,6 million euros, equal to the current financial loan.

The credit facility is aimed at granting the Parent Company financial resources in order to support the growth strategies finalized at the acquisition of companies, strategic equity investments, treasury shares or at the re-financing of previous equity investment acquisitions.

The reimbursement of the amount used of such credit facility on December 31, 2004 will be made through eight half-year installments starting June 30, 2005; the interest rate applied is the Euribor at 6 months with a spread of 1.35 percentage points. The loan is also encumbered with bank commissions on the credit facility not used, charged to the statement of income and is also burdened with guarantees.

The loan is guaranteed by pledges on the treasury shares and on shares purchased with the loan, in favor of the participating institutions and also by covenants on consolidated economic and financial data. More specifically such covenants are referred to ratios of net financial indebtedness over net equity and net financial indebtedness over gross operating margin and are defined by contract. At the balance sheet date the parameters established by the loan have been met by the company.

Once the loan was obtained, the company also stipulated with SanPaolo IMI an interest rate swap agreement against interest rate risks of the same loan. The floating interest rate originally foreseen (Euribor 6 months), was transformed into a fixed interest rate of 3.05% per annum, allowing this way that the cost of the loan be hedged against any possible interest rate increase for the remaining duration of the loan.

The net financial position as at 31 December 2003 amounted to 3.631 thousand euros and is detailed as follows:

(thousand euros)	31/12/2003	31/12/2002	Change
<b>Current financial assets</b>			
Treasury shares	350	98	252
Receivables from disposal of securities	-	252	(252)
Securities	1.873	1.601	272
Mutual investment funds	87	1.579	(1.492)
Other	403	43	360
Liquid funds	10.319	4.422	5.897
<b>Total current financial assets</b>	<b>13.032</b>	<b>7.995</b>	<b>5.037</b>
<b>Financial payables</b>			
Due within 12 months	(2.761)	(3.834)	1.073
Due beyond 12 months	(6.640)	(30)	(6.610)
<b>Total financial payables</b>	<b>(9.401)</b>	<b>(3.864)</b>	<b>(5.537)</b>
<b>Net financial position</b>	<b>3.631</b>	<b>4.131</b>	<b>(500)</b>

A detailed analysis of changes in the net financial position is provided at the Directors' Report on Operations and at the statement of sources and application of funds.

The change of 500 thousand euros compared to the previous year can be mainly explained by the following:

(thousand euros)	2003
Cash flow from operating activities before working capital movements	10.199
Change in working capital	(3.153)
<b>Cash flows from operating activities (A)</b>	<b>7.046</b>
<b>Cash flows in investing activities (B)</b>	<b>(5.848)</b>
<b>Cash flows in financing activities (C)</b>	<b>(1.698)</b>
<b>Change in net financial position (A+B+C)</b>	<b>(500)</b>

## Trade and other payables

Trade and other payables in 2003 increased by 100 thousand euros compared to year-ended 2002 and are detailed at the table below:

(thousand euros)	31/12/2003	31/12/2002	Change
<i>Advances</i>	1.950	6.031	(4.081)
<i>Trade payables</i>	9.680	7.471	2.209
<i>Due to tax authorities</i>			
Income taxes (Irpeg- Irap)	1.281	1.324	(43)
VAT payable	740	884	(144)
Withholding taxes	1.453	1.181	272
	<u>3.474</u>	<u>3.389</u>	<u>85</u>
<i>Due to social security authorities</i>			
Inps	2.685	2.111	574
Inpdai	-	190	(190)
Inail	1	14	(13)
Other authorities	161	111	50
	<u>2.847</u>	<u>2.426</u>	<u>421</u>
<i>Other payables</i>			
Employee accruals	4.004	2.731	1.273
Other payables to authorities	139	90	49
Other payables	137	193	(56)
	<u>4.280</u>	<u>3.014</u>	<u>1.266</u>
<b>Total trade and other payables</b>	<b><u>22.231</u></b>	<b><u>22.331</u></b>	<b><u>(100)</u></b>

A brief description of the non-financial payables is provided below:

#### Advances

This item includes advances received from clients for job orders that at year-end have not yet been completed.

#### Trade payables

Trade payables are related to transactions carried out at normal market conditions and as at 31 December 2003 amounted to 9.680 thousand euros and include:

- domestic suppliers for 8.850 thousand euros;
- foreign suppliers for 368;
- trade payables due to related parties for 462 thousand euros related to services carried out at normal market conditions, which consist mainly in providing various services including the use of offices and office of the secretary.

#### Due to tax authorities

Due to tax authorities is recorded net of advances, credits and withholding receivables, and is referred to short-term tax liabilities determined on the basis of a reasonable estimate of the tax burden according to existing laws and rates.

#### Due to social security authorities

Due to social security authorities refers to both Group and employees contribution payable.

#### Other payables

This item mainly includes payables to employees for remuneration due but not yet paid at year-end.

## MEMORANDUM ACCOUNTS

Detail is as follows:

<b>(thousand euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
Guarantees issued on behalf of related parties	983	496	487
Guarantees received by third parties	1.456	576	880
Risks for pledges on shares	6.628	-	6.628
Commitments for lease contracts	1.719	1.881	(162)
<b>Total</b>	<b>10.786</b>	<b>2.953</b>	<b>7.833</b>

*Guarantees issued on behalf of related parties* mainly refer to patronage letters in favor of subsidiary companies in order to provide them with the necessary financial means for the development of their activities.

*Guarantees received by third parties* mainly refer to guarantee policies related to Reply S.p.A.'s participation in contract bids.

*Risks for pledges on shares* are related to the medium-long term financial loan, recorded at the balance sheet item financial payables for a total value of 6.628 thousand euros, burdened by a pledge in favor of the participating banking institutions on all the shares purchased through the loan. Reply S.p.A. maintains the right to vote at the annual general meetings on the condition that all obligations and fulfillments under the contract are met.

The company also stipulated with SanPaolo IMI an interest rate swap agreement against interest rate risks of the same loan. At the balance sheet date, the market value of such commitment that reflects the amount that the company would have to pay at the contract expiry date, determined on the basis of the notifications received by the bank counterparties, would not have had significant effects on the financial statements.

## NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

### A) VALUE OF PRODUCTION

#### Revenues from sales and services

Revenues from sales and services, including change in contract work in progress, amounted to 85.511 thousand euros and are detailed as follows:

<b>(thousand euros)</b>	<b>2003</b>	<b>2002</b>	<b>Change</b>
Revenue from services	82.293	74.242	8.051
Hardware and software licenses for resale	3.218	2.432	786
<b>Total</b>	<b>85.511</b>	<b>76.674</b>	<b>8.837</b>

The following table shows the percentage breakdown of revenues by geographic area:

<b>Country</b>	<b>2003</b>	<b>2002</b>
Italy	98,37%	95,67%
Europe	0,72%	2,09%
Europe (non EC members)	0,30%	0,19%
South America	0,61%	2,05%
	<b>100,00%</b>	<b>100,00%</b>

## B) COST OF PRODUCTION

### Raw materials, consumables and goods for resale

Detail is as follows:

(thousand euros)	2003	2002	Change
Hardware for resale	193	350	(157)
Software licenses for resale	3.276	1.440	1.836
Other	653	555	98
<b>Total</b>	<b>4.122</b>	<b>2.345</b>	<b>1.777</b>

### Services

The cost of services is detailed as follows:

(thousand euros)	2003	2002	Change
Commercial and technical consulting	14.003	11.029	2.974
Services from Parent Company and related parties	1.532	1.413	119
Directors' fees	4.010	3.918	92
Traveling and training expenses	4.500	4.688	(188)
Marketing expenses	557	552	5
Administration and legal services	991	926	65
Utilities	829	869	(40)
Statutory Auditors' and Independent Auditors' fees	160	144	16
Canteen expenses	915	830	85
Media services to be re-billed	694	935	(241)
Miscellaneous	1.410	1.207	203
<b>Total</b>	<b>29.601</b>	<b>26.511</b>	<b>3.090</b>

The increase of the item *Commercial and technical consulting* owes mainly to consolidation of IrisCube (1.394 thousand euros) and to the increased use of third party services.



*Services from Parent Company and related parties* refer to service contracts related to the use of premises and centralized secretarial services.

*Media services to be re-billed* refer to the ordinary business of XYZ Reply S.r.l., operating in the multimedia communication and web-marketing field.

## Leases and rentals

Charges for leases and rentals are detailed below:

<b>(thousand euros)</b>	<b>2003</b>	<b>2002</b>	<b>Change</b>
Lease and rental expenses	1.354	785	569
Lease of automobiles	1.104	760	344
Other	30	29	1
<b>Total</b>	<b>2.488</b>	<b>1.574</b>	<b>914</b>

## Personnel costs

Personnel costs amounted to 39.006 thousand euros, with an increase of 5.259 thousand euros compared to the previous year. The breakdown of these costs is provided at the statement of income. The following table indicates the number of employees by category.

<b>(number)</b>	<b>2003</b>	<b>2002</b>	<b>Change</b>
Directors	48	44	4
Managers	107	63	44
Staff	720	644	76
<b>Total</b>	<b>875</b>	<b>751</b>	<b>124</b>

## Amortization, depreciation and write-downs

Amortization of intangible assets as at 31 December 2003 amounted to 2.715 thousand euros. The details are provided at the notes to intangible assets herein.

Depreciation of tangible assets amounted to 1.131 thousand euro and has been determined on a straight-line basis at economic-technical rates that reflect the useful life of the asset. Details of depreciation are provided at the notes to tangible fixed assets herein.

Write-downs of receivables and liquid funds amounted to 393 thousand euros and are referred to the provision for doubtful accounts.

## Provision for risks and losses

This item is referred to the charges connected to the reorganization plan aimed at creating within the Reply group, groups of homogeneous companies by business line.

## Other operating costs

These costs amounted to 699 thousand euros and included:

(thousand euros)	2003	2002	Change
Hospitality expenses	71	62	9
Gifts to clients	38	36	2
Magazines and subscriptions	38	34	4
Taxes on automobiles	25	19	6
Loss on receivables	-	33	(33)
Miscellaneous	527	233	294
<b>Total</b>	<b>699</b>	<b>417</b>	<b>282</b>

The item *Miscellaneous* includes deductible and non-deductible taxes and duties (157 thousand euros) bank commissions on the financial loan (101 thousand euros) membership fees (77 thousand euros), loss on disposal of fixed assets (49 thousand euros) and non-deductible fiscal expenses (46 thousand euros).

## C) FINANCIAL INCOME AND EXPENSES

Detail is as follows:

(thousand euros)	2003	2002	Change
Gain on securities	259	343	(84)
Interest income on bank accounts	79	98	(19)
Interest due to banks	(309)	(94)	(215)
Interest expenses on loans	(3)	(8)	5
Loss on securities	(15)	(64)	49
Interest on income tax from previous years	(32)	(54)	22
Other	32	(40)	72
<b>Total</b>	<b>11</b>	<b>181</b>	<b>(170)</b>

## D) ADJUSTMENTS TO FINANCIAL ASSETS

*Adjustments to financial investments*, amounting to negative 218 thousand euros, is referred to the financial investment in Santer S.p.A., consolidated according to the equity method, of which Reply S.p.A. holds 49% of the shares; such amount includes the amortization of goodwill and the result of the period related to Reply S.p.A.

## E) EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income as at 31 December 2003 amounted to 1.930 euros and includes credit tax deriving from the application of article 7 of law 388/2000 related to the benefits consequent to the increase of company employment of the past years.

Interpretation of such income was not clear in previous years and for this reason it was not accrued previously, in 2003 a ministerial interpretation shed some light on the issue.

Extraordinary expenses are related to unexpected losses falling out of the ordinary course of business and mainly include charges related to the reorganization plan of IrisCube (476 thousand euros) and to "tax amnesty" (375 thousand euros).

## INCOME TAXES

Income taxes due for fiscal year-ended 2003 amount to 4.288 thousand euros, compared to 5.458 thousand euros in 2002.

(thousand euros)	2003	2002	Change
IRPEG	2.656	3.305	(649)
IRAP	2.280	2.303	(23)
Deferred (prepaid) tax, net	(648)	(150)	(498)
<b>Total</b>	<b>4.288</b>	<b>5.458</b>	<b>(1.170)</b>

Tax burden before taxation is equivalent to 65.9% (59.3% in 2002). The difference, compared to the theoretical tax incidence of 38.25%, is mainly due to non-deductible costs as per IRAP purposes (the regional tax on value added) and to permanent tax differences due to consolidation.

## OTHER INFORMATION

### Emoluments of the Parent Company's Directors and Statutory Auditors

Emoluments of the Parent Company's Directors and Statutory Auditors for the year-ended 2003 amounted to 810 thousand euros and 56 thousand euros respectively, including the remuneration of services provided by such members to other Group companies.

The Notes to Reply S.p.A.'s financial statements provide complete details of the above figures.

REPLY  
CONSOLIDATED STATEMENT OF CASH FLOW

(thousand euros)	2003	2002
Net result for the year	3.003	3.535
Depreciation and amortization	3.846	3.213
Accrual for employee termination indemnities	1.870	1.582
Accrual for reserve for risk and charges	869	65
Adjustments to equity investments not consolidated	218	
Accrual for allowances and doubtful accounts	393	259
<b>Cash flows from operating activities before working capital movements</b>	<b>10.199</b>	<b>8.654</b>
Change in inventories	2.553	(1.465)
Change in trade receivables	(2.509)	(11.325)
Change in other current assets	(3.440)	(1.249)
Change in trade payables	2.209	655
Change in other current liabilities	(1.804)	2.393
Change in reserve for risks and charges	(102)	(198)
Change in employee termination indemnities	(60)	(343)
<b>Change in working capital</b>	<b>(3.153)</b>	<b>(11.532)</b>
<b>Cash flows from operating activities (A)</b>	<b>7.046</b>	<b>(2.878)</b>
Investments in intangible assets including change in consolidation	(1.012)	(778)
Consolidation differences	(3.420)	(1.850)
Investments in tangible assets , net of disposals	(1.221)	(1.171)
Equity investments not consolidated	-	(5.621)
Change in other long-term assets	(195)	(38)
<b>Cash flows used in investing activities (B)</b>	<b>(5.848)</b>	<b>(9.458)</b>
Increase in share capital and minority interest	138	232
Distribution of dividends	(816)	-
Distribution of income to directors	(800)	(152)
Other changes in net equity	(220)	(110)
<b>Cash flows used in financing activities (C)</b>	<b>(1.698)</b>	<b>(30)</b>
<b>Change in net financial position (A + B + C)</b>	<b>(500)</b>	<b>(12.366)</b>
Net financial position at beginning of the year	4.131	16.497
Change in net financial position	(500)	(12.366)
<b>Net financial position at year-end</b>	<b>3.631</b>	<b>4.131</b>

REPLY  
 RECALSSIFIED CONSOLIDATED BALANCE SHEET

(thousand euros)	2003	2002
Intangible fixed assets	11.235	9.518
Tangible fixed assets	2.000	1.910
Financial fixed assets	6.031	6.054
<b>Total fixed assets (A)</b>	<b>19.266</b>	<b>17.482</b>
Inventories	4.393	6.946
Trade receivables	46.072	43.956
Other current assets	6.258	2.818
<b>Total current assets (B)</b>	<b>56.723</b>	<b>53.720</b>
Trade payables	(9.680)	(7.471)
Other current liabilities	(13.131)	(14.935)
<b>Total current liabilities (C)</b>	<b>(22.811)</b>	<b>(22.406)</b>
<b>Net current assets (D) (B + C)</b>	<b>33.912</b>	<b>31.314</b>
<b>Employee termination indemnities (E)</b>	<b>(4.705)</b>	<b>(2.895)</b>
<b>Reserve for risks and charges (F)</b>	<b>(1.213)</b>	<b>(446)</b>
<b>Net invested capital (A + D + E + F)</b>	<b>47.260</b>	<b>45.455</b>
Shareholders' equity	50.891	49.586
Long-term net financial position	6.649	30
Short-term net financial position	(10.280)	(4.161)
<b>Shareholders' equity and net financial position</b>	<b>47.260</b>	<b>45.455</b>

REPLY  
 COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS  
 AT 31 DECEMBER 2003 AND EQUITY INVESTMENTS

Company name	Registered office	Share capital	Group interest
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**PARENT COMPANY**

Reply S.p.A.	Torino - Corso Francia, 110	€ 4.244.344	-
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**SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS**

@Logistic Reply S.r.l.	Torino - Corso Francia, 110	€ 78.000	100,00%
Aktive Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	100,00%
Atlas Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	92,50%
BeWit Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	70,00%
Blue Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	88,00%
Business Reply S.r.l.	Torino - Corso Francia, 110	€ 78.000	100,00%
Cluster Reply S.r.l.	Torino - Corso Francia, 110	€ 100.000	100,00%
Cluster Reply Padova S.r.l.	Torino - Corso Francia, 110	€ 10.000	100,00%
e*finance consulting Reply S.r.l.	Torino - Corso Francia, 110	€ 104.000	58,00%
IrisCube Reply S.p.A.	Milano - Via Fabio Filzi, 25/A	€ 651.735	51,00%
Logistics Reply do Brasil LTDA	SanPaolo – Brazil	R\$ 588.059	80,00%
Logistics Reply SL	Barcelona - Spain	€ 53.010	100,00%
planeT Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	80,00%
Spike Reply S.r.l.	Torino - Corso Francia, 110	€ 50.000	90,00%
Sysproject S.r.l.	Torino - Corso Francia, 110	€ 10.400	100,00%
Sytel Reply S.r.l.	Torino - Corso Francia, 110	€ 62.400	100,00%
Sytel Reply Milano S.r.l.	Torino - Corso Francia, 110	€ 10.000	100,00%
Technology Reply S.r.l.	Torino - Corso Francia, 110	€ 79.743	100,00%
Twice Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	84,00%
XYZ Reply S.r.l.	Torino - Corso Francia, 110	€ 12.939	100,00%
YH Reply S.r.l.	Torino - Corso Francia, 110	€ 21.224	100,00%

**ASSOCIATE COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD**

Santer S.p.A.	Milano - Via Don Minzoni, 24	€ 2.209.500	49,00%
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## **RELAZIONE DEL COLLEGIO SINDACALE ALL'ASSEMBLEA DEI SOCI RELATIVAMENTE AL BILANCIO CONSOLIDATO AL 31 DICEMBRE 2003**

To the Shareholders,

The Board of Directors is submitting to You the consolidated financial statements as of 31 December 2003, including the Balance Sheet, the Statement of Income and the Notes to the consolidated financial statements.

The Consolidated Financial Statements for the year-ended 2003 presents a consolidated net equity of 50.055 thousand euros and a net result of 3.003 thousand euros delivered to the Statutory Auditors, within the required time, jointly with the financial statements and the Directors' Report on Operations.

Such statements and reports adequately provide disclosures related to the economic and financial situation, even at a consolidated level, of Reply S.p.A. and its subsidiary companies during the fiscal year and following the year-ended 2003 and the volumes achieved in the different business lines.

The consolidation area is exhaustively defined at the aforementioned financial statements and as at 31 December 2003 includes, apart from the Parent Company, 21 companies consolidated on a line-by-line basis.

Controls carried out by the Audit Firm Deloitte & Touche S.p.A. lead to confirm that the values expressed on the face of the Consolidated Financial Statements as at 31 December 2003 reflect the accounting results of the Parent Company, of the subsidiary companies' financial statements and replicate the information communicated by the latter.

The single subsidiary companies transmit their financial statements to the Parent Company in order for the latter to draw up the consolidated financial statements. These financial statements were drawn up by the respective bodies and addressed to the governing bodies in order to be approved and were also submitted to the Independent Auditors under procedures followed for the audit of the consolidated financial statements.

These financial statements were not subject to controls by the Statutory Auditors.

Deloitte & Touche S.p.A., Independent Auditors engaged in certifying the Consolidated Financial Statements, issued its opinion on April 27, 2004, in which it asserts that the Reply Group Consolidated Financial Statements as at 31 December 2003 are in compliance with laws governing the criteria for their preparation.



On the basis of the audit and inspections carried out, we state that:

- the consolidation area has been determined correctly;
- the adopted consolidation procedures are pursuant to the law and have been applied correctly;
- the figures expressed in the Directors' Report on Operations correspond to results expressed on the face of the consolidated financial statements;
- the information used for consolidation purposes is referred to the entire administrative period of the year 2003;
- the accounting principles and the evaluation criteria are in line with the previous year;
- associate companies are consolidated according to the equity method.

Turin April 28, 2004

#### THE STATUTORY AUDITORS

*(Prof. Piergio Re)*

*(Mr. Tommaso Vallenzasca)*

*(Mrs. Ada Alessandra Garzino Demo)*

**REPORT OF THE INDEPENDENT AUDITORS  
ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 156  
OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998**  
(Translation from the Original Issued in Italian)

**To the Shareholders of  
Reply S.p.A.**

1. We have audited the consolidated financial statements of Reply S.p.A. and subsidiaries as of and for the year ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.  
For our opinion on the prior year's consolidated financial statements, which are presented for comparative purposes as required by law, reference should be made to the auditors' report dated April 23, 2003 issued by Deloitte & Touche Italia S.p.A.
3. In our opinion, the consolidated financial statements of Reply S.p.A. and subsidiaries as of and for the year ended December 31, 2003 comply with the Italian statutory provisions related to consolidated financial statements; therefore they give a true and fair view of the financial position and results of operations of the Company and its subsidiaries as of that date.
4. For a better understanding of the consolidated financial statements attention is drawn to the fact that, as described in the Directors' report on operations, the Parent Company intends to acquire the minority interests of the subsidiaries Blue Reply S.r.l. and planeT Reply S.r.l., as provided for by specific contractual agreements currently in force with respective shareholders, through a capital increase with the exclusion of the subscription right, on which the extraordinary Shareholders' Meeting will be called to deliberate on June 10, 2004.

DELOITTE & TOUCHE S.p.A.  
s/Giuseppe Pedone – Partner

Turin, Italy  
April 27, 2004

*This report and the consolidated financial statements have been translated into English from the original versions in Italian. The consolidated financial statements have been prepared in accordance with the Italian law related to financial statements. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Italy, may not conform with generally accepted accounting principles in other countries.*

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma  
Torino Treviso Verona Vicenza

Member of  
Deloitte Touche Tohmatsu

Sede Legale: Palazzo Carducci - Via Olona, 2 - 20123 Milano  
Capitale Sociale: versato Euro 6.770.406,00 - sottoscritto Euro 10.327.590,00 - deliberato Euro 10.850.000,00  
Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239

REPLY S.p.A.

FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2003

REPLY S.p.A.  
BALANCE SHEET

(in euros)

ASSETS	31/12/2003	31/12/2002
<b>A) AMOUNT DUE FROM SHAREHOLDERS</b>	-	-
<b>B) FIXED ASSETS</b>		
I <i>Intangible fixed assets</i>		
1 Start-up and expansion costs	912.179	1.820.863
3 Industrial patents and intellectual property rights	178.850	388.127
4 Concessions, licenses, trademarks and similar rights	502.369	840.266
5 Goodwill	86.765	101.226
7 Other	439.293	360.825
<i>Total intangible assets</i>	<b>2.119.456</b>	<b>3.511.307</b>
II <i>Tangible fixed assets</i>		
2 Plant and machinery	104.398	131.075
3 Industrial and commercial equipment	8.263	12.202
4 Other assets	407.457	487.205
<i>Total tangible assets</i>	<b>520.118</b>	<b>630.482</b>
III <i>Financial fixed assets</i>		
1 Equity investments		
a) subsidiary companies	12.867.842	9.581.352
b) associate companies	5.621.021	5.621.021
	<b>18.488.863</b>	<b>15.202.373</b>
2 Receivables		
a) subsidiary companies	18.170.619	16.771.525
d) other	96.468	71.845
	<b>18.267.087</b>	<b>16.843.370</b>
<i>Total financial assets</i>	<b>36.755.950</b>	<b>32.045.743</b>
<b>Total fixed assets (B)</b>	<b>39.395.524</b>	<b>36.187.532</b>

(in euros)

	31/12/2003	31/12/2002
<b>C) CURRENT ASSETS</b>		
I <i>Inventories</i>	-	-
II <i>Receivables</i>		
1 Trade receivables	14.147.882	11.122.301
2 From subsidiary companies	10.759.543	9.936.370
5 Other	1.202.833	2.898.360
<i>Total receivables</i>	<b>26.110.258</b>	<b>23.957.031</b>
III <i>Financial assets not held as fixed assets</i>		
5 Treasury shares	349.680	97.762
6 Other securities	2.345.345	3.198.530
<i>Total financial assets not held as fixed assets</i>	<b>2.695.025</b>	<b>3.296.292</b>
IV <i>Liquid funds</i>		
1 Banks and post office deposits	5.370.087	1.075.811
3 Cash on hand	9.990	5.481
<i>Total liquid funds</i>	<b>5.380.077</b>	<b>1.081.292</b>
<b>Total current assets (C)</b>	<b>34.185.360</b>	<b>28.334.615</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>	158.079	526.406
<b>TOTAL ASSETS</b>	<b>73.738.963</b>	<b>65.048.553</b>

(in euros)

<b>LIABILITIES</b>		<b>31/12/2003</b>	<b>31/12/2002</b>
		<hr/>	<hr/>
<b>A</b>	<b>SHAREHOLDERS' EQUITY</b>		
<i>I</i>	<i>Share Capital</i>	4.244.344	4.244.344
<i>II</i>	<i>Additional paid-in capital</i>	14.189.548	14.189.548
<i>IV</i>	<i>Legal reserve</i>	467.933	260.124
<i>V</i>	<i>Reserve for treasury shares on hand</i>	349.680	97.762
<i>VII</i>	<i>Other reserves</i>	22.898.353	20.018.133
<i>VIII</i>	<i>Retained earnings</i>	4.874.740	4.874.740
<i>IX</i>	<i>Net result for the year</i>	1.815.689	4.156.172
	<b>Total Shareholders' equity (A)</b>	<hr/> <b>48.840.287</b> <hr/>	<hr/> <b>47.840.823</b> <hr/>
<b>B</b>	<b>RESERVES FOR RISKS AND CHARGES</b>		
2	Taxation reserve	66.000	2.217.908
	<b>Total reserves for risks and charges (B)</b>	<hr/> <b>66.000</b> <hr/>	<hr/> <b>2.217.908</b> <hr/>
<b>C</b>	<b>RESERVE FOR EMPLOYEE TERMINATION INDEMNITY</b>	<b>358.076</b>	<b>259.774</b>
<b>D</b>	<b>PAYABLES</b>		
3	Due to banks		
	- within 12 months	449.069	2.482.128
	- beyond 12 months	6.628.000	-
5	Advances	56.000	1.378.100
6	Trade payables	1.066.517	1.382.059
8	Due to subsidiary companies	15.315.375	8.776.191
11	Due to parent companies	475.884	284.043
12	Due to tax authorities	231.568	235.142
13	Due to social security authorities	252.135	177.188
	<b>Total payables (D)</b>	<hr/> <b>24.474.548</b> <hr/>	<hr/> <b>14.714.851</b> <hr/>
<b>E</b>	<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>	52	15.197
	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<hr/> <b>73.738.963</b> <hr/>	<hr/> <b>65.048.553</b> <hr/>

(in euros)

<b>MEMORANDUM ACCOUNTS</b>	<b>31/12/2003</b>	<b>31/12/2002</b>
Guarantees issued on behalf of related parties	827.720	496.315
Guarantees received from third parties	1.248.141	129.868
Risks for pledges on shares	6.628.000	-
Commitments for lease contracts	514.765	448.394
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>9.218.626</b>	<b>1.074.577</b>

REPLY S.p.A.  
STATEMENT OF INCOME

(in euros)

	2003	2002
	<u>                    </u>	<u>                    </u>
<b>A VALUE OF PRODUCTION</b>		
1 Revenues from sales and services	40.574.544	24.577.208
5 Other income	639.355	793.225
<b>Total value of production (A)</b>	<u><b>41.213.899</b></u>	<u><b>25.370.433</b></u>
<b>B COSTS OF PRODUCTION</b>		
6 Raw materials, consumables and goods for resale	1.602.005	799.298
7 Services	33.919.897	20.272.023
8 Leases and rentals	709.814	506.703
9 Personnel		
a) salary and wages	2.572.109	2.156.779
b) social security charges	817.726	680.596
c) employee termination indemnities	169.824	146.008
e) other employee costs	183.621	
	<u>3.743.280</u>	<u>2.983.383</u>
10 Amortization, depreciation and write-downs		
a) amortization of intangible assets	1.622.440	1.615.324
b) depreciation of tangible assets	330.956	250.322
d) write-downs of receivables and liquid funds	84.103	60.274
	<u>2.037.499</u>	<u>1.925.920</u>
14 Other operating costs	247.870	109.799
<b>Total costs of production (B)</b>	<u><b>42.260.365</b></u>	<u><b>26.597.126</b></u>
<b>Difference between value and costs of production (A-B)</b>	<u><b>(1.046.466)</b></u>	<u><b>(1.226.693)</b></u>



(in euros)

	<b>2003</b>	<b>2002</b>
<b>C FINANCIAL INCOME AND EXPENSES</b>		
15 Income from equity investments		
- subsidiary companies	4.000.000	6.546.822
16 Other financial income		
b) income from receivables held as financial fixed assets	256.208	290.232
d) other		
- subsidiary companies	821.589	816.527
- other	9.824	39.413
<i>Total financial income</i>	<u>5.087.621</u>	<u>7.692.994</u>
17 Interest and other financial expenses		
d) other	(269.249)	(132.662)
<i>Total financial expenses</i>	<u>(269.249)</u>	<u>(132.662)</u>
<b>Total financial income and expenses (C)</b>	<b><u>4.818.372</u></b>	<b><u>7.560.332</u></b>
<b>D ADJUSTMENTS TO FINANCIAL ASSETS</b>	<b>(2.260.000)</b>	<b>-</b>
<b>E EXTRAORDINARY INCOME AND EXPENSES</b>		
20 Income	191.288	19.165
21 Expenses	(382.683)	(42.264)
<b>Total extraordinary income and expenses (E)</b>	<b><u>(191.395)</u></b>	<b><u>(23.099)</u></b>
<b>RESULT BEFORE TAXATION</b>	<b><u>1.320.511</u></b>	<b><u>6.310.540</u></b>
22 Income taxes	(495.178)	2.154.368
<b>NET RESULT FOR THE YEAR</b>	<b><u>1.815.689</u></b>	<b><u>4.156.172</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

## FORM AND CONTENTS OF THE FINANCIAL STATEMENTS

The financial statements for the year-ended 31 December 2003 have been prepared in accordance with the provisions set out by the Italian Civil Code, interpreted by the Italian accounting principles issued by the National Board of "Dottori Commercialisti and of Ragionieri", and, in absence thereof, by those issued by the International Accounting Standards Board (IASB). They consist of the balance sheet (prepared using the format specified in articles 2424 and 2424 bis of the Italian Civil Code), the statement of income (prepared using the format specified in articles 2425 and 2425 bis of the Italian Civil Code) and these Notes to the financial statements.

These notes explain, analyze and, in some cases, supplement the financial statement data reported on the face of the financial statement with the information required by article 2427 of the Italian Civil Code and with other laws. Additional information is provided in order to present a true and fair view of the state of the Company, even where this is not required by specific legislation.

## ACTIVITY OF THE COMPANY

Reply S.p.A. has been listed on the new market of Borsa Italiana since 6 December 2000. It is the Holding of a group of companies that are focused and specialized in the E-business market. Reply S.p.A. mainly carries out the operational, co-ordination and the technical management of the Group, as well as accounting, finance, purchases and marketing management.

## ACCOUNTING PRINCIPLES

An illustration of the accounting principles adopted is provided below. Such principles are pursuant to article 2426 of the Italian Civil Code and CONSOB indications and they are in line with the previous year.

### Intangible fixed assets

Intangible fixed assets are recorded at purchase or production cost, including related charges; book value is amortized on a straight-line-basis in relation to the residual period they are expected to benefit. In compliance with accounting principle Nr. 24 costs incurred by the Parent Company for the listing on the New Market, have been included in start-up and expansion costs with the approval of the Statutory Auditors.

The duration of the amortization plans is based on the estimated useful lives of the related assets. More specifically:

	<u>Rate</u>
Start-up and expansion costs	20%
Industrial patents and intellectual property rights	33%
Concessions, licenses, trademarks and similar rights	20%
Goodwill	10%

Goodwill is amortized in compliance with the accounting principles of the market sector in which the company operates.

Intangible assets are written down to reflect a permanent impairment of value, regardless of the amortization already accounted for. Their book value is reinstated in subsequent years if the reasons for such write-down no longer apply.

## **Tangible fixed assets**

Tangible fixed assets are generally recorded at purchase or construction costs including related charges and other direct or indirect expenses reasonably attributable to the individual assets. Neither monetary nor economical revaluations have been made to the historical cost of the assets.

Depreciation is calculated on a straight-line basis using rates that reflect the estimated useful lives of the related assets. In the first year such assets enter into service these rates are reduced to one half, in consideration of their shorter period of use. Acquisitions with a unit value of less than 516,46 euro are recorded in the statement of income in the years in which they are incurred.

The annual depreciation rates applied are as follows:

	<u>Rate</u>
Plants and machinery	40%
Industrial and commercial equipment	30%
Electronic office equipment	40%
Mobile telephones	40%
Automobiles	50%

Tangible assets are written down to reflect a permanent impairment of value, regardless of the amortization already accounted for. Their book value is reinstated in subsequent years if the reasons for such write-down no longer apply.

Ordinary maintenance costs are fully expensed as incurred, while improvement expenditures are allocated to the related assets and depreciated over their residual useful lives.

## **Assets leased**

Assets leased are accounted for in compliance with the existing Italian legislation: leasing installments are charged to the statement of income on the basis of the duration of the related contract.

## **Equity investments**

Investments of a long-term nature are classified within financial fixed assets; otherwise they are recorded as financial assets not held as fixed assets if they were acquired for subsequent disposal.

Equity investments are stated at purchase or subscription cost or at value attributed to the assets contributed. Such cost is written down to reflect a permanent impairment in value. The book value is reinstated in subsequent years if the reasons for such write-down no longer apply.

## **Accounts receivable and accounts payables**

Accounts receivable are recorded at their estimated realizable value. Accounts payable are stated at face value.

## **Other financial assets not held as fixed assets**

Such assets are valued at the lower of purchase cost and their realizable market value. The original value of these securities is reinstated in future accounting periods if the reasons for such write-down no longer apply.

## **Treasury shares**

Treasury shares are stated at cost and valued according to the LIFO method and eventually reduced to their estimated realizable value. An unavailable reserve denominated "Reserve for treasury shares on hand" is posted at Shareholders' equity for the same amount.

## **Liquid funds**

Cash at banks and on hand are recorded at face value.

## **Accruals and Deferrals**

Accrued income and expenses are recorded to match costs and revenues in the accounting periods to which they relate. Prepaid expenses and deferred income relate to costs and revenues originating in the current period but related to future periods.

## **Reserves for risks and charges**

Reserves for risks and charges are recorded to cover known or likely future losses or liabilities, the timing or extent of which are uncertain at year-end. The provisions made reflect the best estimate based on the information available.

## **Reserve for employee termination indemnities**

This reserve reflects the liability for severance indemnities accrued for each employee and determined in accordance with current legislation and labor contracts at the balance sheet date.

Such liability is subject to an index-based revaluation in accordance with the current legislation.

## **Revenue recognition**

Revenues from services are recognized at the time of execution.

Revenues from the execution of specific contracts are recognized upon customer approval of the completion of the work or according to the percentage of completion method.

Revenues from sales of products are recognized when title is passed to the client, which is generally at the time of shipment.

Contribution grants are recorded to the statement of income in the accounting period in which they can be recognized with reasonable certainty.

## **Dividends**

Dividends from subsidiaries are recorded on an accrual basis in the financial period in which the relative credit right arises, corresponding to when the subsidiaries Board of Directors resolve the distribution. The fiscal consequences arising are disciplined according to the new T.U.I.R.

## **Income taxes**

Current income taxes are provided on the basis of taxable income for the year, in accordance with the current Italian legislation.

The net balance between deferred tax assets and liabilities is also accounted for.

Deferred tax assets arise from costs and expenses that are not tax deductible at year-end, and from benefits on tax losses carried forward; deferred tax assets are only accounted for if there is a reasonable belief that they will be recovered.

Deferred tax liabilities refer to transactions where taxation is deferred to future years, such as dividends recorded on accrual basis.

## **Translation of foreign currency items**

At year-end short-term receivables and payables denominated in foreign currency, including short-term portions of long-term receivables, payables and investment funds, are translated and recorded using the year-end exchange rate.

Non-current receivables and payables denominated in foreign currency are translated and booked at the year-end exchange rate. If net exchange loss arises from the translation of long-term receivables and payables, this is charged to the statement of income. On the other hand resulting net exchange gain is not recognized, on the basis of prudence.

## **Derivative Contracts**

Derivative instruments are aimed at interest rate risk hedging on medium to long term financial loans; the interest rate differentials are recorded as "financial income/expenses" at the statement of income.

## **OTHER INFORMATION**

### **Exceptions allowed under paragraph 4 of art. 2423 of the Italian Civil Code.**

No exceptions allowed under art. 2423.4 of the Italian Civil Code have been taken advantage of in drawing up the financial statements.

## NOTES TO THE BALANCE SHEET ASSETS

### B) FIXED ASSETS

#### I. Intangible fixed assets

Net intangible assets as at 31 December 2003 amounted to 2.119.456 euros (3.511.307 euros as at 31 December 2002).

(in euros)	Historical cost	Accumulated amortization	Net book value at 31/12/2003
Start-up and expansion costs	4.567.640	3.655.461	912.179
Industrial patents and intellectual property rights	780.995	602.145	178.850
Concessions, licenses, trademarks and similar rights	1.716.068	1.213.699	502.369
Goodwill	144.608	57.843	86.765
Other	661.573	222.280	439.293
<b>Total</b>	<b>7.870.884</b>	<b>5.751.428</b>	<b>2.119.456</b>

Movements in intangible fixed assets in 2003 are summarized as follows:

(in euros)	Net book value at 31/12/2002	Additions	Amortization	Net book value at 31/12/2003
Start-up and expansion costs	1.820.863	3.000	(911.684)	912.179
Industrial patents and intellectual property rights	388.127	17.977	(227.254)	178.850
Concessions, licenses, trademarks and similar rights	840.266	5.317	(343.214)	502.369
Goodwill	101.226	-	(14.461)	86.765
Other	360.825	204.295	(125.827)	439.293
<b>Total</b>	<b>3.511.307</b>	<b>230.589</b>	<b>(1.622.440)</b>	<b>2.119.456</b>

*Start-up and expansion costs* refer to charges connected to the share capital increase. More specifically, the increase refers to costs incurred by the Company in relation to the Global Offer of 1,970,000 ordinary shares representing approximately 24.14% of Reply S.p.A.'s share capital.

*Industrial patents and intellectual property rights* refer mainly to software patents purchased and used by the Parent Company for the management of centralized administration activities of the Group.

The item *Concessions, licenses, trademarks and similar* expresses the value of the "Reply" trademark granted to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on 9 June, 2000, in connection to the Company's share capital increase that was resolved and undersigned by the Parent Company Alister.

Such trademark is amortized over a 5-year period calculated from the date of acquisition.

*Goodwill* amounted to 86.765 euros and is referred to the value of the business branch related to the Information Technology consultancy and management support activities, purchased in July 2000.

The item *Other* mainly includes leasehold improvements and incidental charges incurred during 2003 (194 thousand euros) related to the syndicated financial loan with SanPaolo IMI for M&A operations. Such loan is fully detailed at the item "financial debts". The aforesaid charge is amortized over the duration of the contract.

## II. Tangible fixed assets

Tangible fixed assets as at 31 December 2003 amounted to euros 520.118 and are detailed in the table below:

(in euros)	31/12/2003	31/12/2002	Change
Plant and machinery	104.398	131.075	(26.677)
Generic equipment	8.263	12.202	(3.939)
Electronic equipment	139.838	154.828	(14.990)
Ordinary office equipment	934	1.494	(560)
Furniture and fittings	262.784	322.489	(59.705)
Automobiles	1.080	5.305	(4.225)
Mobile phones	2.821	3.089	(268)
<b>Total</b>	<b>520.118</b>	<b>630.482</b>	<b>(110.364)</b>

Movements in tangible assets in 2003 are illustrated in the table below:

(in euros)	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Historical cost	203.305	17.859	795.301	1.016.465
Accumulated depreciation	(72.230)	(5.657)	(308.096)	(385.983)
<b>Balance at 31 December 2002</b>	<b>131.075</b>	<b>12.202</b>	<b>487.205</b>	<b>630.482</b>
<u>Historical cost</u>				
Additions	66.885	560	184.165	251.610
Disposals	-	-	(38.965)	(38.965)
<u>Accumulated depreciation</u>				
Depreciation	(93.562)	(4.499)	(232.895)	(330.956)
Disposals	-	-	7.947	7.947
Historical cost	270.190	18.419	940.501	1.229.110
Accumulated depreciation	(165.792)	(10.156)	(533.044)	(708.992)
<b>Balance at 31 December 2003</b>	<b>104.398</b>	<b>8.263</b>	<b>407.457</b>	<b>520.118</b>

In 2003 the Company's additions totaled 252 thousand euros and referred mainly to:

- telephone and network systems for 67 thousand euros;
- computers and network equipment for 108 thousand euros;
- furniture and fittings and plants for new office locations totaling 52 thousand euros.

In compliance with law nr. 72 of 1983, art. 10 no revaluations in accordance with specific laws have been made to the Company assets.

As at December 31 2003, 58% of the value of tangible assets has been depreciated (38% in 2002).



### III. Financial fixed assets

#### Equity investments

Equity investments as at 31 December 2003 amounted to 18.488.863 euros, with an increase of euros 3.286.490 compared to 31 December 2002.

(in euros)	Balance at 31/12/2002	Acquisitions e subscriptions	Financial loan Remission	Write-downs	Other Changes	Balance at 31/12/2003	Interest
@Logistics Reply S.r.l.	759.167	-	-	-	-	759.167	100,0%
Aktive Reply S.r.l.	56.496	-	-	-	-	56.495	100,0%
Atlas Reply S.r.l.	39.250	-	-	-	-	39.250	92,5%
Acquent Reply S.r.l.	149.000	-	-	-	(149.000)	-	-
BeWit Reply S.r.l.	7.000	-	-	-	-	7.000	70,0%
Blue Reply S.r.l.	8.500	100.000	-	-	-	108.500	88,0%
Business Reply S.r.l.	424.461	-	400.000	(550.000)	-	274.461	100,0%
Cluster Reply S.r.l.	540.378	-	-	-	(540.378)	-	-
Cluster Reply S.r.l. (ex Nexui)	-	100.000	-	-	523.207	623.207	100,0%
Cluster Reply Padova S.r.l.	-	11.000	-	-	11.572	22.572	100,0%
Creative Reply S.r.l.	10.049	-	-	-	(10.049)	-	-
e*finance consulting Reply S.r.l	1.905.200	-	-	(710.000)	-	1.195.200	58,0%
IrisCube Reply S.p.A	-	3.610.000	-	-	-	3.610.000	51,0%
Logistics Reply do Brasil LTDA	229.316	-	-	-	-	229.316	80,0%
Logistics Reply SL	53.010	-	-	-	-	53.010	100,0%
PlaneT Reply S.r.l.	8.000	-	-	-	-	8.000	80,0%
Spike Reply S.r.l.	45.000	-	10.000	-	-	55.000	90,0%
Sysproject Reply S.r.l.	2.071.022	-	-	-	-	2.071.022	100,0%
Sytel Reply S.r.l.	592.114	-	-	-	154.599	746.713	100,0%
Sytel Reply Milano S.r.l.	2.500	-	-	-	-	2.500	25,0%
Technology Reply S.r.l.	241.353	-	-	-	-	241.353	100,0%
Twice Reply S.r.l.	-	8.400	200.000	-	-	208.400	84,0%
XYZ Reply S.r.l.	2.349.879	1.007.091	100.000	(1.000.000)	10.049	2.467.019	100,0%
YH Reply S.r.l.	89.657	-	-	-	-	89.657	100,0%
Santer S.p.A.	5.621.021	-	-	-	-	5.621.021	49,0%
<b>Total</b>	<b>15.202.373</b>	<b>4.836.491</b>	<b>710.000</b>	<b>(2.260.000)</b>	<b>-</b>	<b>18.488.863</b>	

Detail of changes in Equity investments is provided below:

### **Acquisitions and subscriptions**

- *Blue Reply S.r.l.*

The amount recorded at balance sheet is referred to a further 3% investment in 2003 in the company's share capital.

- *Cluster Reply S.r.l. (ex Nexui S.r.l.)*

The amount shown is related to the purchase, in October 2003, of 100% of Nexui S.r.l.'s share capital (subsidiary company of IrisCube S.p.A.) that subsequently changed its name into Cluster Reply S.r.l.. This transaction combined with the spin-off of Cluster Reply and Acquent Reply permitted a reorganization of the group companies having the same business lines.

- *Cluster Reply Padova S.r.l.*

The amount shown is related to the purchase, in October 2003, of 100% of Alpitec S.r.l.'s share capital that subsequently changed its name into Cluster Reply Padova S.r.l..

- *IrisCube Reply S.p.A.*

The amount recorded at balance sheet is referred to the purchase, in July 2003, of 51% of IrisCube's share capital. This company operates in the development and management of software infrastructure segment.

Such acquisition led Reply to invest 3,6 million euros through the subscription of a share capital increase of 3 million euros, an additional 400 thousand euros for the acquisition of pre-emptive rights on the IrisCube shares and 200 thousand euros related to incidental charges.

Following the acquisition, Reply controls 51% of IrisCube, 43.58% is controlled by the management of the company and the residual 5.42% belongs to the venture capital CIR Ventures.

- *Twice Reply S.r.l.*

In July 2003, the company Twice Reply S.r.l. was constituted, the Parent Company holds 84% of the share capital.

The company's activities are focalized at Customer Administration & Enterprises Effectiveness for telecommunication operators.

- *XYZ Reply S.r.l.*

The amount recorded at balance sheet is referred to a further 30% investment in February 2003 in the company's share capital leading Reply S.p.A. to control 100% of interests.

## **Financial loan Remission**

The amounts recorded are referred to reserves set up to cover several equity investments' losses against waiver of the financial receivable from the same. Such reserve was utilized by the subsidiaries to partially cover the 2003 loss.

## **Other changes**

Other changes are subsequent to the company reorganization plan aimed at creating within Reply, homogeneous groups of companies by business lines. More specifically:

- Creative Reply S.r.l. has been incorporated in XYZ Reply S.r.l. (with effect 1 July, 2003);
- In order to facilitate the integration of IrisCube Group, in the last quarter of 2003, several company transactions took place which involved the complete split of Acquent Reply S.r.l. and Cluster Reply S.r.l. in favor of other group companies.

## **Write-downs**

The write-down of equity investments was carried in 2003 as the carrying value was greater than the consolidation value of the same. More specifically, Business Reply S.r.l., e\*finance consulting Reply S.r.l. and XYZ Reply S.r.l.'s carrying values were aligned to the their presumed recoverable value on the basis of prospected results.

Pursuant to art. 2426 of the Italian Civil Code nr. 3, all negative variances emerging from the comparison of the carrying values of investments and their respective equity holding, resulting from the last approved financial statements, net of dividends and adjustments carried out in compliance with accounting principles required for the preparation of the consolidated financial statements, are not referable to lasting loss values but are attributable to the greater amount paid upon acquisition.

Had the "net equity" method been applied to record equity investments, the value of such investments would have been greater. The effects deriving from the application of said method are reflected in the consolidated financial statements.

The statement of reconciliation between net equity and net result of Reply S.p.A. and the corresponding consolidated figures are provided in the notes to the consolidated financial statements.

A list of all Equity investments, including information required by art. 2427 of the Italian Civil Code, is attached to the notes to the consolidated financial statements.

## **Receivables**

### Receivables from subsidiaries

This item amounted to 18.170.619 euros and is referred to loans granted to the subsidiary companies.

The interest rate applied to the loans is the 3 month Euribor with an additional spread of 2%. Detail is as follows:

<b>(in euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
@Logistics Reply S.r.l.	5.500.000	6.200.000	(700.000)
Aktive Reply S.r.l.	-	250.000	(250.000)
Atlas Reply S.r.l.	-	270.000	(270.000)
BeWit Reply S.r.l.	150.000	150.000	-
Business Reply S.r.l.	2.976.839	2.876.839	100.000
Cluster Reply S.r.l.	-	1.168.103	(1.168.103)
Cluster Reply (new) S.r.l.	1.836.213	-	1.836.213
Cluster Reply Padova S.r.l.	20.984	-	20.984
Creative Reply S.r.l.	-	500.000	(500.000)
e*finance consulting S.r.l.	210.000	-	210.000
PlaneT Reply S.r.l.	1.600.000	1.600.000	-
Spike Reply S.r.l.	190.000	50.000	140.000
Sysproject Reply S.r.l.	350.000	-	350.000
Sytel Reply S.r.l.	3.100.000	2.100.000	1.000.000
Sytel Reply Milano S.r.l.	500.000	700.000	(200.000)
Technology Reply S.r.l.	1.100.000	-	1.100.000
Twice Reply S.r.l.	30.000	-	30.000
XYZ Reply S.r.l.	606.583	406.583	200.000
YH Reply S.r.l.	-	500.000	(500.000)
<b>Total</b>	<b>18.170.619</b>	<b>16.771.525</b>	<b>1.399.094</b>

### Receivables from other companies

This item is mainly related to guarantee deposits for lease contracts.

## C. CURRENT RECEIVABLES

### II. Receivables

#### Trade Receivables

Trade receivables, mainly made up of accounts with high rated companies, all collectable within the year, arise from normal sales transactions. Details are as follows:

<b>(in euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
Trade receivables from third parties	14.594.007	11.253.759	3.340.248
Credit notes to be issued	(248.351)	(17.787)	(230.564)
<b>Total</b>	<b>14.345.656</b>	<b>11.235.972</b>	<b>3.109.684</b>
Allowance for doubtful accounts	(197.774)	(113.671)	(84.103)
<b>Total receivables, net</b>	<b>14.147.882</b>	<b>11.122.301</b>	<b>3.025.581</b>

These receivables refer to professional services related to third party agreements entered with Reply S.p.A. and subcontracted by the latter to the subsidiaries.

The above contractual practice was more frequent in 2003 even as a consequence of the ISO 9001 certification accomplished by Reply S.p.A., and this explains the significant increase of the net receivables position.

As of 31 December 2003, after having carried out an attentive risk evaluation, the provision made for doubtful accounts amounted to 84.103 euros.

#### Receivables from subsidiary companies

Detail is as follows:

<b>(in euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
Dividends from subsidiaries recorded on accrual basis	4.000.000	4.187.486	(187.486)
Other receivables	6.759.543	5.748.884	1.010.659
<b>Total</b>	<b>10.759.543</b>	<b>9.936.370</b>	<b>823.173</b>

*Dividends from subsidiary companies* recorded on an accrual basis were resolved by the shareholders' meeting of the subsidiaries at the time of approval of the financial statements for the year 2003. The detail is as follows:

(in euros)	31/12/2003	31/12/2002
@Logistics Reply S.r.l.	-	270.000
Acquent Reply S.r.l.	-	35.000
Aktive Reply S. r.l.	-	90.000
Blue Reply S.r.l.	545.600	-
Cluster Reply S.r.l.	995.000	1.700.000
e*finance Reply S.r.l.	-	34.986
Sysproject Reply S.r.l.	246.900	90.000
Sytel Reply S.r.l.	1.600.000	800.000
Sytel Reply Milano S.r.l.	162.500	107.500
Technology Reply S.r.l.	280.000	1.060.000
YH Reply S.r.l.	170.000	-
<b>Total</b>	<b>4.000.000</b>	<b>4.187.486</b>

*Other receivables* refer to the utilization of the trademark "Reply" by the subsidiaries and to service contracts that the Parent Company Reply carries out in favor of the subsidiaries at normal market conditions, and more specifically:

- Co-ordination, technical and quality management;
- Administration, financial assistance, purchasing and marketing activities.

#### Other receivables

Detail is as follows:

(in euros)	31/12/2003	31/12/2002	Change
Advance to suppliers	40.325	123.323	(82.998)
Receivables from tax authorities for prepaid tax on dividends	-	2.335.773	(2.335.773)
Receivables from tax authorities	1.155.989	435.939	720.050
Miscellaneous	6.519	3.325	3.194
<b>Total</b>	<b>1.202.833</b>	<b>2.898.360</b>	<b>(1.695.527)</b>

The zero balance of the item *Receivables from tax authorities for prepaid tax on dividends* as at 31 December 2003 is due to the changes introduced in the tax treatment of dividends by the T.U.I.R. and specified by ministerial circulars.

Receivables from tax authorities is detailed below:

(in euros)

Residual tax credit on dividends collected	25.773
Receivables for prepaid tax	771.591
IRPEG tax receivable on tax return	163.319
Other withholding tax	195.306
<b>Total</b>	<b>1.155.989</b>

Pursuant to article 2427 point b), non of the receivables have a residual balance beyond five years.

### III. Financial assets not held as fixed assets

#### Treasury shares

Treasury shares are recorded at cost determined according to the LIFO method.

Movements in treasury shares during 2003 are detailed in the table below:

	Quantit y	Average price (euros)	Final balance (euros)
<b>Balance at 31/12/2002</b>	<b>16.088</b>	<b>6,08</b>	<b>97.762</b>
Increases	41.000	8,38	343.726
Disposals	(11.251)	8,16	(91.808)
<b>Balance at 31/12/2003</b>	<b>45.837</b>	<b>7,63</b>	<b>349.680</b>

The disposal of 11,251 shares in 2003 is related entirely to the swap transaction that allowed Reply S.p.A. to purchase a further 3% of Blue Reply S.r.l.'s share capital.

Shareholders' equity includes an unavailable reserve for the same amount.

### Other securities

This item as at 31 December 2003 amounted to 2.345.345 euros, and is detailed as follows:

<u>(in euros)</u>	<u>31/12/2003</u>	<u>31/12/2002</u>	<u>Change</u>
Securities issued by the Italian Government	2.107.685	1.600.573	507.112
Bonds	151.120	15.978	135.142
Mutual investment funds	86.540	1.579.354	(1.492.814)
Other	-	2.625	(2.625)
<b>Total</b>	<b>2.345.345</b>	<b>3.198.530</b>	<b>(853.185)</b>

The item *Securities issued by Italian Government* also includes securities issued by other public institutions (234 thousand euros) and guaranteed by the government.

*Bonds* include convertible bonds issued by primary banks and represent a temporary liquid investment.

With regards to financial assets, the comparison with their corresponding market value does not reveal hidden losses.

### **IV. Liquid funds**

This item amounted to 5.380.077 euros, and shows a change of 4.298.785 euros compared to 31 December 2002, and is referred to cash at banks and on hand at year-end.

The average interest rates on such cash are in line with the market yield.

### **D. ACCRUED INCOME AND PREPAID EXPENSES**

This item, amounted to 158.079 euros, with a decrease of 368.327 euros compared to 31 December 2002, and mainly refers to prepaid expenses arising from lease contracts and other utility expenses, which are accounted for on an accrual basis.



## NOTES TO BALANCE SHEET LIABILITIES

### A) SHAREHOLDERS' EQUITY

The table below shows the changes in Shareholders' equity for the years ended 2003 and 2002.

	Share capital	Additional paid-in capital	Legal reserve	Reserve for treasury shares on hand	Extraord. reserve	Reserve for treasury shares to purchase	Rounding reserve	Retained earnings	Net result of the year	Total
<b>(in euros)</b>										
<b>Balance at 31/12/2001</b>	<b>4.244.344</b>	<b>13.151.526</b>	<b>78.073</b>	<b>90.714</b>	<b>63.204</b>	<b>21.000.000</b>	<b>1</b>	<b>1.415.774</b>	<b>3.641.016</b>	<b>43.684.652</b>
Allocation of 2001 result	-		182.051				(1)	3.458.966	(3.641.016)	-
Purchase of treasury shares	-			1.045.070		(1.045.070)				-
Disposal of treasury shares	-	1.038.022		(1.038.022)						-
Rounding							(1)			(1)
Net result 2002	-								4.156.172	<b>4.156.172</b>
<b>Balance at 31/12/2002</b>	<b>4.244.344</b>	<b>14.189.548</b>	<b>260.124</b>	<b>97.762</b>	<b>63.204</b>	<b>19.954.930</b>	<b>(1)</b>	<b>4.874.740</b>	<b>4.156.172</b>	<b>47.840.823</b>
Allocation 2002 result:										
- reserves			207.809		3.132.143				(3.339.952)	-
- Distribution dividends (0,10 per share)									(816.220)	<b>(816.220)</b>
Purchase of treasury shares				343.726		(343.726)			-	<b>0</b>
Disposal of treasury shares				(91.808)		91.808			-	<b>0</b>
Rounding							(5)		-	<b>(5)</b>
Net result 2003	-	-	-	-	-	-	-	-	1.815.689	<b>1.815.689</b>
<b>Balance at 31/12/2003</b>	<b>4.244.344</b>	<b>14.189.548</b>	<b>467.933</b>	<b>349.680</b>	<b>3.195.347</b>	<b>19.703.012</b>	<b>(6)</b>	<b>4.874.740</b>	<b>1.815.689</b>	<b>48.840.287</b>

As at 31 December 2003 the fully subscribed paid-in share capital of Reply S.p.A. amounted to 4.244.344 euros, without any changes compared to the prior year. This is made up of 8,162,200 ordinary shares, par value 0,52 euros each.

Changes in Shareholders' equity are mainly due to the purchase and disposal of treasury shares and to the distribution of dividends.

## Stock option plans

The Extraordinary Shareholders' Meeting of Reply S.p.A. on 26 June 2001 and on 11 June 2002 resolved the increase of the share capital with exclusion of stock option rights in compliance with art. 2441, paragraph 8 and art. 2441 paragraph 5 of the Italian Civil Code. Such stock option plans are detailed as follows:

- 250,000 new ordinary shares were issued with a par value of 0,52 euros in favor of employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 130.000 euros. The stock option plan was in force until 30 June 2003 for the rights assignment; 31 December 2005 is the deadline for the subscription of the share capital increase;
- 200,000 new ordinary shares were issued with a par value of 0,52 euros in favor of directors and employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 104.000 euros. The stock option plan will be in force until 30 June 2004 for the rights assignment; 31 December 2006 is the deadline for the subscription of the share capital increase.

Reply S.p.A.'s Board of Directors, in charge of the stock option plan, has resolved the assignment of 354,300 pre-emptive rights of which 183,900 expired and not exercised.

The following table summarizes pre-emptive rights as at 31 December 2003:

Board's resolution date	Nr. of rights(*)	Exercise price (euros)	Exercise period
13 November 2001	5.700	15,035	13/11/2003 – 13/05/2004
13 February 2002	12.900	16,776	13/02/2004 – 13/08/2004
22 April 2002	18.900	16,330	22/04/2004 – 22/10/2004
8 August 2002	14.400	13,198	08/08/2004 – 08/02/2005
26 September 2002	2.400	12,719	26/09/2004 – 26/03/2005
13 November 2002	59.800	10,618	13/11/2004 – 13/05/2005
13 February 2003	24.600	10,572	13/02/2005 – 13/08/2005
17 April 2003	9.000	8,934	17/04/2005 - 17/10/2005
26 September 2003	21.000	8,924	26/09/2005 – 26/03/2006
13 September 2003	1.700	9,058	13/09/2005 – 13/05/2006
	<b>170.400</b>		

(\*) net of rights fallen out of course of resigned employees

At present no pre-emptive rights have been exercised.

## B) RESERVES FOR RISKS AND CHARGES

### Taxation reserve

Taxation reserve as at 31 December 2003 amounted to 66.000 euros. This reserve is entirely made up of deferred taxes on dividends from subsidiaries recorded at the balance sheet on an accrual basis and in compliance with the new tax treatment introduced by the T.U.I.R. concerning dividends received.

The reserve as at 31 December 2002, which amounted to 2.217.908 euros has been completely utilized against the fiscal results of the current year and against the temporary differences that originated deferred taxation in prior years.

Movements were as follows:

<b>(in euros)</b>	
<b>Balance at 31/12/2002</b>	<b>2.217.908</b>
Provision for the year	66.000
Utilization	(2.217.908)
<b>Balance at 31/12/2003</b>	<b>66.000</b>

## C) RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

Movements in the reserve were as follows:

<b>(in euros)</b>	
<b>Balance at 31/12/2002</b>	<b>259.774</b>
Provision for the year	169.824
Utilization	(71.522)
<b>Balance at 31/12/2003</b>	<b>358.076</b>

The closing balance of the reserve is deemed adequate with respect to contractual obligations and to existing Italian laws.

The number of employees as at 31 December 2003 was 64, with an increase of 5 employees compared to 31 December 2002.

## D) PAYABLES

Payables as at 31 December 2003 amounted to 24.474.548 euros of which 7.077.069 euros related to financial payables (2.482.128 euros as at 31 December 2002) and 17.397.479 euros related to trade payables (12.232.723 as at 31 December 2002).

### Financial Payables

(in euros)	31/12/2003			31/12/2002		
	Short term	Long term	Total	Short term	Long term	Total
Advances on invoices and bank overdrafts	449.069	-	449.069	2.482.128	-	2.482.128
Medium/long term borrowings	-	6.628.000	6.628.000	-	-	-
<b>Total financial payables</b>	<b>449.069</b>	<b>6.628.000</b>	<b>7.077.069</b>	<b>2.482.128</b>	<b>-</b>	<b>2.482.128</b>

On June 30, 2003 Reply S.p.A. undersigned with SanPaolo IMI, pool leader of a group of banks, a contract for a medium term credit facility of a maximum of 35,5 million euros, to be used within 18 months following the contract date. At the balance sheet date such credit facility was used for 6,6 million euros, equal to the current financial loan.

The credit facility is aimed at granting Reply S.p.A. financial resources in order to support the growth strategies finalized at the acquisition of companies, strategic equity investments, treasury shares or at the re-financing of previous equity investment acquisitions.

The reimbursement of the amount used of such credit facility on December 31, 2004 will be made through eight half-year installments starting June 30, 2005; the interest rate applied is the Euribor at 6 months with a spread of 1.35 percentage points. The loan is also encumbered with bank commissions on the credit facility not used, charged to the statement of income and is also burdened with guarantees.

The loan is guaranteed by pledges on the treasury shares and on shares purchased with the loan, in favor of the participating institutions and also by covenants on consolidated economic and financial data. More specifically such covenants are referred to ratios of net financial indebtedness over net equity and net financial indebtedness over gross operating margin and are defined by contract. At the balance sheet date the parameters established by the loan have been met by the company.

Once the loan was obtained, the company also stipulated with SanPaolo IMI an interest rate swap agreement against interest rate risks of the same loan. The floating interest rate originally foreseen (Euribor 6 months), was transformed into a fixed interest rate of 3.05% per annum, allowing this way that the cost of the loan be hedged against any possible interest rate increase for the remaining duration of the loan.

### Analysis of the net financial position

The net financial position as at 31 December 2003 amounted to 19.265.120 euros and is detailed as follows:

(in euros)	31/12/2003	31/12/2002	Change
<b>Financial fixed assets</b>			
Financial receivables beyond 12 months			
Subsidiary companies	18.170.619	16.771.525	1.399.094
Other	96.468	71.845	24.623
<b>Total financial fixed assets</b>	<b>18.267.087</b>	<b>16.843.370</b>	<b>1.423.717</b>
<b>Current assets</b>			
Securities	2.258.805	1.616.551	642.254
Mutual investment funds	86.540	1.579.354	(1.492.814)
Other	349.680	125.502	224.178
Liquid funds	5.380.077	1.081.292	4.298.785
<b>Total financial assets not held as fixed assets</b>	<b>8.075.102</b>	<b>4.402.699</b>	<b>3.672.403</b>
<b>Total financial sources</b>	<b>26.342.189</b>	<b>21.246.069</b>	<b>5.096.120</b>
<b>Financial payables</b>			
Due within 12 months	(449.069)	(2.482.128)	2.033.059
Due beyond 12 months	(6.628.000)	-	(6.628.000)
<b>Total financial payables</b>	<b>(7.077.069)</b>	<b>(2.482.128)</b>	<b>(4.594.941)</b>
<b>Net financial position</b>	<b>19.265.120</b>	<b>18.763.941</b>	<b>501.179</b>

Change compared to the previous year amounted to 501.179 euros and is due to:

(in euros)	2003
Cash flows from operating activities before working capital movements	6.349.012
Change in net working capital	966.059
<b>Cash flows from operating activities (A)</b>	<b>7.315.071</b>
<b>Cash flows used in investing activities (B)</b>	<b>(5.997.672)</b>
<b>Cash flows in financial activities (C)</b>	<b>(816.220)</b>
<b>Change in net financial position (A+B+C)</b>	<b>501.179</b>

## Trade payables and other payables

The change in trade payables and other payables compared to year-ended 2002 amounted to 5.164.756 euros and is detailed in the table below:

<b>(in euros)</b>	<b>31/12/2003</b>	<b>31/12/2002</b>	<b>Change</b>
<b>Trade payables within 12 months</b>			
Advances	56.000	1.378.100	(1.322.100)
Trade payables			
- Third parties	1.066.517	1.382.059	(315.542)
Due to subsidiary companies	15.315.375	8.776.191	6.539.184
Due to tax authorities			
Irap – income tax	56.405	68.499	(12.094)
VAT payables	44.657	83.301	(38.644)
Withholding tax (employees)	144.276	123.221	21.055
Withholding tax (professional)	1.175	3.291	(2.116)
Other	229.371	5.731	223.640
	<u>475.884</u>	<u>284.043</u>	<u>191.841</u>
Due to social security authorities			
Inps	142.807	66.162	76.645
Inpdai		90.659	(90.659)
Inail	2.031	1.818	213
Previndai	29.683	25.917	3.766
Contribution on employee accruals	56.531	42.073	14.458
Other	516	8.513	(7.997)
	<u>231.568</u>	<u>235.142</u>	<u>(3.574)</u>
Other payables			
Employee accruals	195.045	145.448	49.597
Other payables to employees	1.806	1.077	729
Due to Directors	228	2.725	(2.497)
Other payables	55.056	27.938	27.118
	<u>252.135</u>	<u>177.188</u>	<u>74.947</u>
<b>Total trade and other payables</b>	<b><u>17.397.479</u></b>	<b><u>12.232.723</u></b>	<b><u>5.164.756</u></b>

Trade and other payables, falling due within 12 months, comprise the following items:

#### Advances

This item includes advances received from customers for contracts subcontracted to subsidiary companies, which at the balance sheet date were not yet completed.

#### Trade payables

Trade payables as at 31 December 2003 amounted to 1.067 thousand euros and included:

- domestic suppliers for 969 thousand euros;
- foreign suppliers for 98 thousand euros.

#### Due to subsidiary companies

This item refers to trade transactions carried out at normal market conditions.

Such payables refer to professional services related to third party agreements with Reply S.p.A. and subcontracted by the latter to subsidiaries. Such a practice has become much more frequent in 2003 compared to the prior year and this explains the difference in the payable position.

#### Due to tax authorities

This item mainly refers to payables due to tax authorities for withholding tax on employees and professionals' compensation.

#### Due to social security authorities

This item is related to both Company and employees contribution payables.

#### Other payables

This item mainly includes payables to employees for remunerations due but not yet paid at year-end.

## MEMORANDUM ACCOUNTS

Detail is as follows:

(in euros)	31/12/2003	31/12/2002	Change
Guarantees issued on behalf of related parties	827.720	496.315	331.405
Guarantees received from third parties	1.248.141	129.868	1.118.273
Risks for pledges on shares	6.628.000	-	6.628.000
Commitments for lease contracts	514.765	448.394	66.371
<b>Total</b>	<b>9.218.626</b>	<b>1.074.577</b>	<b>8.144.049</b>

*Guarantees issued on behalf of related parties* mainly refer to patronage letters in favor of subsidiary companies in order to provide them with the necessary financial means for the development of their activities.

*Guarantees received by third parties* mainly refer to guarantee policies related to Reply S.p.A.'s participation in contract bids.

*Risks for pledges on shares* are related to the medium-long term financial loan, recorded at the balance sheet item financial payables for a total value of 6.628 thousand euros, burdened with a pledge in favor of the participating banking institutions on all the shares purchased through the loan. Reply S.p.A. maintains the right to vote at the annual general meetings on the condition that all obligations and fulfillments under the contract are met.

The company also stipulated with SanPaolo IMI an interest rate swap agreement against interest rate risks of the same loan. At the balance sheet date, the market value of such commitment that reflects the amount that the company would have to pay at the contract expiry date, determined on the basis of the notifications received by the bank counterparties, would not have had significant effects on the financial statements.



## NOTES TO THE STATEMENT OF INCOME

### A) VALUE OF PRODUCTION

#### Revenues from sales and services

Revenues from sales and services in 2003 amounted to 40.574.544 euros and are detailed below:

(in euros)	2003	2002	Change
Revenues from services	30.565.642	16.286.392	14.279.250
Revenues from hardware and software resale	1.736.026	847.292	888.734
Royalties on "Reply" trademark	2.190.631	2.118.700	71.931
Intercompany services	4.057.200	3.373.500	683.700
Other intercompany charges	2.025.045	1.951.324	73.721
<b>Total</b>	<b>40.574.544</b>	<b>24.577.208</b>	<b>15.997.336</b>

*Revenues from services* mainly refer to professional services related to third party agreements with the Parent Company Reply S.p.A. and subcontracted by the latter to the subsidiaries. Such a practice has become much more frequent in 2003 compared to the previous year and this explains the significant difference in revenues.

*Royalties on "Reply" trademark* refer to charges to subsidiaries, equal to 3% of the subsidiaries' third parties revenues.

*Revenues from intercompany services* refer to activities that the Parent Company carries out for the subsidiaries, and more specifically:

- Operational, co-ordination, technical and quality management;
- Administration, financial assistance, purchasing and marketing activities;
- Strategic management services.

## B) COSTS OF PRODUCTION

### Raw materials, consumables and goods for resale

This item refers to:

<b>(in euros)</b>	<b>2003</b>	<b>2002</b>	<b>Change</b>
Hardware	48.000	-	48.000
Software licenses	1.379.336	659.499	719.837
Other	174.669	139.799	34.870
<b>Total</b>	<b>1.602.005</b>	<b>799.298</b>	<b>802.707</b>

### Service charges

The cost of services is detailed as follows:

<b>(in euro)</b>	<b>2003</b>	<b>2002</b>	<b>Change</b>
Commercial and technical consulting	329.111	205.751	123.360
Services from group companies	29.815.385	16.356.856	13.458.529
Services from parent companies and related parties	261.000	222.300	38.700
Directors' fees	810.000	790.000	20.000
Traveling and training expenses	349.252	440.794	(91.542)
Marketing expenses	428.012	434.488	(6.476)
Administrative and legal services	330.829	422.839	(92.010)
Statutory Auditors' and Independent Auditors' fees	74.447	74.832	(385)
Utilities	155.207	196.459	(41.252)
Services to be recharged to Group companies	546.436	695.858	(149.422)
Other	820.218	431.846	388.372
<b>Total</b>	<b>33.919.897</b>	<b>20.272.023</b>	<b>13.647.874</b>

*Services from Group companies* are connected to revenues from services to third parties. The increase compared to the previous year is due to the greater number of contracts undersigned by Reply S.p.A. with customers and subsequently subcontracted to its subsidiaries.

*Services from Parent Company and related parties* refer to service contracts related to the use of premises and centralized secretarial services.

## Leases and rentals

Charges for leases and rentals are detailed below:

(in euros)	2003	2002	Change
Leases and rentals	465.620	300.408	165.212
Lease of automobiles	238.962	193.111	45.851
Other	5.232	13.184	(7.952)
<b>Total</b>	<b>709.814</b>	<b>506.703</b>	<b>203.111</b>

The item *Other* is related to a financial lease contract for hardware. Had this item been recorded according to the international accounting principle (IAS 17) no significant changes would have been produced.

## Personnel

Personnel costs amounted to 3.743.280 euros with a difference of 759.897 euros compared to 31 December 2002, and are detailed in the statement of income.

The following table indicates the number of employees by category:

(number)	2003	2002	Change
Directors	18	16	2
Managers	6	9	(3)
Staff	40	34	6
<b>Total</b>	<b>64</b>	<b>59</b>	<b>5</b>

## Amortization, depreciation and write-downs

Amortization of intangible assets amounted to 1.622.440 euros. The details are provided at the notes to intangible assets herein.

Depreciation of tangible assets, amounted to 330.956 euros, and has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to tangible fixed assets herein.

Write-down of receivables and liquid funds amounted to 84.103 euros and are related to the provision for doubtful accounts.

## Other operating costs

These costs include:

<b>(in euros)</b>	<b>2003</b>	<b>2002</b>	<b>Change</b>
Hospitality expenses	9.488	8.524	964
Gifts to clients	6.511	6.342	169
Magazines and subscriptions	2.864	7.356	(4.492)
Taxes on automobiles	8.260	5.496	2.764
Miscellaneous	220.747	82.081	138.666
<b>Total</b>	<b>247.870</b>	<b>109.799</b>	<b>138.071</b>

The item *Miscellaneous* includes bank commissions on the financial loan (100.850 euros) deductible and non-deductible taxes and duties (80.178 euros).

## C) FINANCIAL INCOME AND EXPENSES

Details are provided below:

<b>(in euros)</b>	<b>2003</b>	<b>2002</b>	<b>Change</b>
Dividends	4.000.000	6.546.822	(2.546.822)
Gain on securities	256.208	290.232	(34.024)
Interest from subsidiaries	821.589	816.527	5.062
Interest income on bank accounts	7.486	37.281	(29.795)
Interest due to banks	(218.238)	(76.224)	(142.014)
Interest due on taxes from previous years	(113)	(78)	(35)
Financial losses	(27.976)	(55.396)	27.420
Loss/gain on exchange differences	493	(959)	1.452
Other	(21.077)	2.127	(23.204)
<b>Total</b>	<b>4.818.372</b>	<b>7.560.332</b>	<b>(2.741.960)</b>

Change in the item *Dividends* is due to the amendments introduced by the new T.U.I.R. in matter of tax treatment on dividends received; compared to the previous year such item does not include the related tax credit.

The increase in interest due to banks is related to the financial credit facility described at Financial payables.

## D) ADJUSTMENTS TO FINANCIAL ASSETS

This item is related to the write-down of the equity investments in XYZ Reply S.r.l for 1.000.000 euros, in Business Reply S.r.l. for 550.000 euros and in e\*finance consulting S.r.l. for 710.000 euros already described at the item *Equity Investments* herein.

## E) EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income as at 31 December 2003 amounted to 191.288 euros and includes credit tax deriving from the application of article 7 of law 388/2000 related to the benefits consequent to the increase of company employment of the past years.

Interpretation of such income was not clear in previous years and for this reason income was not accrued previously, in 2003 a ministerial interpretation shed some light on the issue.

Extraordinary expenses at 31 December 2003 amounted to 382.683 euros and are related to and to "tax amnesty" (285.079 euros).

## INCOME TAXES

Detail of income tax for the year-ended 2003 is provided below:

(in euros)	2003	2002	Change
Current income tax	92.092	54.781	37.311
Deferred /(prepaid) tax, net	(587.270)	2.099.587	(2.686.857)
<b>Total</b>	<b>(495.178)</b>	<b>2.154.368</b>	<b>(2.649.546)</b>

Current income tax is detailed as follows:

(in euros)	
IRPEG	2.126.000
IRAP	184.000
Utilization of deferred tax liabilities on 2002 dividends	(2.217.908)
<b>Total</b>	<b>92.092</b>

*Deferred tax* (587.270 euros) is related to deferred tax liability on dividends from the subsidiary companies (66.000 euros), recorded on an accrual basis, and to deferred tax asset related to non-tax deductible costs at year-end (653.270 euros).

## OTHER INFORMATION

### Emoluments to Directors and Statutory Auditors

Emoluments to Directors and Statutory Auditors for the year 2003 amounted to 810.000 euros and 55.603 euros respectively.

Detail is as follows:

<b>Name</b>	<b>Office</b>	<b>Term of office (days)</b>	<b>Emoluments</b>
Mario Rizzante	Chairman	365	330.000
Sergio Ingegnatti	Chief Executive Officer	365	210.000
Oscar Pepino	Chief Executive Officer	365	210.000
Marco Mezzalama	Independent Director	365	20.000
Paul de Sury	Independent Director	365	20.000
Tatiana Rizzante	Independent Director	184	10.000
Vincenzo Damiani (*)	Independent Director	184	10.000
<b>Total</b>			<b>810.000</b>
Piergiorgio Re	Chairman of Statutory Auditors	365	27.543
Tommaso Vallenzasca	Statutory Auditor	365	18.542
Ada A. Garzino Demo	Statutory Auditor	184	7.832
Paolo Claretta Assandri	Statutory Auditor	181	1.686
<b>Total</b>			<b>55.603</b>

(\*) Non executive director who resigned on March 26, 2004.

REPLY S.p.A.  
STATEMENT OF CASH FLOW

(in euros)	2003	2002
Net result for the year	1.815.689	4.156.172
Depreciation and amortization	1.953.396	1.865.646
Accrual for employee termination indemnities	169.824	146.008
Write-down of equity investments	2.260.000	-
Accrual for reserve for risks and charges	66.000	2.217.908
Accrual for allowances for doubtful accounts	84.103	60.274
<b>Cash flows from operating activities before working capital movements</b>	<b>6.349.012</b>	<b>8.446.008</b>
Change in trade receivables	(8.120.343)	(4.586.349)
Collection of dividends from subsidiaries	4.187.486	3.431.500
Change in current assets	2.038.735	(5.359.440)
Change in trade payables	6.223.642	4.452.645
Change in current liabilities	(1.074.031)	887.172
Change in reserve for risks and charges	(2.217.908)	(1.930.219)
Change in employee termination indemnities	(71.522)	(19.540)
<b>Change in working capital</b>	<b>966.059</b>	<b>(3.124.231)</b>
<b>Cash flows from operating activities (A)</b>	<b>7.315.071</b>	<b>5.321.777</b>
Investments in intangible assets	(230.589)	(836.039)
Investments in tangible assets , net of disposals	(220.592)	(399.101)
Investments in equity investments as waiver of financial loans	(710.000)	(80.000)
Investments in equity investments	(4.836.491)	(8.114.609)
<b>Cash flows used in investing activities (B)</b>	<b>(5.997.672)</b>	<b>(9.429.749)</b>
Distribution of dividends	(816.220)	-
<b>Cash flows used in financial activities (C)</b>	<b>(816.220)</b>	<b>-</b>
<b>Change in net financial position (A + B + C)</b>	<b>501.179</b>	<b>(4.107.972)</b>
Net financial position at beginning of year	18.763.941	22.871.913
Change in net financial position	501.179	(4.107.972)
<b>Net financial position at year-end</b>	<b>19.265.120</b>	<b>18.763.941</b>



REPLY S.p.A.  
RECLASSIFIED BALANCE SHEET

(in euros)	2003	2002
Intangible fixed assets	2.119.456	3.511.307
Tangible fixed assets	520.118	630.482
Financial fixed assets	18.488.863	15.202.372
<b>Total fixed assets (A)</b>	<b>21.128.437</b>	<b>19.344.161</b>
Trade receivables	20.848.690	15.482.644
Other current assets	5.416.543	8.975.679
<b>Total current assets (B)</b>	<b>26.265.233</b>	<b>24.458.323</b>
Trade payables	(16.381.892)	(10.158.250)
Other current liabilities	(1.012.535)	(2.089.670)
<b>Total current liabilities (C)</b>	<b>(17.394.427)</b>	<b>(12.247.920)</b>
<b>Net current assets (D) (B + C)</b>	<b>8.870.806</b>	<b>12.210.403</b>
<b>Employee termination indemnities (E)</b>	<b>(358.076)</b>	<b>(259.774)</b>
<b>Reserve for risks and charges (F)</b>	<b>(66.000)</b>	<b>(2.217.908)</b>
<b>Net invested capital (A + D + E + F)</b>	<b>29.575.167</b>	<b>29.076.882</b>
Shareholders' equity	48.840.287	47.840.823
Medium/long term net financial position	(11.639.087)	(16.843.370)
Short term net financial position	(7.626.033)	(1.920.571)
<b>Shareholders' equity and net financial position</b>	<b>29.575.167</b>	<b>29.076.882</b>

# REPLY S.p.A.

## EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANIES

Company	Registered office	Share capital	Net Equity at 31/12/03	Net result 2003	Interest	Balance sheet Value at 31/12/03	Valuation pursuant to ex art. 2426 4 c.c.	Difference
@Logistics Reply S.r.l.	Torino	78.000	171.572	55.948	100,0%	759.167	630.186	(128.981)
Aktive Reply S.r.l.	Torino	10.000	71.966	56.496	100,0%	56.496	71.966	15.470
Atlas Reply S.r.l.	Torino	10.000	367.053	342.053	92,5%	39.250	339.524	300.274
BeWit Reply S.r.l.	Torino	10.000	88.423	22.442	70,0%	7.000	61.896	54.896
Blue Reply S.r.l.	Torino	10.000	1.559.695	678.435	85,0%	108.500	752.532	644.032
Business Reply S.r.l.	Torino	78.000	117.273	(382.957)	100,0%	274.461	277.217	2.756
Cluster Reply S.r.l.	Torino	100.000	1.892.192	1.197.494	100,0%	623.207	1.052.129	428.922
Cluster Reply Padova S.r.l.	Torino	10.000	25.426	5.563	100,0%	22.572	25.426	2.854
e*finance consulting Reply S.r.l.	Torino	104.000	311.953	(518.896)	58,0%	1.195.200	1.193.188	(2.012)
IrisCube Reply S.p.A.	Milano	651.735	1.307.625	(2.441.060)	51,0%	3.610.000	3.012.889	(597.111)
Logistics Reply do Brasil LTDA	San Paolo	286.646	256.757	83.646	80,0%	229.316	205.406	(23.910)
Logistics Reply SL	Barcellona	53.010	34.961	(119.393)	100,0%	53.010	34.961	(18.049)
planeT Reply S.r.l.	Torino	10.000	660.978	605.266	80,0%	8.000	528.782	520.782
Santer S.p.A.	Milano	2.209.500	8.176.475	(112.827)	49%	5.621.021	5.410.473	(210.548)
Spike Reply S.r.l.	Torino	50.000	54.402	(5.643)	90%	55.000	48.962	(6.038)
Sysproject Reply S.r.l.	Torino	10.400	362.856	291.438	100%	2.071.022	1.855.356	(215.666)
Sytel Reply S.r.l.	Torino	62.400	2.337.240	1.623.478	100,0%	746.713	1.545.445	798.732
Sytel Reply Milano S.r.l.	Torino	10.000	779.714	712.969	25,0%	2.500	32.429	29.929
Technology Reply S.r.l.	Torino	79.743	727.202	472.142	100,0%	241.353	447.202	205.849
Twice Reply S.r.l.	Torino	10.000	53.357	(156.643)	84,0%	208.400	44.820	(163.580)
XYZ Reply S.r.l.	Torino	12.939	53.612	(243.809)	100,0%	2.467.019	2.472.147	5.128
YH Reply S.r.l.	Torino	21.224	364.159	175.041	100,0%	89.657	210.272	120.615
						<b>18.488.864</b>	<b>1.764.343</b>	

**STATUTORY AUDITORS' REPORT ON THE SHAREHOLDERS' MEETING PURSUANT TO ART. 153 OF ITALIAN LEGISLATIVE DECREE NR. 58/1998 AND ART. 2429, PARAGRAPH 3 OF THE ITALIAN CIVIL CODE IN RELATION TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2003**

To the Shareholders,

Pursuant to art. 153 of the Italian Legislative Decree nr. 58/98, and in compliance with the Italian Civil Code, the Board of Statutory Auditors refers to the Shareholders the supervision activities carried out in 2003.

Throughout fiscal year 2003 and in accordance with the Independent Auditors, we have performed supervision activities pursuant to article 149 of Legislative Decree 24/02/1998 nr. 58 and in compliance with correct behavior principles set out by the Statutory Auditors and recommended by the National Board of "Dottori Commercialisti and Ragionieri" and also by CONSOB resolutions and recommendations. Our activities are summarized below:

**1. Significant economic, financial and monetary transactions.**

The most significant economic, financial and monetary transactions carried out in 2003 are summarized below:

- Acquisition of 51% of IrisCube S.p.A.'s share capital, company operating in the development and management of software infrastructure segment;
- The exercise of the right to purchase 30% of XYZ S.r.l.'s share capital that allowed the Parent Company to gain total control of the company;
- Total spin-off of the subsidiary company CLUSTER REPLY S.R.L. with accounting and fiscal effect starting January 1, 2003 and financial effects as of December 31, 2003;
- Total spin-off of the subsidiary company ACQUENT REPLY S.R.L. with accounting and fiscal effect starting January 1, 2003 and financial effects as of December 31, 2003.

The Directors provided, on a quarterly basis, adequate and timely reports on the basis of which we can state that activities carried out have been executed in compliance with the Law and with the Articles of Incorporation.

With regards to significant transactions carried out after year end, we received from the Board of Directors adequate information in order to state that such transactions have been carried out in compliance with the Law and with the Articles of Incorporation.

Such transactions are not in contrast with the Shareholders' resolutions or in potential conflict of interest but in accordance with correct administration principles. Judgments concerning the convenience or opportunity of such transactions were not given.

**2. Existence of possible atypical and/or unusual transactions, including those entered with related parties or intercompany.**

As per discussions with the Directors and the representatives of the Auditing firm, the existence of any atypical or unusual transaction was not revealed during the accounting year or following the year-end close.

In reference to inter-company operations or those carried out with related parties, further to what has been mentioned the following is noted:

- Reply S.p.A. has granted surety ships and patronage letters on behalf of some subsidiary companies in order to enable them to have adequate financial means for the development of their activities;
- During the accounting year REPLY S.p.A. has granted loans to some subsidiaries, regulated under normal market conditions, with the objective of providing financial support to the subsidiaries' activities;
- REPLY S.p.A. provided the subsidiaries administrative, managerial, and commercial and marketing assistance and assistance related to the managing of Internet within the company, electronic mail and web services. Also in this case all transactions are regulated at normal market conditions
- The Group companies use the "Reply" trademark, which is currently owned by the Parent Company.

Operations carried out with related parties are referred to general services and consulting services invoiced by Erfurt S.r.l. and Axcel S.r.l. to the Group companies at normal market conditions. These operations are ongoing at present.

### **3. Information provided, in the Directors' Report, with reference to atypical and/or unusual transactions, including those with related parties or intercompany.**

The Board of Directors has submitted, within the terms set out by the law, their report on operations in the first half of the fiscal year, made public in accordance to CONSOB regulations.

The Directors' Report on Operations related to the year-ended 2003 provides exhaustive information concerning the major economic, financial and monetary transactions and regarding relations with subsidiary and associate companies and other related parties.

Such report does not reveal the existence of any atypical and/or unusual transactions during and following the year-end close.

### **4. Observations and proposals in reference to remarks and recalls made for information purposes in the Independent Auditors' Report.**

Deloitte & Touche S.p.A., the Independent Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of 31 December 2003, issued its report on 27 April 2004, in which it asserts that REPLY S.P.A.'s financial statements as of 31 December 2003 comply with laws governing the criteria for their preparation.

### **5. Complaints pursuant art. 2408 C.C.**

The Board of Statutory Auditors did not receive any complaints under art. 2408 of the Italian Civil Code neither during the fiscal year nor at any date following the year-end close

### **6. Petitions.**

The Directors of the Company have informed us that they did not receive any petitions during the accounting year or following the year-end close.

## **7. Other possible assignments to the Auditing Firm and the related costs.**

No further engagements have been assigned to the Auditing firm Deloitte & Touche Italia S.p.A., apart from:

- the legal audit of the Financial Statements and the Consolidated Financial Statements for the years 2001, 2002 and 2003, and the auditing of the half-year report as of 30 June 2003 and for the other activities pursuant to art.155 of Italian Legislative Decree issued on 24 February, 1998 nr. 58;
- assistance in the preliminary phase of identification of the effects deriving from the adoption of the International accounting principles (IFRS) for a fee of 10.000 euros.

## **8. Assignments to parties connected with the engaged Auditing firm through continuous working relationship and their related costs.**

The Company did not confer any assignments to parties connected by continuous working relationships with the Auditing firm.

## **9. Indication of the existence of published opinions during the year pursuant to the law.**

The Statutory Auditors issued opinions pursuant to art. 2389, paragraph 2 of the Italian Civil Code.

## **10. Indication of the frequency and number of Board of Directors', Executive Committee and Statutory Auditors' meetings.**

During the year the following meetings were held:

- Board of Directors:
  - 13 February 2003
  - 7 March 2003
  - 17 April 2003
  - 14 May 2003
  - 10 June 2003
  - 7 August 2003
  - 26 September 2003
  - 13 November 2003
- Statutory Auditors:
  - 17 January 2003
  - 17 April 2003
  - 22 May 2003
  - 16 July 2003
  - 26 September 2003
  - 15 October 2003.

## **11. Provisions set out by the company for its subsidiaries pursuant to art. 114, paragraph 2 of Italian Legislative Decree 58/1998.**

The provisions set out by REPLY S.P.A. for the subsidiary companies, as required by paragraph 2, art. 114 of Italian Legislative Decree 58/1998, are adequate and on the other hand the same subsidiary companies have provided the Parent Company with the necessary information.

In this regards, we inform You that in order to guarantee the timeliness of the information requested, the Chief Executive Officer of REPLY S.P.A., Mr. Sergio Ingegnatti, is covering all the duties of director in all the corporate bodies of the subsidiary companies.

## **12. Significant matters arising from the meetings held with the auditors pursuant to art. 150, paragraph 2, Italian Legislative Decree 58/1998.**

During the meetings held with the Auditing firm's representatives, significant matters did not arise.

Maximum collaboration, even during preliminary activities prior to drawing up of the financial statements, was demonstrated.

## **13. Compliance with the self-disciplinary code set out by the Corporate Governance Committee of listed companies.**

Since 2000 the Company complies to the self-disciplinary code set out by Borsa Italiana S.p.A..

On April 19, 2004 the Board of Directors approved the annual report concerning the Corporate Governance System currently adopted by the Company.

## **14. Conclusions as to supervision activities carried out as well as to omissions, reprehensible matters or significant irregularities during the execution of the activities.**

We have kept and developed, through meetings and occasions, a systematic relationship with the audit firm Deloitte & Touche S.p.A throughout the year, with the purpose of a reciprocal exchange of information and data.

On such occasions, the Audit firm did not refer reprehensible matters or events worthy of being mentioned.

On the basis of the already mentioned principles and of the information gathered during the supervision pursuant to the law, and on the basis of the meetings with personnel in charge of corporate management and internal control, we have reached the following conclusions:

### **1) ADMINISTRATION**

The Board of Statutory Auditors asserts to have:

- Verified the legitimacy of managerial decisions made by the Administrating Body and the related economic adequacy excluding our opinion concerning the convenience or opportunity of such decisions;
- Examined the major typical and usual and the most significant operations in order to control whether in contrast with the purpose of the company or in conflict of interest so as to compromise the integrity of the company's wealth;
- Verified that these were not in contrast with Board resolutions or jeopardize individual or minority rights.

### **2) ORGANIZATIONAL STRUCTURE**

Within our duties set out by Legislative Decree 58/1998 and in compliance with paragraph 2.3. of the Statutory Auditors Conduct Principles, we gained knowledge and supervised the organizational structure of the Company, thanks to the meetings held with the Auditing firm, reaching the opinion that it is adequate to the Company size.

### 3) INTERNAL CONTROL SYSTEM

Within the Board of Directors an Internal Control and Internal Remuneration Committee have been constituted. Their activities are carried out in accordance to a work program in line with the company's needs.

We have met with those in charge of the aforementioned committees, gathering information with respect to the areas in which they intervene and the solutions adopted in order to overcome weak points.

From the controls carried out the internal control system is deemed reliable.

### 4) ADMINISTRATIVE AND ACCOUNTING SYSTEM

The administrative and accounting system and procedures are set-up correctly within the Company and its subsidiaries. It is considered to be suitable to represent and monitor operations and to provide data for the requested periods.

## **15. Proposals to make to the Annual General Shareholders' Meeting according to ex art. 153 Leg. Decree. 58/1998.**

The Board of Statutory Auditors asserts to have controlled that the drawing up of the financial statements complies to the laws and regulations governing the matter in accordance to article 153 of Legislative Decree 58/98, to article 149 letter a) of the surveillance code and to the agenda of the Shareholders' Meeting.

According to the controls carried out directly and information exchanged with the Audit firm, more specifically according to their report in compliance to ex art. 156 of Legislative Decree 58/1998, that expresses a clean opinion, the Board of Statutory Auditors does not have further observations nor proposals concerning the Financial Statements, the Directors' Report on Operations and the allocation of the net result, subject to Your approval.

With regards to the point on the agenda concerning the purchase and disposal of treasury shares, considering disclosures made by the directors, the Board states that the resolution proposed is in accordance to articles 2357, 2357-ter of the Italian Civil Code and in accordance to article 132 of Legislative Decree 58/98.

With regards to the point on the agenda concerning share capital increase through donation in kind and therefore excluding pre-emptive rights, considering disclosures made by the directors, the Board asserts that the resolution proposed is in accordance to article 2441, paragraph 4 and in accordance to article 158 of Legislative Decree 58/98.

With regards to the point on the agenda concerning share capital increase through a new stock option plan and therefore excluding pre-emptive rights, considering disclosures made by the directors, the Board asserts that the resolution proposed is in accordance to article 2441, paragraph 5 and in accordance to article 158 of Legislative Decree 58/98.

Turin, April 28, 2004

THE STATUTORY AUDITORS

*(Prof. Piergiorgio Re)*

*(Mr. Tommaso Vallenzasca)*

*(Mrs. Ada Alessandra Garzino Demo)*

**REPORT OF THE INDEPENDENT AUDITORS  
ON THE FINANCIAL STATEMENTS PURSUANT TO ART. 156  
OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998**  
(Translation from the Original Issued in Italian)

**To the Shareholders of  
Reply S.p.A.**

1. We have audited the financial statements of Reply S.p.A. as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.  
For our opinion on the prior year's financial statements, which are presented for comparative purposes as required by law, reference should be made to the auditors' report dated April 23, 2003 issued by Deloitte & Touche Italia S.p.A.
3. In our opinion, the financial statements of Reply S.p.A. as of and for the year ended December 31, 2003 comply with the Italian statutory provisions related to financial statements; therefore they give a true and fair view of the financial position and results of operations of the Company.
4. For a better understanding of the financial statements attention is drawn to the fact that, as described in the Directors' report on operations, the Company intends to acquire the minority interests of the subsidiaries Blue Reply S.r.l. and planeT Reply S.r.l., as provided for by specific contractual agreements currently in force with respective shareholders, through a capital increase with the exclusion of the subscription right, on which the extraordinary Shareholders' Meeting will be called to deliberate on June 10, 2004.

DELOITTE & TOUCHE S.p.A.  
s/Giuseppe Pedone – Partner

Turin, Italy  
April 27, 2004

*This report and the financial statements have been translated into English from the original versions in Italian. The financial statements have been prepared in accordance with the Italian law related to financial statements. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Italy, may not conform with generally accepted accounting principles in other countries.*

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma  
Torino Treviso Verona Vicenza

Member of  
Deloitte Touche Tohmatsu

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### **LEGAL DATA**

Share Capital: Euro 4.244.344 i.v.  
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Torino Register of Commerce nr. 938289  
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VAT nr. 08013390011

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