Reply

Living network

_Annual report 2007

_Annual report 2007

_Contents

The financial statements have been translated into English from the original version in Italian. In case of doubt the Italian version shall prevail.

_**Board** of Directors and Controlling bodies

_Board of Directors

Chairman
Mario Rizzante

Chief executive officers
Sergio Ingegnatti
Tatiana Rizzante

Directors
Oscar Pepino
Claudio Bombonato
Fausto Forti (1) (2) (3)
Marco Mezzalama (1) (2)
Carlo Alberto Carnevale Maffè (1) (2)

_Statutory auditors

President
Piergiorgio Re

Statutory auditors
Tommaso Vallenzasca
Ada Alessandra Garzino Demo

_Independent auditors

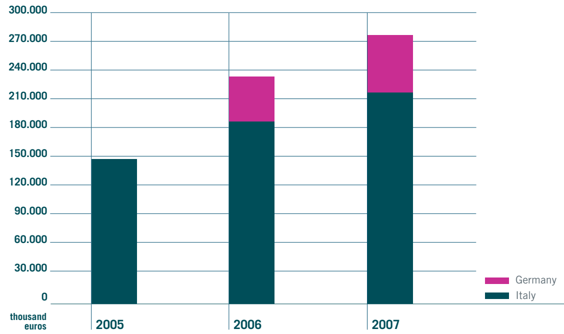
Deloitte & Touche S.p.A.

(1) Directors not invested with operational proxy.

(2) Independent directors, according to the Corporate Governance code for public companies.

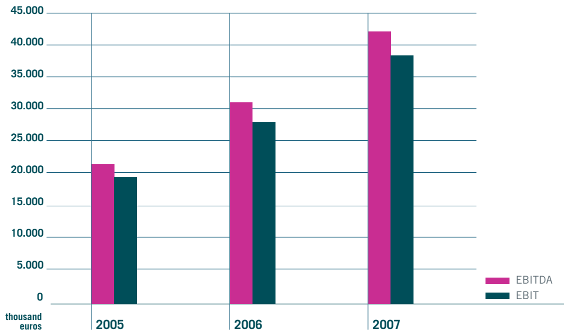
(3) Lead Independent Director.

Trend in revenues



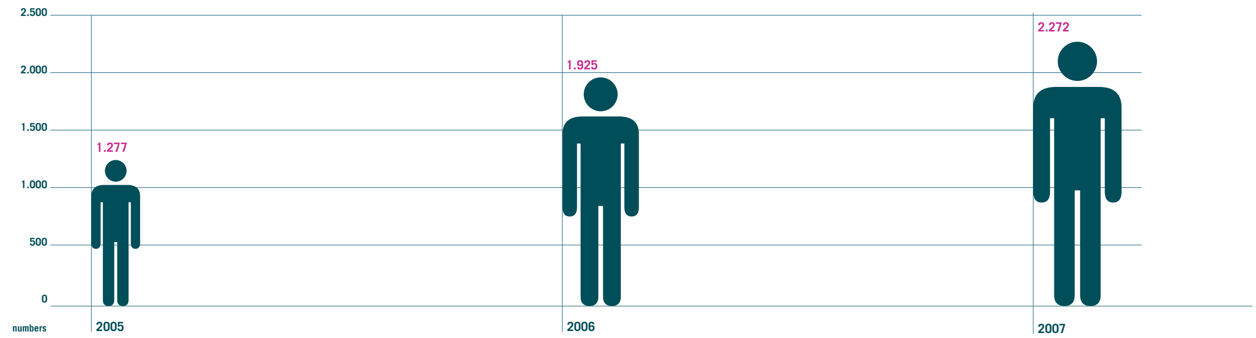
Revenues by business line

Trend in margins

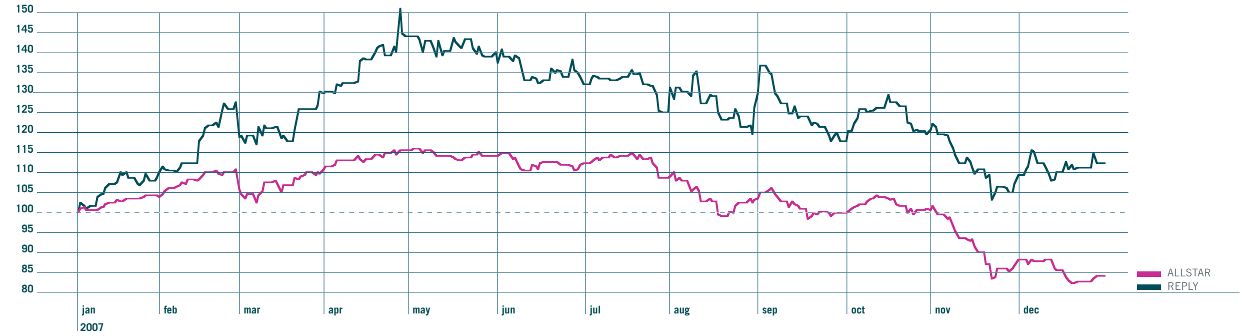


Net invested capital

Human resources



Reply share in 2007



_**Financial** highlights

Financial figures (thsd euros)	2007	%	2006	%	2005	%
Revenues	277.176	100.0	230.164	100.0	144.675	100.0
Gross operating income	42.282	15.3	31.462	13.7	21.017	14.5
Operating income	38.036	13.7	27.846	12.1	18.820	13.0
Income before taxes (*)	37.820	13.6	27.797	12.1	18.841	13.0
Group net income	15.719	5.7	10.274	4.5	6.864	4.7

(*) Income before taxes is referred to operating activities

Balance sheet items (thsd euros)	2007	2006	2005
Group shareholders' equity	94.493	79.107	61.056
Minority interest	12.713	14.481	206
Total assets	235.140	206.338	129.464
Net working capital	63.846	59.938	39.539
Net invested capital	96.788	86.890	59.062
Cash Flow (*)	19.650	8.837.	5.790
Net financial position	10.418	6.698	2.200

(*) calculated as the sum of operating cash flows and change in operating activities

Data per single Share (in euros)	2007	2006	2005
Number of shares	9.079.920	8.926.905	8.411.710
Operating income per share	4,19	3,12	2,24
Net result per share	1,73	1,15	0,82
Cash Flow per share	2,16	0,99	0,69
Shareholders' equity per share	10,41	8,86	7,26

Other information	2007	2006	2005
Number of employees	2.272	1.925	1.277

_**Letter** to the Shareholders

Dear Shareholders,

In 2007 Reply achieved excellent results in economic performance and in market positioning and expansion.

The context in the past years has been one of a little above average growth rates or even negative, our Group was able to outstand placing itself as one of the first groups of the industrial groups in the informatics segment in Italy.

In 2007 and for the eleventh consecutive year, we have reached positive results and superior compared to the previous year. Our turnover increased by 20%, consolidated EBITDA 34% higher than 2006, achieving a profit of 15.7 million euros, higher by 53%. In 2008, and as usual since we have been listed, we will reward our Shareholders with a dividend, that this year has been set at 0,35 euros per share.

Reply has achieved these performances thanks to a consolidated leadership in its market segment owing to a combination of three elements, which have always been at the base of out entrepreneur model: the quality and excellencies of our solutions, a strong partnership ecosystem and continuous investments in technological innovation and introduction of new technologies within the company.

The quality and professionalism of human resources has also been a fundamental component to our expansion and development path. Reply's resources are at the centre of our success. I am very proud when our clients tell me that they choose Reply for its competencies, professionalism and the great know-how of our specialists. It is in fact through our resources between Italy and Germany that we are able to transfer "excellence" to our clients.
For this reason, as an enterprise, we are all constantly committed to a continuous process of improvement training and motivating our resources.

In 2007 over 500 people joined Reply, after having undergone a rigid recruitment procedure. We choose the best talents coming from the most important universities and we help them grow within our core values: ethics, honesty and transparency.

We provide the opportunity to these youths to best express their capabilities and their ideas in a work environment that is highly collaborative and qualified.

The start of 2008 has been extremely positive for Reply and the results achieved in the first months lead us to feel confident concerning the development strategies outlined and followed: to bring our group to be a European network of "boutiques" extremely specialised and profitable.

The path ahead is still long but I am confident that with the trust of our clients, the competencies of our people and the continuous respect of our shareholders, Reply will achieve the objectives set out.

Chairman

Mario Rizzante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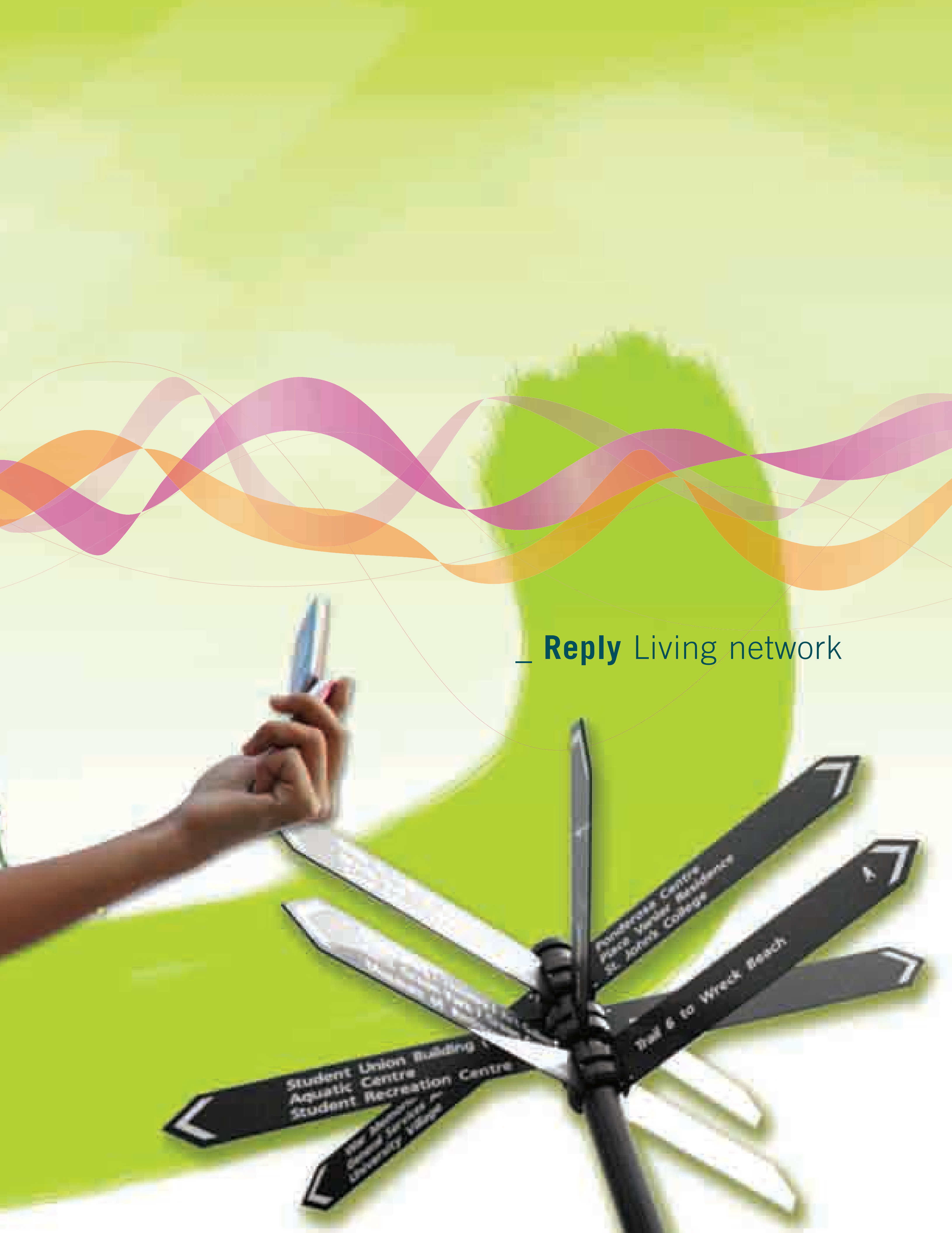
_ **Reply** Living network



_The swift development of communication networks together with the establishing of the digital economy has forced companies to adopt new methods of communication, interaction and work, based on the ability to transfer data and information in real time to all the players involved in the value chain.

Reply is specialised in consultancy, projecting and implementing new solutions based on new communication networks and digital media. Today Reply is one of the Italian leaders operating in the Information and Communication Technology sectors.

Reply integrates culture, competence and pro-activeness with vertical focus by applying new paradigms and new information and communication technologies to excel in building innovative and effective solutions.

The distinguishing features of Reply are:

- a culture strongly oriented towards technological innovation;
- a flexible structure able to anticipate market development and new business models;
- a delivery method of proven success and scalability;
- a network of companies specialised by area of competence.
- teams consisting of specialists educated at the most qualified universities, working together to achieve fast and excellent results;
- a highly-experienced management, strongly focused on generating profit;
- long-term relationships with its own customers.

The business model

Reply operates with a network of companies respectively specialised in Processes, Applications and Technologies that are centres of excellence capable of winning “Best in Class” positions in their own areas of competence.

- Processes / Reply considers the knowledge and usage of technology as a new enabling factor to processes resulting from an in-depth expertise of the market and the industry- specific contexts.
- Applications / Reply designs and deploys application solutions aimed at satisfying the core business requirements of companies.
- Technologies / Reply optimises the use of state-of-the-art technologies to develop solutions that can guarantee customers maximum efficiency and operating flexibility.

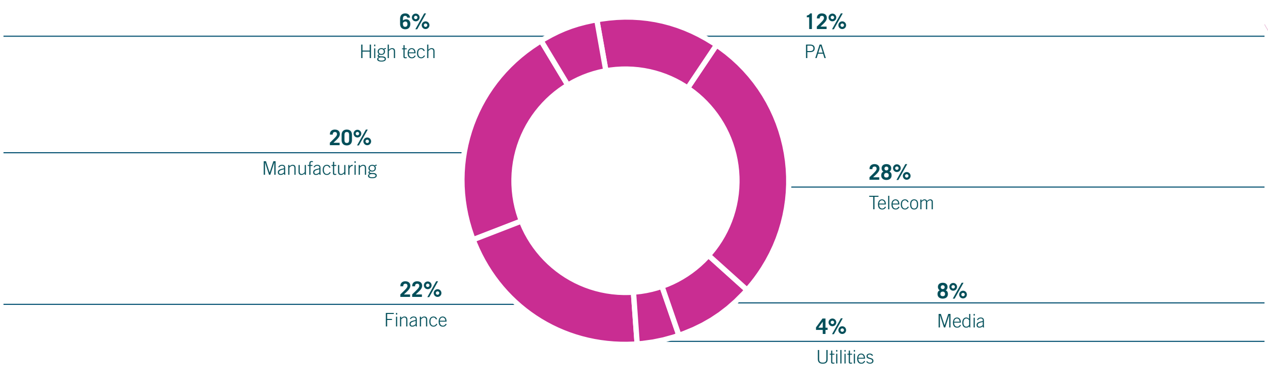
Reply services include:

- Consultancy / strategic, communication, process and technology consultancy.
- System Integration / full exploitation of the technology potential combining business consultancy with innovative and high value-added technological solutions;
- Application Management / management, monitoring and on-going innovation of technological assets.

_**Market** focus

Reply supports major European Industrial groups operating in Telco & Media, Industry and Services, Banking and Insurance and Public Administration sectors.

In 2007 the Group's turnover, subdivided in vertical segments is summarised in the pie graph below:



Telco & Media

In recent years, in the Telecommunications market, operators have turned from connectivity providers into value-added service providers.

Network infrastructures and available applications enable a new generation of convergent services related to users (business, consumer, employee), devices (Smart phone, PDA, PC, etc.) and the pattern of use. Wireless applications and applications based on Internet standards require an increasingly sophisticated approach, both in design and in development. The volume of the information managed and transmitted requires increasingly complex infrastructures, such as storage area networks.

Today Reply is a renowned actor in the process of convergence between Telco and Media, with a special focus on components regarding VAS, the digital terrestrial technology, multimedia content and asset management and Billing and CRM services.

Technology evolution and market requirements boost innovation towards a consumer market-oriented approach by means of new business models (Virtual Operator – MVNO) and customer-oriented interactive service types (IPTV) with highly customized contents.

By means of an integrated consulting, communication and creativity supply, Reply devises contents and enables innovative services harnessing all the potential of new digital channels.

Banking, Insurance and Financial companies

Reply cooperates with major Banking Institutions and Insurance Companies in the identification and implementation of solutions combining core process optimization with a substantial improvement in information asset efficiency.

In particular, Reply helps its customers anticipate change by defining strategies based on new technologies (Web Services, SOA, Mobile and Wireless solutions, multi-channel portals, on-line self services, Business Intelligence and Knowledge Management) aimed at introducing actual innovation in mission-critical industries such as Trading, Asset Management, support to business relations and Human Capital management.

It should also be stressed that Reply's activity in consulting and support to change are increasingly recognized by important Banking Institutions as a result of Reply's successful highly critical projects in asset management.

Industry and Services

Successful enterprises must be able to make quick decisions and act effectively, aligning strategies, people, processes and technologies quickly and simultaneously within "networked" structures: complex aggregations of customers, partners and providers.

Information systems ensure maximum flexibility of processes and increasingly accurate checking. New technologies strengthen and extend their potential: electronic tagging, web services, mobile solutions and instant messaging have changed the pace of evolution of companies.
Technological innovation and the ability to effectively integrate it into application solutions make up the foundations of Reply, which supports its customers in the implementation, change and management of information systems: from strategic design to the understanding and re-definition of core processes to the building of solutions ensuring integration of the applications supporting the entire value chain of the Extended Enterprise:

- Customer relationship management / Reply is specialized in defining CRM solutions as a means of support Marketing, sales and Customer Service.
- Logistics and distribution / Reply helps its customers integrate operating partners, designing optimized Supply Chain Execution models in Warehouse Management, Transportation Management, Planning and Inventory components.
- Production systems / Meeting market needs quicker and quicker with products that are often customer-defined requires production systems capable of speeding up adaptation to product features that are less and less predictable and more and more variable. For Reply this means re-thinking the systems governing production under a real-time perspective, increasingly aligning them to extended enterprise model paradigms.

Energy & Utilities

In past years this industry has tackled competition and deregulation, and has had to comply with EU regulations which require the separation between the production and selling processes, under significant pressure in terms of revenues and margins and the need to provide increasing levels of service and security.

Reply has defined a set of specific supplies regarding the main industry's vertical areas - Retailer, Merchant Energy Provider and Network Operations - made up of strategic and technology consulting services which optimize processes and select and implement the technology architectures and platforms most suitable to the context.

Public Administration

The internationalization process at European level and federalism at national level increasingly influence the market demand trend of the Public Administration, where for a long time red tape reduction and improvement of user services (for citizens and businesses) have been sought.

More and more public administrations are using technologies to manage relationships with citizens, harness and efficiently manage all the information assets and ensure access to knowledge to employees in their day-to-day tasks.

For the Local and Central Public Administration, Reply uses the experience gathered over the years on the most advanced on-line services, quick execution capability and the expertise of its consultants, verticalizing applications and skills to maximize performance and effectiveness in the implementation of specific solutions.

_**Technology** innovation

Web 2.0

The increasing popularity of user-driven on-line services, such as MySpace, Wikipedia and YouTube, has introduced a new way of experiencing the network: Web 2.0.
A perspective of the Internet based on user collaboration and enabled by tools such as Web Services, peer-to-peer-networking, blogs, podcasts and social networks. A starting point for new methodologies and software applications, for the purpose of sharing and collaboration between people.

Reply has developed its Web 2.0 supply in four specific areas:

Mobile 2.0 / Software Above the Level of a Single Device

Social Communities, wikies, Blogs go beyond the frontiers of the network and expand towards the Mobile universe, enabled by convergence between mobile devices and web services. Web 2.0 principles and models applied to mobile devices allow for the creation of new generations of services and solutions capable of fully leveraging the potential of functions such as: location-based marketing, local search, integrated search marketing and micro-payments. Usability and navigations must thus be re-thought for an optimum use of on hundreds of currently available mobile browsers, ultimately separating application logics from presentation modes.

Enterprise 2.0 / Harnessing Collective Intelligence

The application of Web 2.0 models and technologies introduces new forms of collaboration in companies, based on diffuse and unstructured knowledge. The knowledge management platforms, in order to allow users have a say (as more and more often happens) open up to bottom-up approaches of construction and sharing of information based on wikis and blogs. New forms of communication based on instant Messaging tools appear, whereas Instant Messaging Robots speed up interaction between corporate processes.

Fast & Rich Portals / Innovation in Assembly

The transition from a construction-based era to an era based on the assembly of software components along with the concept of mashup of feed and/or external services, leads to a substantial re-consideration of the notion of portal, which is no longer a content publication tool but an aggregator of accessible information and services via a Rich Client interface capable of making the most of the potential of tools such as wikies and blogs.

Extended SOA

The extension of SOA paradigms to the Internet encourages companies to provide services available for anyone. Web APIs combined with partnership programs allow anybody to disseminate information, distribute and sell third-party objects or services. Reply uses its own experience and methodology to support companies in building extended service-oriented architectures over the Internet and in the definition of partnership programs.

Mobile and wireless

Network infrastructures and applications currently allow creating a new generation of convergent services, which can be built by users and used any time and anywhere.

Reply supports its customers in the implementation of new multichannel interaction scenarios and models, integrating the architectures for value-added service distribution with content delivery components.

For Reply, building a Mobile eco-system means:
- enabling an "always on" infrastructure, making it available for companies and service providers to manage and distribute services;
- enabling wireless and wired devices to communicate and collaborate to offer integrated services;
- enhance the experience of mobile users with context-dependent services delivered proactively;

Reply combines skills on communication devices and protocols with the knowledge of the main corporate processes and supports customers in the building of mobile solutions for the competitive management of both corporate and consumer business services. Reply aims to build collaborative environments ensuring easy access to information in any place and at any time.

Digital television

The revolution of digital services has just started. The opportunity to provide contents with the quality and the simplicity typical of broadcasting, added to interactivity and personalization options, as well as an "unlimited" number of channels (as many as one per user) provided by broadband networks, will cause changes in content value chain over time.

Set-top boxes have been configured to receive the digital terrestrial signal or for IPTV, can support interactive functions, transforming the television into an all-in-one terminal, capable of interacting with the TV program currently on air and for the first time enabling viewers to take an active role.

Reply believes that the future of our society will be characterized by the diffusion of new interaction channels. That is why Reply works with major industry operators on the convergence and re-definition of their business model, providing consulting services and full command of content distribution and communication technologies (IpTV, Dvb-H, DTT).

Service oriented architecture

Web Services and SOA are the foundations to build new models where weakly interconnected application components are published, consumed, combined with others made available by the network.

New applications are built on two or more layers:
- Channel services, which implement the logics of the interface towards the end-customer;
- Business services, which implement the business logic in individual components;
- Business Process Management elements: for process supervision and monitoring.

It is essential, in the implementation of SOA-based solutions, to adopt a correct methodological approach and in-depth knowledge of reference architectural paradigms.

Reply's supply regarding Web Services, SOA and SAAS-based approaches includes:
- Design of new service-oriented architectural models;
- Support in the evolution of application platforms (ERP, Application Servers and Portals) towards new SOA-based architectural models;
- Expertise on new J2EE and .NET component programming paradigms;
- Consulting on SODA-based service design;
- Design and management of systems supporting Web Service monitoring and checking.

Security

Reply has defined a full, integrated and consistent offering to tackle all issues regarding Information Security Risks and Data Protection associated to an information system: from the identification of threats and vulnerabilities to the definition, design and implementation of the relevant technological, legal, organization or risk-minimization counter-measures.

Reply's supply on information security includes:
- Consulting: Security Plan, Risk Analysis and Management, Legislative Compliance Assessment, Policies and Procedures, Security Consolidation.
- ICT Security Solutions: Employee Internet Management, Event Correlation, Log Management, PKI, Firewall, Intrusion Detection, Antivirus, Strong Authentication, User Management, Single Sign On, OS Hardening, Desktop Protection, Alerting are some of the features that Reply can provide by implementing turnkey solutions, management and maintenance services, supervision services at the customer premises and Help Desk services.
- Training and Education: in an organization, making everybody aware of the importance of a comprehensive approach on security is essential for integrated security actions. That is why Reply supports its customers in the diffusion of a correct culture within organizations, both from a Security Awareness point of view and in terms of use of ICT Security solutions.

Thanks to in-depth knowledge of technologies, operators, reference standards and legislation, Reply can help Customers build the most efficient "shield" against any type of threat and provide maximum guarantee in all service action stages.


I miss you

_The network has now become the real “information system” which moves and makes available more and more real-time data, information and contents which are increasingly complex.
This use of internet has introduced new competitive models based on a new approach using three fundamental components: software platforms, process comprehension and domain and service management.

Reply supports its customers along this innovation path, with services and platforms oriented to fully exploit the opportunities provided by the network and communication technologies.

Click Reply™

Click Reply™ is the Reply platform which supports Supply Chain Planning (in particular in Warehouse Optimization and Transportation Planning & Scheduling areas) and Supply Chain Execution, integrating Inventory, Warehouse, Transportation and Shop Floor Management. The solution architecture, fully oriented towards services and based on open standards, enables integration with both ERP systems and SCE and MES systems. Click Reply™ allows for the management and control of a wide range of devices used to read and write RFID-based tags.

Discovery Reply™

Reply's Digital Asset Management platform Discovery Reply™ offers companies an opportunity to improve efficiency in the management of the entire life-cycle of digital assets, thanks to innovative methods of work flow organization, a high level of interoperability with the other business systems, and advanced content multi-channel distribution systems. Discovery Reply™ facilitates the transition towards integrated models of content production, use and archiving, through an open and flexible platform and a simple and intuitive interface for the entry, processing, cataloguing, access, search and distribution of digital assets.

Gaia Reply™

Gaia Reply™ is a service delivery platform created by Reply based on a flexible open source framework which enables the delivery of contents and services over various mobile devices both in business and consumer environments, such as M-Site Community Management, Electronic payments, management of the sales force and Mobile Advertising.

Business Process Outsourcing

Reply provides highly specialised BPO services in three areas:

- Finance & Administration / management of transitional accounting procedures, drafting of the consolidated and statutory financial statements, management of fiscal obligations, dematerialization of accounting documents and filing of the same.
- Human Resources / training, ECM, career profiles, enterprise knowledge, reports to management.
- Pharmaceutical / Management and control of the Pharmaceutical Budget.

CFO Services

The need to use reporting instruments and complex simulations in order to receive timely and adequate information with respect to the running of the enterprise and its capability of creating value have radically changed CFOs roles.

Reply, within the supply of Business Performance Management, has identified specific services enabling to support CFOs in their evolution that have ever more become involved in issues which were once dealt with by CEOs:

- Identification of the enterprise control model
- Budgeting and Strategic Planning
- Drafting of the Consolidated Financial Statements
- IPO support

Application Management:

Reply has identified an AM model characterized by:

- a modular approach that enables the client to acquire single components (i.e. Only the application maintenance, only the support to the running) or the ensemble of structured services;
- a flexible distribution model, with the objective of better integrating Reply's services in the client's processes.

_**Partnership** / Research and development

Reply considers research and continuous innovation a fundamental asset in assisting its clients in adopting new technologies.

Reply has important partnerships with the main world leaders to offer the best solutions to the different needs of companies. In particular, Reply both in Italy and Germany has obtained the maximum level of certification on three technological leaders in the Enterprise field: Microsoft (Gold Certified Partner), Oracle (Certified Advantage Partner) SAP (Special Expertise Partner in SAP Netweaver).

Reply, since its constitution, has dedicated resources to Research and Development activities concentrating on two fields: Development and evolution of the platforms and introduction of new technologies to motivate the understanding and the “early-adoption” on behalf of the market.

Development of proprietor platforms

Click Reply™

In 2007 new capabilities have been added as part of the Performance Management System, Activity Cost System and Labour Management System modules, and the level of integration between the RFID and the Voice Recognition Systems have been enhanced. In the two year period 2009-2009 Click Reply™ developments are planned under the Enterprise 2.0 context, passing from a modular system to a series of primary services to orchestrate in SAO architecture according to Business logics. During the year the launch of new functionalities addressed at Supply Chain Analytics is foreseen.

Discovery Reply™

During 2007 and 2008 the developments planned for Reply’s Media Asset Management are related to Broadcasting sector needs which are based on the integration of audio-visual management and “back-up” system, such as planning of programmes and production or System Right Management. In 2007 there have been developments in the platform as regards content management for DVB-H, IPTV and Digital Right Management.

Gaia Reply™

The future evolution planned for Service Delivery Platform developed by Reply with regards to Open source framework are aimed at creating a platform oriented at defining and managing the GAIA platform as a delivery instrument and the implementation of instruments that generate reports related to the activity of the platform (drill-down and roll-up of the data collected).

“Early adoption” of new technology

Web Services & SOA

Reply was one of the first Italian companies to enter in WS-I (Web Services Interoperability Organization), a world organisation in Web Services regulations and definitions. WS-I is a community of Technology Leaders, who are active in Web Service areas, supporting companies with the development and the introduction to Web Services Interoperability by providing guidelines and recommended practices. Reply has developed laboratories dedicated to the development of Web Services and participates at international work groups committed to defining and introducing new Web Services standards.

Web 2.0 and Enterprise 2.0

Reply has a strategic partnership with Hinchcliffe&Co related to the distribution of Web 2.0 University training courses which are dedicated to introducing companies to the new paradigms of Web 2.0 and Enterprise 2.0. Web 2.0 University™ teaches business leaders how to obtain the most from the innovations and technology of Web 2.0. Today over 4,000 people - top executive, IT experts, programmers and developers- in the entire world, have attended training courses organised by Hinchcliffe & Company. Since September 2007 Reply has been working with Dion Hinchcliffe, expert in Enterprise 2.0 and founder of Hinchcliffe & Company and Web2.0 University™, with regards to the contents of the training courses making them coherent to the European reality, in terms of best practice and examples of applications.

Digital Television

Reply has created work groups, that collaborating with Italian and international analysts, are engaged in the studies and introduction of new interactive models on digital channels. Furthermore, Reply supports major Media and Broadcasting operators in the path towards the convergence and the re-definition of their business models, with consulting services and a full mastering of communication and content distribution technologies (IpTV, Dvb-H, DTT...) able to offer contents with the quality and ease-of-use of broadcasting services, as well as interactive and customization features, an “unlimited” number of channels (they may be as many as one for each user) provided by broadband networks.

Open Source

Reply is not only engaged in activities related to the development of Open Source applications but is also involved in international work groups which promote the distribution of Open Source technology in companies. In particular, Reply’s Open source competence is related to evaluation and certification of stack technologies as well the selection of Open Source solution for companies and Public Administration.

End to End Device Certification

Reply is one of the main partners of the most important Telco Operators with regards to Device Testing & Certification. There are work groups within Reply which are committed to the competencies developed in the last years regarding one of the most critical aspects of today's telecommunication. As over 200 new devices and components are released each year, it has become important to assess the compatibility between VAS services furnished by independent content suppliers and operators. The continuous convergence among Telco, Media and Consumer Electronics will bring in the future years the need to interpret as "Device on the net" objects that are today not tied to any forms of connectivity (appliances, controller of integrated plants) objects that will need to undergo testing cycles and certification requested by Telco operators.

Microsoft Vista

Reply, which has one of the main Microsoft centres in Italy, has been working on the new MS Vista platform since 2003 and has participated in programmes addressed to Gold Certified Partners (maximum certification level recognised by Microsoft) and in particular the Vista Technology Adoption Program. This is a programme in which Microsoft specialists and some Partners, chosen at a world level, collaborate together to understand how to develop secure, protected and advanced applications for Windows Vista. In November 2006 Reply, in collaboration with Intel and Microsoft, set up in its Milan and Turin companies two Italian laboratories for Windows Vista and Office System 2007 on the Intel® vPro™ platform.

Oracle Fusion & Oracle AIA

Reply has been partners with Oracle since 1996 and has followed the constant innovations of Oracle products by participating on the programmes Beta Site of Oracle Database (8, 8i, 9i, 10g) and introducing its clients to innovative solutions based on components from the technological platform (ex. OracleText, OrdImage, SpatialData Option, Xdb). Starting from 2005 Reply has gained significant projecting experience with con Oracle BPEL Process Manager with regards to the delivery and creation of complex projects using SOA architecture according to the philosophy defined by Oracle Fusion Architecture (OFA). In 2006 Reply created the first Italian centre dedicated to Oracle Fusion Middleware (OFM). Its objective is to expand the knowledge and expertise in the use of Oracle BPEL Process Manager.

At the beginning of 2008 Reply stipulated an agreement with Oracle to develop, at a global level, solutions based on the open standard platform Oracle Application Integration Architecture (AIA) which is capable of integrating business processes of third parties and owners through Oracle applications. According to the agreement a Reply team, which is working at the general headquarters of Oracle at Redwood Shores, California, participates at the development of Order-to-Cash Process Integration Pack based on AIA that integrates Oracle Siebel CRM with Oracle E-Business Suite. To better optimise the transfer of knowledge Reply has set up an Innovation Centre in Milan where companies can access, in real time, the latest Oracle integration technological developments.

_**The value** of people

Reply relies on the excellence of its people. Reply women and men shape the "brand" with customers and partners and represent its image.

Reply Group is comprised of professionals coming from the best universities and polytechnics. The Group intends to continue investing in human resources by bonding special relations and collaboration with different polytechnics with the aim of reinforcing its human resources with high profile personnel.

Recruiting is mainly referred to young graduates. In particular the faculties of main interest are: IT Engineering, Electronic Engineering, Telecommunication Engineering, Management Engineering and Economics and Commerce. Furthermore collaboration between Reply and the universities also exists through interms, preparation of thesis, participation at lectures and seminars.

The people who work at Reply are characterised by enthusiasm, excellency, methodology, team spirit, initiative, the capability of understanding the contents they work in and of communicating clearly solutions proposed. The capability of imagining, experimenting and studying new solutions allows innovation to occur more rapidly and efficiently.

Anybody who decides to be part of the "Reply world", whatever his/her company, does so because she/he has found the opportunity to best express his/her potential within an organizational model based on culture, ethics, trust, honesty and accountability.

These are essential values for a continuous improvement and increasing focus on the quality of work.

All the Group managers work every day to safeguard the principles that have always constituted the foundations of Reply and have supported it since its establishment.

- Sharing customer targets
- Professional and quick implementation
- Culture and flexibility

Excellence: background culture, study, focus on quality, reliability, building on results.

Team: co-operation, transfer of ideas and knowledge, sharing objectives and results, respect for personal characteristics.

Customer: sharing objectives, satisfying the customer, conscientiousness, professional expertise, sense of responsibility, integrity.

Innovation: imagination, experimentation, courage, study, effort of improvement.

Speed: methodology, experience in project management, co-operation, commitment in achieving customer results and targets.

_**Annual report** 2007

_**Directors’** report on operations

_**Financial** review of the Group

Trend of the period

Reply is specialised in designing and implementing solutions based on new communication channels and digital media.

Reply, consisting of a network of specialized companies, provides applications to optimize corporate processes and develops innovative technology-based solutions to enable communication between customers, business partners and suppliers. Reply's activities are focused on the areas of Telecom & Media, Manufacturing, Finance and Public Administration.

Reply services include consulting, system integration, application management and business process outsourcing.

Reply is listed on the STAR index of the Italian Stock Exchange [REY.MI].

In 2007 the consolidated turnover totalled 277,2 thousand euros with an increase of 20.4% compared to 2006. EBITDA amounted to 42,3 thousand euros (+34.4%) with EBIT of 38,0 thousand euros (+36.6%). Income before tax totalled 37,8 thousand euros (+36.1% compared to 2006). Income totalled 15,7 thousand euros (+53%).

The net financial position at December 31, 2007 was positive and stood at 10,4 thousand euros compared to 6,7 thousand euros at 31 December 2006.

In 2007 the German Group confirmed positive trends. syskoplan ended 2007 with consolidated turnover of a 57,5 thousand euros (+27.1%), an EBIT of 5,9 thousand euros (+41.8%) and a net financial position of 16,4 thousand euros.

The context in the past years has been one of a little above average growth rates or even negative, Reply has achieved excellent and increasing results compared to the previous year, placing itself as one of the first groups of the industrial groups in the informatics segment in Italy.

Reply has achieved these economic-financial results thanks to its position as leader in the sector. This leadership is owing to the combination of three factors which have always been the basis of Reply's business model: the quality and excellencies of solutions, a strong eco-system of partnership with the most important international vendors and a continuous investment in innovative technology in company business process.

In 2007 Reply had an outstanding growth both in the Italian and German market. In the German market the growth is mainly due to syskoplan, where Reply has begun to develop successfully a network based on syskoplan's specialisation and competence, and constituting new companies operating in Media Asset Management, Business Intelligence and Microsoft technologies.

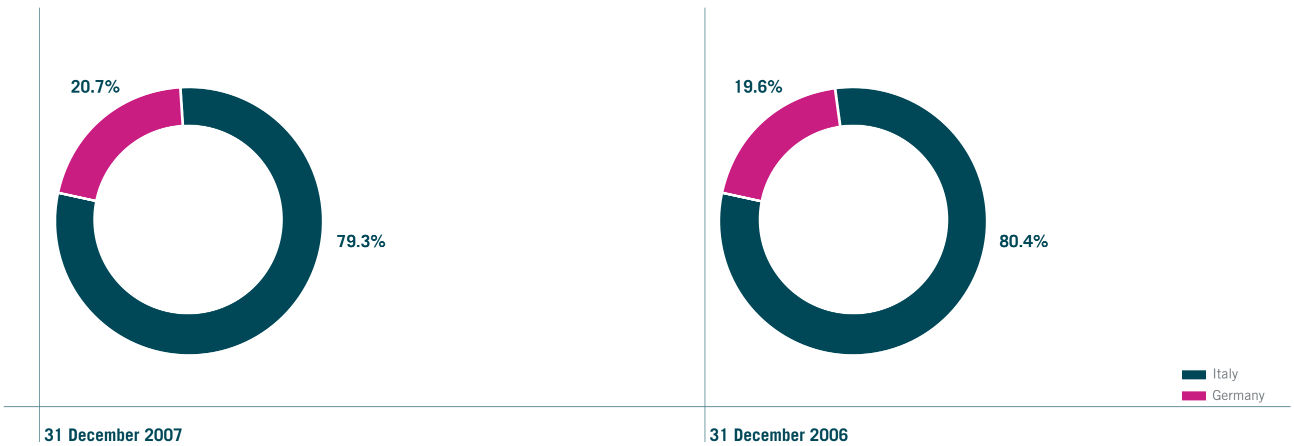
Most important, this growth has proved to be extremely solid, because based on the continuous consolidation of the relationships with major customers who appreciate Reply's capability to deliver leading-edge paradigms in terms of technology, business models and processes.

Reclassified consolidated statement of income

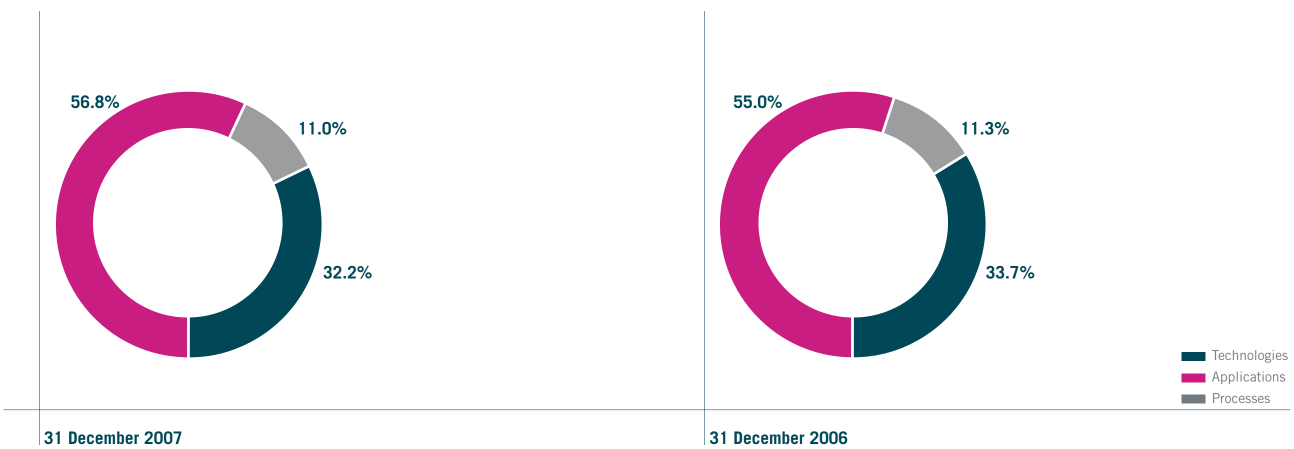
Reply's performance is shown in the following reclassified consolidated statement of income and is compared to corresponding figures of the previous year:

(thousand euros)	2007	%	2006	%
Revenues	**277.176**	**100.0**	**230.164**	**100.0**
Purchases	(6.955)	(2.5)	(6.526)	(2.8)
Personnel	(134.909)	(48.7)	(113.813)	(49.4)
Services and other costs	(92.515)	(33.4)	(77.864)	(33.8)
Other unusual operating income/expenses	(515)	(0.1)	(503)	(0.2)
Operating costs	**(234.894)**	**(84.7)**	**(198.706)**	**(86.3)**
Gross operating income (EBITDA)	**42.282**	**15.3**	**31.458**	**13.7**
Amortisation, depreciation and write-downs	(4.246)	(1.6)	(3.616)	(1.6)
Operating income (EBIT)	**38.036**	**13.7**	**27.842**	**12.1**
Result of equity investments	-	0.0	350	0.2
Financial income/(expenses)	(216)	(0.1)	(395)	(0.2)
Result before tax of continuing operations	**37.820**	**13.6**	**27.797**	**12.1**
Income tax	(19.475)	(7.0)	(16.458)	(7.2)
Net result of continuing operations	**18.345**	**6.6**	**11.339**	**4.9**
Result from discontinued operations	(92)	(0.0)	68	0.0
Minority interest	(2.534)	(0.9)	(1.133)	(0.5)
GROUP NET RESULT	**15.719**	**5.7**	**10.274**	**4.5**

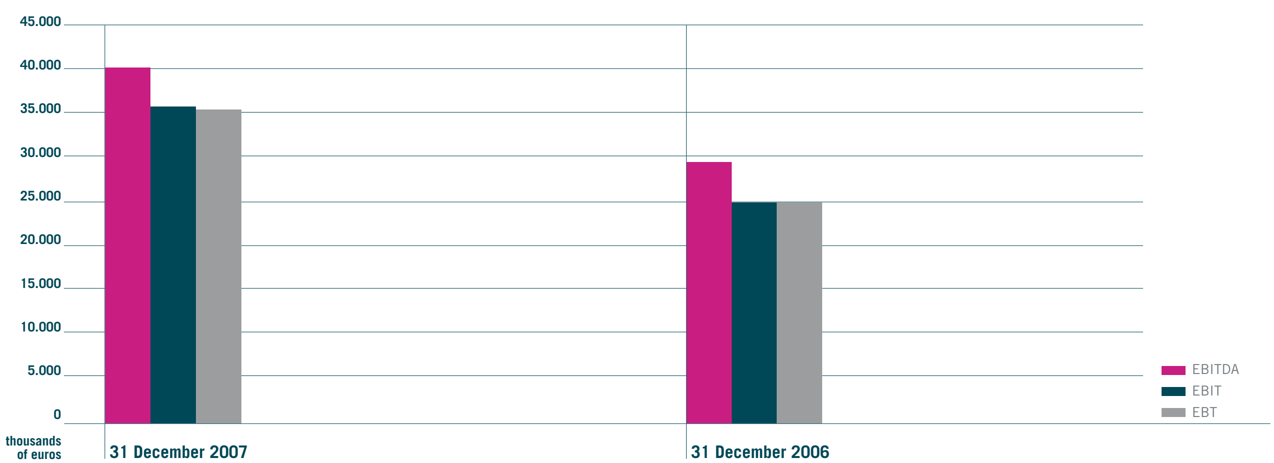
Revenues by geographic area



Revenues by business line



Trend in the major economic indexes



Analysis of the financial structure

The table below details the Group's financial structure as at 31 December 2007 compared to 31 December 2006:

(thousand euros)	31/12/2007 (a)	%	31/12/2006 (b)	%	Change (a-b)
Current operating assets	134.996		121.620		13.376
Current operating liabilities	(71.150)		(61.682)		(9.468)
Net working capital (A)	**63.846**		**59.938**		**3.908**
Non current assets	58.398		48.327		10.071
M/L term financial liabilities	(25.456)		(21.375)		(4.081)
Net fixed capital (B)	**32.942**		**26.952**		**5.990**
NET INVESTED CAPITAL (A+B)	**96.788**	**100.0**	**86.890**	**100.0**	**9.898**
Shareholders' equity (C)	107.206	110.8	93.588	107.7	13.618
NET FINANCIAL POSITION (A+B-C)	**(10.418)**	**(10.8)**	**(6.698)**	**(7.7)**	**(3.720)**

Net invested capital amounted to 96.788 thousand euros as at 31 December 2007 and was financed by Shareholders' equity for 107.206 thousand euros, with a residual net financial position of 10.418 thousand euros.

The following table details the net working capital.

(thousand euros)	31/12/2007 (a)	31/12/2006 (b)	Change (a-b)
Inventories	8.691	5.325	3.366
Trade receivables	121.168	111.749	9.419
Other operating assets	5.177	4.546	631
Current operating assets (A)	**134.996**	**121.620**	**13.376**
Trade payables	25.334	18.864	6.470
Other current liabilities	45.816	42.818	2.998
Current operating liabilities (B)	**71.150**	**61.682**	**9.468**
Net working capital (A-B)	**63.846**	**59.938**	**3.908**
% return on revenues	*23.0%*	*26.0%*	

Net financial position and statement of cash flows

(thousand euros)	**31/12/2007**	**31/12/2006**	**Change**
Cash and cash equivalents	40.810	33.699	7.111
Cash and cash equivalents of discontinued operations	356	974	(618)
Investments in liquid funds	-	1.718	(1.718)
Due to banks	(3.914)	(3.943)	29
Due to others	(151)	-	(151)
Short-term financial position	**37.101**	**32.448**	**4.653**
Non financial assets	580	-	580
Due to banks	(26.920)	(25.750)	(1.170)
Other providers of finance	(343)	-	(343)
M/L term financial position	**(26.683)**	**(25.750)**	**(933)**
Total net financial position	**10.418**	**6.698**	**3.720**

Change in the item cash and cash equivalents is summarised in the table below:

(thousand euros)	**31/12/2007**
Cash flows from operating activities (A)	19.650
Cash flows from investment activities (B)	(11.754)
Cash flows from financial activities (C)	(785)
Change in cash equivalents (D) = (A+B+C)	**7.111**
Cash and cash equivalents at beginning of period	33.699
Cash and cash equivalents at year end	40.810
Total change in cash and cash equivalents (D)	**7.111**

The statement of cash flow has been analysed fully in the consolidated financial statements and explanatory notes herein.

Reconciliation of equity and profit for the year of the Parent Company

In accordance with Consob Communications no. DEM/6064293 dated July 28, 2006, the equity and profit of the parent company are reconciled below with the related consolidated amounts.

	31/12/2007		31/12/2006	
(thousand euros)	**Net Equity**	**Result**	**Net Equity**	**Result**
Reply S.p.A.'s separate financial statements	**71.537**	**11.795**	**60.174**	**550**
Results of the subsidiary companies	61.085	26.939	52.767	14.245
Carrying value of investments in consolidated companies	(23.231)	311	(21.608)	1.300
Elimination of dividends from subsidiary companies	-	(13.812)	-	(4.200)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(2.181)	(7.551)	2.255	(1.071)
Minority interest	(12.713)	(1.963)	(14.481)	(550)
Reply Group consolidated financial statements	**94.493**	**15.719**	**79.107**	**10.274**

_**Significant** operations

Expansion of the Reply Network in Germany

syskoplan AG is a German consultancy and application management company, leader CRM consultancy and part of the Reply Group. In 2007 three important operations were completed In Germany which will reinforce Reply Network in the German market especially in the Financial Institutions and Media sectors.

In February 2007 the 100% share capital of Xuccess GmbH was finalised. Xuccess GmbH is a German company specialised in Consultancy and System Integration which operates with the main Financial Institutes. Xuccess was founded in 2001, a Gold Certified Partner Microsoft, and has matured significant experience in the areas of regulatory reporting and institutional reporting supporting its clients in adopting the new regulations introduced by Basel II.

With over 40 employees and based in Gilching near Munich, in 2007 Xuccess generated a turnover of 8,8 thousand euros and EBT of 15.7%.

The acquisition was finalised in part by a cash payment and syskoplan share contribution. Current management will be involved with running the operational activities.

The constitution of discovery sysko GmbH and the acquisition of Interactiv! GmbH represent the opportunity for Reply to expand in the media and broadcaster market in Germany.

discovery sysko, operating since January 2007, with headquarters in Munich, is a newly constituted company specialised in consultancy services and solutions for the digital asset management.

discovery sysko is the centre of excellence in a market that is undergoing extensive expansion thanks to the convergence between Telco - media and a large number of local broadcasters.

discovery sysko will enable Reply to improve, even on the German market, the competencies it has developed with Discovery Reply, the innovative proprietor platform for Media Asset Management already used by some major European Broadcasters in order to access, research, file and distribute digital audio and video contents.

Interactiv GmbH, of which syskoplan AG holds control over the share capital, develops mobile services and applications commissioned by clients. More specifically, JOCA, the mobile portal developed by Interactiv, allows TV spectators, newspaper readers, and radio listeners to participate via cellular phone in contests or the purchase of products in real time. Among Interactiv's key clients are Deutsche Post AG, neckermann.de, Radio FFH, and Volkswagen AG.

Partnership between EMC² and Reply

Reply and EMC² Corporation, a world leader in Information Infrastructure solutions, have stipulated a partnership to develop services and consultancy regarding new EMC solutions related to the management of information and company applications.

Currently, with its own model and based on the specialisation of competence, Reply has incorporated a new company, Square Reply which, within the Group, will develop EMC technologies concentrating mainly on the platforms EMC|Documentum and EMC|Smarts. The following platforms are dedicated to the management of the life-cycle of a company's information and monitor of complex IT infrastructure.

Enterprise Content Management EMC|Documentum solutions is a union of Content and Document Management recognised by Gartner Group as technological leader. The ECM platform has had a successful growth in the world market.

Currently, the EMC|Smarts solution has an innovative approach related to the management of the IP network, storage network and applications. This approach, which is based on a model of vertical correlation, end-to-end, between infrastructure components, applications and business units, allows an immediate analysis and isolation of the error (root cause analysis) and the impact it has on business activity of clients.

Square Reply has also become the partner of RSA, the Security Division of EMC, with the objective to offer the market leader solutions for authentication and authorisation, cryptographies and the management of related key codes, the compliance for the conformity of company policies, legal regulations, the management of digital identity based on risk analysis and protection against fraud.

The constitution of Square Reply reflects Reply's will to support the company's clients with solutions highly specialised to monitor, manage, optimise and protect the life-cycle of information.

Acquisition of the 100% share capital of Santer Reply S.p.A.

The public shareholders of Santer in July 2007 called for a public auction for the sale of their minority shares. Reply S.p.A. which is already majority shareholder of Santer, with 53.77% of the share capital, participated in the auction for the acquisition of the shares held by Lombardia Servizi S.p.A. (31.68% of the share capital), Camera di Commercio di Milano (12.94% of the share capital) and Unioncamere Lombardia (1.61% of the share capital) in Santer Reply S.p.A.
The bid was awarded to Reply for a total disbursement of 5.277 thousand euros.
Reply S.p.A. acquired the shares last October, and is now the 100% shareholder of Santer Reply S.p.A.'s share capital.
The acquisition was financed through the partial use of Tranche B of 54.000.000 euros of the credit facility issued by a pool of banks with pool leader Intesa Sanpaolo S.p.A.

_**Reply** on the stock market

The Italian and international stock exchange was characterised by an irregular trend in 2007. In fact the first half of the year was characterised by a positive trend with a high index in April and May, whereas the evolution of the stock exchange in the second half of the year was influenced by the subprime mortgage loan crisis in the USA, which engendered a general decrease in the listings.

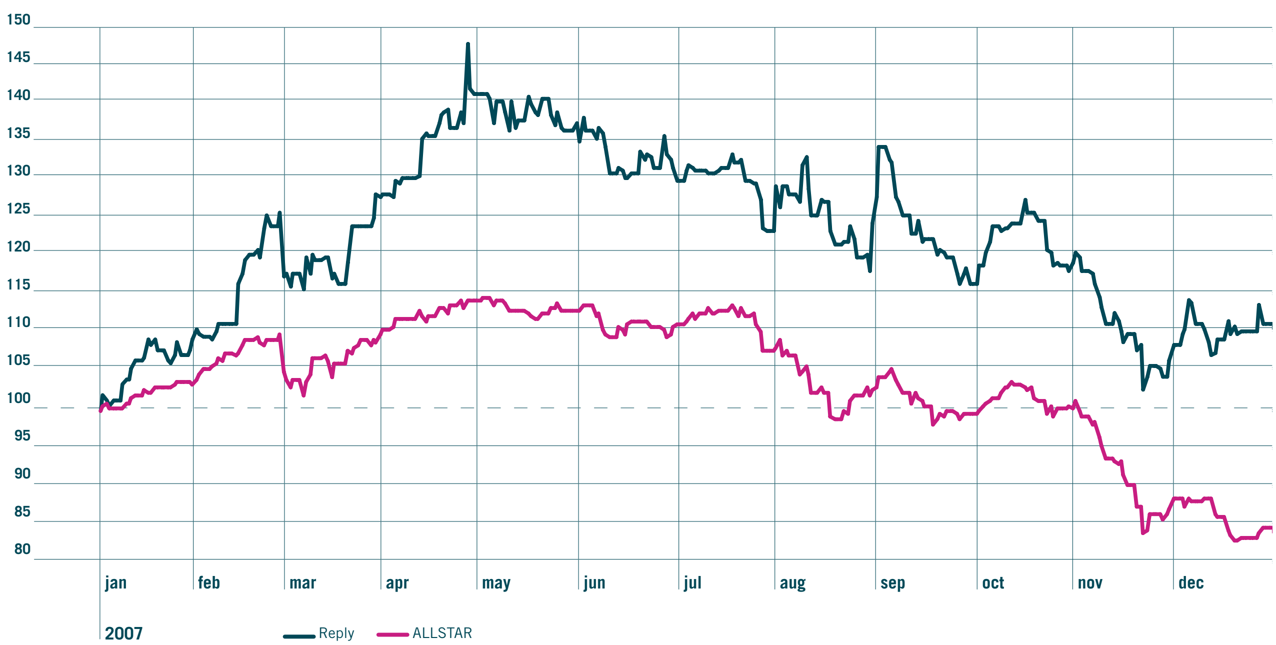
In Italian companies the crisis had a greater impact on small and medium capitalisation; the lack of liquidity certainly had a negative influence and therefore during the summer and towards the end of the year prices were tail spinning downwards.

Notwithstanding the listing of new companies (29 new entries in the market managed by Borsa Italia and 3 in MAC) the overall capitalisations of the listed companies decreased to 733,6 million euros (-5.8% compared to the 778,5 million euros in 2006) equal to 48% of GDP (it was 52.8% in 2005)

During the year 2007 the trend of Reply's shares marked a high performance compared to the All Star index (TechStar index which was previously used in this analysis has been abolished during the year 2007) which was evident especially in the first part of the year when the share reached a historic maximum of almost 29 euros (28,85 euros on 25 April 2007) a growth of 45% compared to the beginning of the year and 30% higher compared to reference index in the same period.

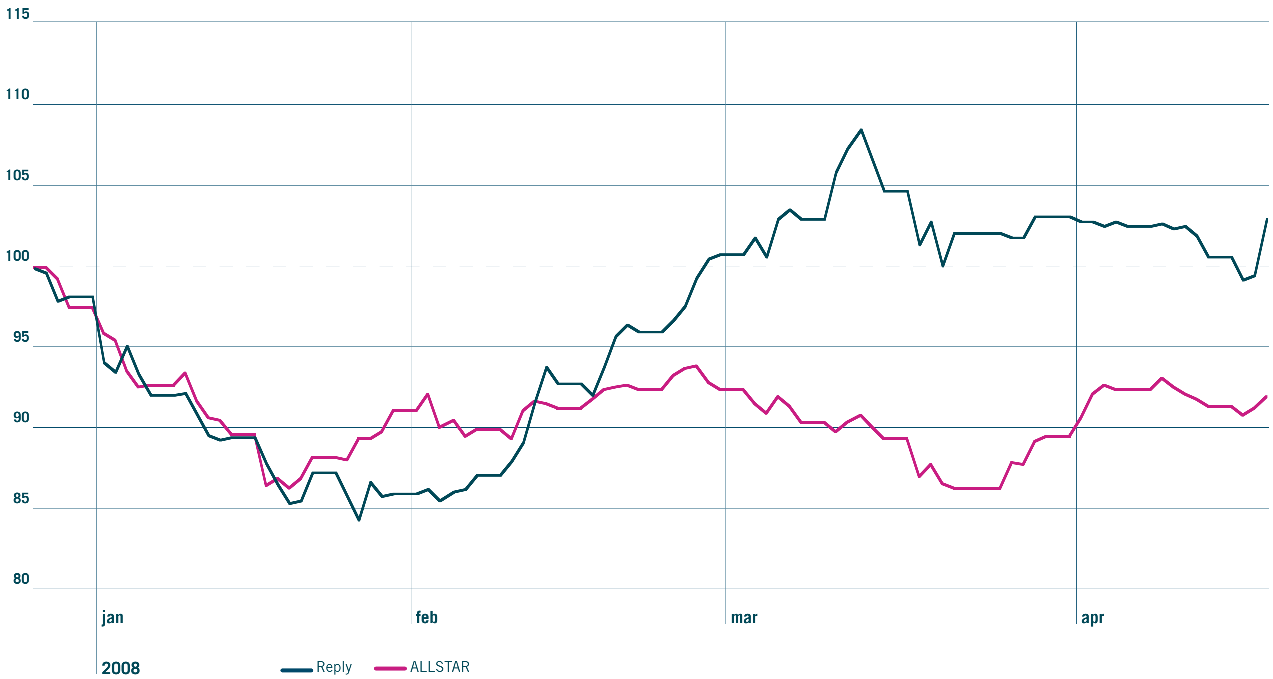
With a decrease in the international market, which began in the second half of June and became more evident by the end of July, the Reply share also lost part of its value, even if it continued having a high performance in comparison to the reference index and constantly maintaining a positive gap of approximately twenty percentage points.

This allowed the share, however, to close the year at +9% when the index was negative at the beginning of



October, closing the year with a loss of 16% (with a loss of 9% compared to the Mibtel index).

In the months following financial year ended 2007 and the drafting of the this Report, the share's performance has been in line with All Star index (decrease of 100 from the beginning of the year) however, around half February the share's performance began a positive trend and an individual growth respect to the reference sector in decrease. The share marked its maximum high for 2007 on March 12 of 29,91 euros (+10.7% compared to the beginning of the year and +35.4% compared to the minimum of the year, 17,66 euros at January 29, 2007). In the months following the fiscal year ended 2007, the share's performance had higher prices while the



reference index lost over 10%.

During 2007, the major financial institutions demonstrated appreciation for Reply's share by constantly proposing research on the Group and by encountering management.

Among shareholders' holding over 2% stake, Kairos Partners, JP Morgan Asset Management and for the first year Bipiemme Gestioni and Highclere International Investors Limited. The composition of the shareholders confirms that Italian and foreign investment institutions have shown interest in the share and are currently significant stake holders.

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

_**The Parent** Company Reply S.p.A.

Premise

The financial statements commented and illustrated on in the following pages have been prepared on the basis of the company's statutory financial statements at 31 December 2007, to which reference should be made, prepared in compliance to International Financial reporting Standards ("IFRS") issued by the international accounting standards board ("IASB") and adopted by the European Union, and with the provisions implementing article 9 of Legislative Decree no. 38/2005.

Reclassified income statement

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.

Reply S.p.A. also carries out *fronting* activities with key clients in capacity of sole manager of the ISO 9001 procedures. Therefore the economic results achieved by the company are not representative of the overall economic trends of the Group and the performances on the related market segments.

The company's income statement is summarized as follows:

(thousand euros)	2007	2006	Change
Revenues from operating activities	19.795	16.398	3.397
Other revenue	92.226	79.257	12.969
Purchases, services and other costs	(106.414)	(89.471)	(16.943)
Other unusual operating income/expenses	(7.866)	(8.574)	708
Gross operating margin	**(2.259)**	**(2.390)**	**131**
Amortisation, depreciation and write-downs	(756)	(628)	(128)
Operating income	**(3.015)**	**(3.018)**	**3**
Financial income, net	1.563	535	1.028
Income from equity investments	13.812	4.200	9.612
Loss on equity investments	(715)	(1.299)	584
Result before tax	**11.645**	**418**	**11.227**
Income tax	150	132	18
NET RESULT	**11.795**	**550**	**11.245**

Revenues from operational activities are mainly related to:

- Royalties on the Reply trademark for 5.939 thousand euros (4.909 thousand euros for the year ended 2006
- Activities carried out centrally for the subsidiary companies for 10.923 thousand euros (9.123 thousand euros in 2006)
- Management services for 2.797 thousand euros (2.304 thousand euros in 2006).

The increase of (Italian) Group revenues in 2007, has a direct influence on Reply S.p.A. who has developed in the past years *fronting* activities concerning relations with primary clients also in capacity of sole manager of processes compliant to ISO 9001 quality standards.

Operating income 2007 marked a negative result of 3.015 thousand euros, after having deducted amortization expenses of 756 thousand euros mainly related to software (175 thousand euros) hardware (190 thousand euros) leasehold improvements (47 thousand euros) and buildings and equipment (205 thousand euros).

The item Financial income net, amounting to positive 1.563 thousand euros includes interest income for 3.353 thousand euros and interest expenses for 1.790 thousand euros connected to the utilisation of the credit facility for new M&A operations.

Income from equity investments refers to dividends from subsidiaries for 13.812 thousand euros.

Loss on equity investments is related to the net losses recorded by some subsidiary companies, such losses were considered to be unrecoverable.

Net income for financial year ended 2007 amounted to 11.795 thousand euros after a positive tax burden of 150 thousand euros.

Financial structure

The financial structure of Reply S.p.A. at 31 December 2007, with comparative figures at 31 December 2006, is provided below:

(thousand euros)	31/12/2007 (a)	31/12/2006 (b)	Change (a-b)
Tangible assets	1.102	880	222
Intangible assets	1.081	827	254
Equity investments	63.417	55.388	8.029
Other intangible assets	502	978	(476)
Non current assets	**66.102**	**58.073**	**8.029**
Net working capital	**(3.135)**	**(1.236)**	**(1.899)**
INVESTED CAPITAL	**62.967**	**56.837**	**6.130**
Non current liabilities	924	921	3
Total shareholders' equity	71.537	60.174	11.363
Net financial position	(9.494)	(4.258)	(5.236)
TOTAL	**62.967**	**56.837**	**6.130**

Net invested capital, totalling 62.967 thousand euros was financed by medium/long term non-financial liabilities, including the reserve for employee termination indemnity (690 thousand euros) and the reserve for deferred tax liabilities (234 thousand euros) for a total of 924 thousand euros, and also funded by Shareholder's equity, 71.537 thousand euros, with a residual net financial liquidity of 9.494 thousand euros.

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

Financial position

Net financial position of the Parent Company as at 31 December 2007, amounted to 9.494 thousand euros compared to 31 December 2006. Detail is below:

(thousand euros)	31/12/2007	31/12/2006	Change
Cash and cash equivalents	15.823	9.555	6.268
Financial assets from subsidiaries	27.144	27.013	131
Due to banks	(3.706)	(3.740)	34
Financial liabilities due to subsidiaries	(4.898)	(4.887)	(11)
Current net financial position	**34.363**	**27.941**	**6.422**
Financial assets from subsidiaries	620	440	180
Due to banks	(25.489)	(24.123)	(1.366)
Non current net financial position	**(24.869)**	**(23.683)**	**(1.186)**
Total net financial position	**9.494**	**4.258**	**5.236**

Change in the net financial position is analysed and illustrated in the Notes to the financial statements.

_**Other** information

Corporate Governance

The Corporate *Governance* system adopted by Reply is in accordance to the requirements of the Self disciplinary Code for Listed Companies instituted by Borsa Italiana S.p.A of March 2006.

The Annual Report on Corporate Governance which provides a general description of the corporate governance system adopted by the company is annexed here within, the integral version is available on the internet *www.reply.it* (Investors section).

Research and development activities

Reply offers services and solutions with high technological standards in a market where innovation is of primary importance.

Research activities therefore include training activities and improvement of the services and solutions offered on the market. More specifically, research and development activities are aimed at upgrading and improving proprietor software. Such activities are measured according to IAS 38.

Transactions with related parties and group companies

Transactions among Group companies are carried out at normal market conditions in connection to the characteristics of the goods or services offered.
Significant transactions between the Parent Company Reply S.p.A. and its subsidiaries are detailed at Note of Reply S.p.A.'s financial statements.

Transactions with related parties, definition of which has been extended to meet the one disciplined by IAS 24, include, apart from the normal economic-financial relations between listed groups or big sized company, in which the directors of the Company or its subsidiaries hold significant positions, the purchase of goods from Group companies that are carried out at normal market conditions.

Information on transactions with related parties as per Consob communication of 28 July, 2006 is disclosed at Note to the Consolidated financial statements and Note to the financial statements.

No atypical or unusual operations, as per Consob definition, have been carried out by the Group companies.

The Annual Report on Corporate Governance provides detailed information on significant operations and transactions with related parties.

Treasury Shares

At the balance sheet date, the Parent Company holds 69,499 treasury shares, amounting to 1.253.013 euros; at net equity, the company has posted an unavailable reserve for the same value. During 2007 Reply S.p.A. acquired no. 40,000 treasury shares for a total out payment amounting to 1.029.188 euros.

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

Financial instruments

In relation to the use of financial instruments, the company has adopted a policy for risk management through the use of financial derivatives, with the scope of reducing the exposure to interest rate risks on the financial loan.
Such financial instruments are considered as hedging instruments as it can be traced to the object being hedged (in terms of amount and expiry date).

In the Notes to the financial statements more detail is provided to the above operations.

Interest held by Members of the Board of Directors and Controlling Bodies, and Key management (Art. 79 of Consob Regulation, Resolution No. 11971 of May 14, 1999)

Name	Office held in Reply S.p.A.	Number of shares held at 31/12/2006	Number of shares bought in 2007	Number of shares sold in 2007	Number of shares held at 31/12/2007	% of share capital
Mario Rizzante	Chairman	1.481	9.900	-	11.381	0.1112%
Tatiana Rizzante	Chief executive officer	5.834	9.900	-	15.734	0.1733%
Sergio Ingegnatti	Chief executive officer	-	9.800	-	9.800	0.1079%
Oscar Pepino	Director	2.060	9.900		11.960	0.1317%
Marco Mezzalama	Independent director	250	-	-	250	0.0028%
Key management		735.290	58.791	(96.108)	697.973	7.6870%

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% and 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin;
- Alika S.r.l. holds 99.9% of Iceberg's share capital, company governed by Luxemburg laws with headquarters at 5, rue Guillaume Kroll;
- Iceberg holds no. 4,507,538 Reply S.p.A. shares, equivalent to 49.64% of the Company's share capital;
- Alika S.r.l. holds no. 385,413 Reply S.p.A. shares, equivalent to 4.24% of the Company's share capital.

_**Outlook** on operations

The results achieved represents a solid basis on which Reply intends to develop and its aim is to be a point of reference for companies which consider technological and process innovation strategic levers to compete on the market.

The results achieved in the first months of 2008 were positive and confer Reply's growth strategy. Since January Reply has worked to increase its offer in terms of know-how and in strategic markets as security, CRM, and financial sector.

_**Motion** for the approval of the financial statements and allocation of the net result

The financial statements at year end 2007 of Reply S.p.A., prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 11.794.541 euros and shareholders' equity amounted to 71.536.530 euros.

Detail is as follows:

(in euros)	**31/12/2007**
Share capital	4.721.558
Share premium reserve	17.550.990
Legal reserve	929.760
Reserve for treasury shares on hand	1.253.013
Other reserves	35.286.668
Total share capital and reserves	**59.741.989**
Net result	11.794.541
Total	**71.536.530**

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at 31 December 2007, with a net result of 11.794.541 euros, proposes that the shareholders resolve:

- To approve Reply S.p.A.'s separate statements recording a net result of 11.794.541,00 euros that already accounts for an accrual of 850.000,00 euros related to the participation in the net result of Directors invested with operational powers in accordance to article 22 of the Articles of Incorporation;
- To approve the motion to allocate the entire net result of 11.794.541 euros as follows:
  - To the Legal Reserve in the amount corresponding to the limits set out in art. 2430 of the Italian Civil Code and however not greater than one twentieth of the net result;
  - Dividends to the shareholders, in the amount of 0,35 euros per ordinary share having the right and that are in circulation as at July 7, 2008 having the fixed payment date set on 10 July 2008, excluding treasury shares;
  - The residual amount, that is variable in function to the treasury shares acquired and the floating shares at the time of dividend yield date, will be brought forward and stated at Extraordinary reserve;
- To approve the motion, in accordance to article 22 of the Articles of Incorporation, to distribute to the Directors invested with operational powers a participation in the Parent company's income for a total amount of 845.640 euros rounded to 850.000 euros, equal to 2% of the consolidated gross operating margin (42.282 thousand euros) accrued in accordance to the International Accounting Standards IAS/IFRS.

Turin, 18 April 2008

For the Board of Directors
The Chairman
(Mario Rizzante)

_**Consolidated** financial statements and related notes as of December 31, 2007

_**Reply** Consolidated income statement(*)

(thousand euros)	***Note***	**2007**	**2006**
Revenues	*5*	277.176	230.164
Other revenues		1.900	1.386
Purchases	*6*	(6.955)	(6.526)
Personnel	*7*	(134.909)	(113.813)
Services and other costs	*8*	(94.415)	(79.246)
Amortisation, depreciation and write-downs	*9*	(4.246)	(3.616)
Other unusual operating income/expenses	*10*	(515)	(503)
Operating income		**38.036**	**27.846**
Result of equity investment	*11*	-	350
Financial income/(expenses)	*12*	(216)	(399)
Result before tax of continuing operations		**37.820**	**27.797**
Income tax	*13*	(19.475)	(16.458)
NET RESULT OF CONTINUING OPERATIONS		**18.345**	**11.339**
Result from discontinued operations	*14*	(92)	68
Minority interest		(2.534)	(1.133)
GROUP NET RESULT		**15.719**	**10.274**
Net result per share	*15*	1,75	1,18
Diluted net result per share		1,75	1,18

(*) Pursuant to Consob Regulation no. 15519 of 27 July 2006, the effects of related-party transactions on the Consolidated income statement are reported in the notes.

_**Reply** Consolidated balance sheet(*)

(thousand euros)	***Note***	**31/12/2007**	**31/12/2006**
Tangible assets	*16*	7.217	6.484
Goodwill	*17*	40.496	34.218
Other intangible assets	*18*	3.015	2.129
Equity investments	*19*	-	10
Other financial assets	*20*	2.954	1.081
Deferred tax assets	*21*	5.141	4.644
Non Current assets		**58.823**	**48.566**
Inventories	*22*	8.691	5.325
Trade receivables	*23*	121.128	111.749
Other receivables and current assets	*24*	4.774	4.425
Financial assets	*20*	254	1.480
Cash and cash equivalents	*25*	40.810	33.699
Current assets		**175.657**	**156.678**
Total assets from discontinued operations	*14*	660	1.095
TOTAL ASSETS		**235.140**	**206.339**
Share capital		4.722	4.642
Other reserves		74.052	64.191
Group net result		15.719	10.274
Group shareholders' equity	*26*	**94.493**	**79.107**
Minority interest		12.713	14.481
SHAREHOLDERS' EQUITY		**107.206**	**93.588**
Financial liabilities	*27*	27.240	25.750
Employee benefits	*28*	13.362	13.210
Deferred tax liabilities	*29*	4.264	3.447
Provisions	*30*	7.830	4.718
Non current liabilities		**52.696**	**47.125**
Financial liabilities	*27*	4.088	3.943
Trade payables	*31*	25.334	18.864
Other current liabilities	*32*	41.723	37.250
Provisions	*30*	4.024	5.182
Current liabilities		**75.169**	**65.239**
Total liabilities from discontinued operations	*14*	69	387
TOTAL LIABILITIES		**127.934**	**112.751**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**235.140**	**206.339**

(*) Pursuant to Consob Regulation no. 15519 of 27 July 2006, the effects of related-party transactions on the Consolidated balance sheet are disclosed at the Annexed tables herein.

_**Reply** Statement of changes in Shareholders' equity

(thousand euros)	Share capital	Reserve for cash flow hedges	Other reserves	Result for the year	Total Group equity	Minority interest	Total consolidated equity
Balance at 31/12/2005	**4.374**	**(17)**	**49.835**	**6.864**	**61.056**	**206**	**61.262**
Allocation 2005 result							
- reserves	-	-	5.086	(5.086)	-	-	**-**
- dividends	-	-	-	(1.778)	**(1.778)**	(396)	**(2.174)**
Increase of share capital	268	-	8.984	-	**9.252**	-	**9.252**
Other changes	-	368	(65)	-	**303**	13.538	**13.841**
Result for the year	-	-	-	10.274	**10.274**	1.133	**11.407**
Balance at 31/12/2006	**4.642**	**351**	**63.840**	**10.274**	**79.107**	**14.481**	**93.588**
Allocation 2006 result							
- reserves	-	-	7.743	(7.743)	**-**	-	**-**
- dividends	-	-	-	(2.531)	**(2.531)**	(455)	**(2.986)**
Increase of share capital	80	-	2.094	-	**2.174**	-	**2.174**
Other changes	-	107	(83)	-	**24**	(3.847)	**(3.823)**
Result for the year	-	-	-	15.719	**15.719**	2.534	**18.253**
Balance at 31/12/2007	**4.722**	**458**	**73.594**	**15.719**	**94.493**	**12.713**	**107.206**

_**Reply** Consolidated cash flow statement

(thousand euros)	**2007**	**2006**
Net result for the year	18.345	11.339
Income tax	19.475	16.458
Adjustment of equity investments	-	(350)
Depreciation and amortisation	4.007	3.620
Impairment of intangible assets	240	-
Other non-monetary income and expenses, net	1.197	844
Change in inventories	(4.650)	(3.048)
Change in trade receivables	(7.145)	(5.459)
Change in trade payables	7.457	(2.525)
Change in other assets and liabilities	1.912	1.101
Income tax paid	(17.666)	(12.769)
Interest paid	(5.193)	(724)
Interest cashed	1.659	910
Net cash flows from operating activities of discontinued operations	11	(561)
Net Cash flows from operating activities (A)	**19.650**	**8.837**
Payments for tangible and intangible assets	(4.669)	(2.849)
Payments for financial assets	(187)	(845)
Proceeds from disposal of financial assets	101	
Out payments for the acquisition of subsidiaries	(7.061)	(506)
Net cash flows from investment activities of discontinued operations	163	1.941
Net cash flows from investment activities (B)	**(11.754)**	**(2.158)**
In payments from issuing of new shares	974	385
Dividend distribution	(2.986)	(2.173)
Payments for acquisition of treasury shares	(1.029)	-
In payments from financial loans	5.277	20.123
Payment of instalments	(4.200)	(4.000)
Other changes	1.179	(578)
Net cash flows from financing activities of discontinued operations	-	(726)
Net Cash flows from financing activities (C)	**(785)**	**13.031**
Net cash flows (D) = (A+B+C)	**7.111**	**19.710**
Cash and equivalents at beginning of year	33.699	13.989
Cash and cash equivalents at year end	40.810	33.699
Total change in cash and cash equivalents (D)	**7.111**	**19.710**

_**Notes** to the consolidated financial statements

Note 1 - General information

Reply is a Consulting, System Integration and Application Management company and leader in the design and implementation of solutions based on new communication channels and digital media.

Reply, consisting of a network of specialized companies, provides applications to optimize corporate processes and develops innovative technology-based solutions to enable communication between customers, business partners and suppliers. Reply's activities are focused on the areas of Telecom & Media, Manufacturing, Finance and Public Administration.

The Group is headed by the Parent Company Reply S.p.A., company listed on the STAR segment of Borsa Italiana [REY.MI].

Note 2 - Accounting principles and basis of consolidation

Compliance with International accounting Principles

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Union. The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC"). Following the coming into force of European Regulation No. 1606 of July 2002, starting from January 1, 2005, the Reply Group adopted International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared in accordance with Consob regulations regarding the format of financial statements, in application of art. 9 of Legislative Decree 38/2005 and other Consob regulations and instructions concerning financial statements.

General accounting principles

The financial statements are prepared under the historical cost convention, modified as required for the valuation of certain financial instruments. The fair value criteria is adopted as defined by IAS 39.

These consolidated financial statements are expressed in thousands of euros and are compared to the consolidated financial statements of the previous year prepared in accordance with the same principles.

Further indication related to the format of the financial statements respect to IAS 1 is disclosed here within as well as information related to significant accounting principles and evaluation criteria used in the preparation of the following consolidated report.

Format of the financial statements

The consolidated financial statements include, statement of income, balance sheet, statement of changes in shareholders' equity, statement of cash flows and the explanatory notes.
The income statement format adopted by the group classifies costs according to their nature, which is deemed to properly represent the Group's business.

The Balance sheet is prepared according to the distinction between current and non-current assets and liabilities. The statement of cash flows is presented using the indirect method.

The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.

In connection with the requirements of Consob Resolution No. 15519 of July 27, 2006 as to the format of the financial statements, additional statements: income statement and balance sheet have been added showing the amounts of related party transactions.

Basis of consolidation

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements as at 31 December of each year. Control exists when the Group has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting principles used into line with those used by other members of the Group.

All significant intercompany transactions and balances between group companies are eliminated on consolidation.

Minority interest is stated separately with respect to the Group's net equity. Such minority interest is determined according to the percentage of the shares held of the fair values of the identifiable assets and liabilities of the company at the date of acquisition and post acquisition adjustments. Subsequently, any losses attributable to minority interests that exceed their share of net equity is attributed to the Group net equity unless minority interest is able to make further investments to cover losses according to contractual bonds.

Difference arising from translation of equity at historical exchange rates and year end exchange rates are recorded at an appropriate reserve of the consolidated shareholders' equity.

As first time adoption of IFRS, the cumulative translation differences deriving from consolidation of non European member companies have been cancelled, as allowed under IFRS 1, any extraordinary gain or loss from subsequent disposals of said companies will include only translation differences arising after January 1, 2004.

Business combinations

Acquisition of subsidiary companies is recognised according to the purchase method of accounting. The acquisition cost is determined by the sum of the fair value, at the trading date, of all the assets transferred, liabilities settled and the financial instruments issued by the group in exchange of control of the acquired company, plus any cost directly attributable to the acquisition.

The identifiable assets, liabilities and contingent liabilities of the company acquired that respect the conditions to be recognised according to IFRS 3 are stated at their fair value at the date of acquisition with the exception of those non current assets that are held for sale in accordance to IFRS 5, which are recognised and measured at fair value less selling costs.

The positive difference between the acquisition costs and the fair value of the reported assets and liabilities is recorded as goodwill and classified as an intangible asset having an indefinite life.

Minority interest in the company acquired is initially measured to the extent of their shares in the fair value of the assets, liabilities and contingent liabilities recognised.

The accounting of the put and call options on the minority shareholdings of the subsidiary company are recorded according to IAS 32, taking into account therefore, depending on the case, the existence and the determinability of the consideration to the minority shareholders if the option was exercised.

Investments in associate companies

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through the participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, with the exception of investments held for future disposal.

Where a group company transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

Transactions eliminated on consolidation

All significant intercompany balances and transactions and any unrealised gains and losses arising from intercompany transactions are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the company's interest in those entities.

Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate prevailing at that date. Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or in previous financial statements, are recognised in the income statement.

Consolidation of foreign entities

All assets and liabilities of foreign consolidated companies with a functional currency other than the euros are translated using the exchange rates in effect at the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Translation differences resulting from the application of this method are classified as equity until the disposal of the investment. Average rates of exchange are used to translate the cash flows of foreign subsidiaries in preparing the consolidated statement of cash flows. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are recorded in the relevant functional currency of the foreign entity and are translated using the period end exchange rate. In the context of IFRS First-time Adoption, the cumulative translation difference arising from the consolidation of foreign operations was set at nil, as permitted by IFRS 1; gains or losses on subsequent disposal of any foreign operation only include accumulated translation differences arising after January 1, 2004.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and impairment losses. Goods made up of components, of significant value, that have different useful lives are considered separately when determining depreciation.

Fixed assets are stated at purchase, production or transfer costs including related charges and other direct or indirect expenses incurred to bring the asset to its intended use.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	3%
Plant and machinery	30% - 50%
Hardware	40%
Other	24% - 50%

The recoverable value of such assets is determined through the principles set out in IAS 36 and outlined in the paragraph "Impairment" herein.

Ordinary maintenance costs are fully expensed as incurred. Incremental maintenance costs are allocated to the asset to which they refer and depreciated over their residual useful lives.

Improvement expenditures on rented property are allocated to the related assets and depreciated over the shorter between the duration of the rent contract or the residual useful lives of the relevant assets.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Goodwill

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognised using the purchase method, and is recorded to reflect the positive difference between purchase cost and the Group's interest at the time of acquisition, after having recognised all assets, liabilities and identifiable contingent liabilities attributable to both the Group and third parties at their fair value.

Goodwill is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment losses are recognised immediately as expenses that cannot be recovered in the future

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

Goodwill deriving from acquisitions made prior to the transition date to IFRS is maintained at amounts recognised under Italian GAAP at the time of application of such standards and is subject to impairment test at such date.

In the context of IFRS First-time Adoption, the Group elected not to apply IFRS 3 – Business Combinations retrospectively to the business combinations that occurred before January 1, 2004; as a consequence, goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous Italian GAAP amounts, subject to impairment testing at that date.

Other intangible assets

Intangible fixed assets are those lacking an identifiable physical aspect, are controlled by the company and are capable of generating future economic benefits.
Intangible fixed assets are recorded at purchase or production cost, including related charges incurred to bring the asset available for use.
In case of intangible fixed assets purchased for which availability for use and relevant payments are deferred beyond normal terms, the purchase value and the relevant liabilities are discounted by recording the implicit financial charges in their original price.

Assets with a defined useful life are systematically amortised from the moment when the asset is available for use throughout the period of its estimated utility; the recoverable value is assessed according to provisions set out in IAS 36.

Trademarks and patents and other assets with indefinite useful lives are not subject to systematic amortisation but are subject each year to an impairment test. Intangible assets with indefinite useful lives consist principally of acquired trademarks which have no legal, contractual, competitive, economic, or other factors that limit their useful lives. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired, any loss cannot be reversed.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.
Development costs can be capitalised on condition that they can be measured reliably and that evidence is provided that the asset will generate future economic benefits.

An internally-generated intangible asset arising from the Group's e-business development (such as informatics solutions) is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

These assets are amortised when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognised as construction in progress. Amortisation is determined on a straight line basis over the relevant useful lives.
When an internally-generated intangible asset cannot be recorded at balance sheet, development costs are recognised to the statement of income in the period in which they are incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible fixed assets having an undefined useful life among which goodwill, are assessed annually or each time there is an indication of a probable impairment in order to determine whether there is a real impairment.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset, (or cash-generating unit), with the exception of goodwill, is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount that would have been determined had no impairment loss been recognised for the asset. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Equity Investments

Equity investments other than investments in associated companies or joint ventures are entered in item "other financial assets" under non current assets and are classified pursuant to IAS 39 as financial assets "Available for sale" at *Fair value* (or, alternatively, at cost if the fair value cannot be correctly determined) with allocation of the valuation effects (until the income from the assets is disposed of and with the exception of the case when permanent impairments have occurred) to a specific reserve in Shareholders' equity.

In the event of write-down for impairment, the cost is recognised to income statement; the original value is restored in subsequent years if the assumptions for the write-down no longer exist.

The risk resulting from possible losses beyond equity is entered in a specific provision for risks to the extent to which the parent company is committed to fulfil its legal or implicit obligations towards the associated company or to cover its losses.

Current and non current financial assets

Financial assets are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Investments are recognised and written-off the balance sheet on a trade-date basis and are initially measured at cost, including transaction costs.

At subsequent reporting dates, financial assets that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured and amortised at cost according to the prevailing market interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

Investments other than held-to maturity securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where financial assets are held for trading purposes, gains and losses arising from changes in fair value are included in the net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

This item is stated in the current financial assets.

Work in progress

Work in progress mainly comprise construction contracts; where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, unless this is deemed representative of the stage of completion of the contract.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Inventories comprising software products are stated at the lower of cost and net realisable value. Cost comprises direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

Trade payables and receivables and other current assets and liabilities

Trade payables and receivables and other current assets and liabilities are measured at nominal value and eventually written down to reflect their recoverable amount.
Write-downs are determined to the extent of the difference of the carrying value of the receivables and the present value of the estimated future cash flows discounted at the prevailing market interest rate at the time of recognition.

Receivables and payables denominated in non EMU currencies are stated at the exchange rate at period end provided by the European Central Bank.

Cash and cash equivalents

The item cash and cash equivalents includes cash, banks and reimbursable deposits on demand and other short term financial investments readily convertible in cash and are not subject to significant risks in terms of change in value.

Assets and liabilities from discontinued operations

This item includes the assets and liabilities from discontinued operations whose carrying amount will be recovered principally through a sales transaction rather than through continuing use.
Assets held for sale are measured at the lower of their carrying amount and fair value less disposal costs.

Treasury shares

Treasury shares are presented as a deduction from equity. The original cost of treasury shares and proceeds of any subsequent sale are presented as movements in equity.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are presented according to their substance arising from their contractual obligations and in accordance to the definitions of financial liabilities and equity instruments. The latter are defined as those contractual obligations that give the right to benefit in the residual interests of the Group's assets after having deducted its liabilities.

The accounting standards adopted for specific financial liabilities or equity instruments are outlined below:

- Bank borrowings
  Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently stated at its amortised cost, using the prevailing market interest rate method.
- Equity instruments
  Equity instruments issued by the Group are stated at the proceeds received, net of direct issuance costs.
- Non current financial liabilities
  Liabilities are stated according to the amortisation cost.

Derivate financial instruments and other hedging transactions

The Group's activities are primarily subject to financial risks associated with fluctuations in interest rates. Such interest rate risks arise from bank borrowings; in order to hedge these risks the Group's policy consists in converting fluctuating rate liabilities in constant rate liabilities and treat them as cash flow hedges. The use of such instruments is disciplined by written procedures in line with the Group risk strategies that do not contemplate derivative financial instruments for trading purposes.

Derivative financial instruments are initially recognised at cost and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to company commitments and forecasted transactions are recognised directly in equity. If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedge commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.

For hedging against change in fair value of specific items, the item hedged is restated to the extent of the change in fair value attributable to the risk hedged and recognised at the income statement. Gains and losses arising from the measurement of the derivative are also recognised at the income statement.

Changes in the fair value of derivative financial instruments that do not qualify as hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognised in equity is transferred to the net profit or loss for the period.

Implicit derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not strictly correlated to the underlying contractual obligation and the latter are not stated at fair value with recognition of gains and losses in the income statement.

Employee benefits

Employee termination indemnities was classified until 31 December 2006 as "post-employment benefit" falling under the category of a "defined benefit plan"; the amount already accrued must be projected in order to estimate the payable amount at the time of employee termination and subsequently be discounted through the "Projected Unit Credit Method", an actuarial method based on demographic and finance data that allows to reasonably estimate the extent of benefits that each employee has matured in relation to the time worked.

Through actuarial valuation, current service costs are recognised as "personnel expenses" at the income statement and represent the amount of rights matured by employees at reporting date and the interest cost is recognised as financial gains or losses and represents the figurative expenditure the company would bear by securing a market loan for an amount corresponding to the Employee termination indemnities (TFR).

Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognised in Shareholders' equity without being ever included in the consolidated income statement.

Following the changes in the regulation in the matter of post-employment benefit plan ("TFR") provided for in Italian Law No. 296 of 27 December (the "2007 Budget Law") and the subsequent implementation Decrees and Regulations, the accounting criteria applied to post-employment amounts accrued at 31 December 2006 and those to be accrued from 1 January 2007 were accordingly modified starting from the fiscal year of reference in compliance with IAS 19 and the interpretations given by the Italian national competent technical committees during the period of reference.

Following the changes introduced through the Reform of the complementary social security funds provided for in the aforementioned Decree, the amounts relative to the post-employment benefit plan accrued until 31 December 2006 will continue to be kept by the company in a specifically defined benefit plan (with an obligation for the already accrued benefits to be subject to actuarial valuation), while the amounts accrued from 1 January 2007, based on the choice of the employee in the period, will be allocated to complementary social security plans or transferred by the company to a treasury fund directly managed by the Italian National Social Security Institute (INPS) starting from the moment in which an employee makes the choice, as defined contribution plans (which are no longer subject to actuarial valuation).

As a result of the newly enforced regulations, it was necessary to re-calculate the amount of the liability accrued at 31 December 2006, in order to adjust the actuarial valuation model previously implemented to determine the amount of the projected unit credit due by the company as a function of the new actuarial method (revaluation rate established by law and provided for the Institute in replacement of salary increase projections) without taking the pro rata of the service paid on the amounts with a deferred maturity into account. In accordance with the provisions set forth in paragraph 109 of IAS 19, such re-calculation implied a curtailment of a non recurrent proceed entered to reduce Personnel Expenses and the concurrent reclassification in item "Previous years' income/(loss)" of the Reserve for actuarial income and loss allocated for at 31 December 2006.
For companies having less than 50 employees, measurement of the severance indemnities is carried out in accordance to IAS 19 ,with the exception of the application of the pro-rata method of the services rendered for those employees who transfer the accrued amounts to a complementary pension fund.

Share-based payment plans (stock options)

The Group has applied the standard set out by IFRS 2 "Share-based payment". Pursuant to the transitional standards, IFRS 2 has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005. The Group stock option plans foresee only the physical delivery of the share when exercised.
Share-based payments are measured at fair value at granting date. Such amount is recognised in the income statement over a straight-line basis and over the vesting period.
The *fair value* of the option, measured at grating date, is assessed through actuarial calculations, taking into account the terms and conditions of the options granted.

Provisions and reserves for risks

Provisions for risks and liabilities are costs and liabilities having an established nature and the existence of which is certain or probable that at the reporting date the amount cannot be determined or the occurrence of which is uncertain. Such provisions are recognised when a commitment actually exists arising from past events of legal or contractual nature or arising from statements or company conduct that determine valid expectations from the persons involved (implicit obligations).
Provisions are recognised when the Group has a present commitment arising from a past event and it is probable that it will be required to fulfil the commitment. Provisions are accrued at the best estimate of the expenditure required to settle the liability at the balance sheet date, and are discounted when the effect is significant.

Revenue recognition

Revenue from sales and services is recognised when the transfer of all the risks and benefits arising from the passage of title takes place or upon execution of a service.
Revenues from sales of products are recognized when the risks and rewards of ownership of goods are transferred to the customer. Revenues are recorded net of discounts, allowances, settlement discounts and rebates and charged against profit for the period in which the corresponding sales are recognised.

Taxation

Income tax represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit defers from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.
Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognised to Shareholders' equity.

Dividends

Dividends are entered in the accounting period in which distribution is approved.

Earnings per share

Basic earnings per share is calculated with reference to the profit for the period of the Group and the weighted average number of shares outstanding during the year. Treasury shares are excluded from this calculation.
Diluted earnings per share is determined by adjusting the basic earnings per share to take account of the theoretical conversion of all potential shares, being all financial instruments that are potentially convertible into ordinary shares, with diluting effect.

Use of estimations

The preparation of the financial statements and relative notes under IFRS requires that management makes estimates and assumptions that have effect on the measurement of assets and liabilities and on disclosures related to contingent assets and liabilities at the reporting date. The actual results could differ from such estimates. Estimates are used to accrue provisions for risks on receivables, to measure development costs, to measure contract work in progress, employee benefits, income taxes and other provisions. The estimations and assumptions are reviewed periodically and the effects of any changes are recognised immediately in income.

Change in accounting principles

Pursuant to IAS 8, these are recognised on the face of the income statement starting from the year of adoption.

Changes in accounting estimates and reclassifications

At the reporting date, there are no significant estimates regarding the unforeseeable outcome of future events and other causes of uncertainty that might result in significant adjustments being made to the value of assets and liabilities in the coming year.

New accounting principles

Accounting principles, amendments and interpretations in 2007

On March 3, 2006, the IFRIC issued interpretation IFRIC 9 – Reassessment of Embedded Derivatives, which requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required.

On November 2, 2006, the IFRIC issued IFRIC Interpretation 11 – IFRS 2- Group and Treasury Share Transactions in order to address the accounting treatment of share-based payment arrangements under which an entity chooses or is required to buy treasury stock to satisfy its obligations and those under which the employees of one Group company are granted rights to the shares of another (such as the parent company).

The adoption of the above interpretation has no effect on the consolidated financial statements of the Group.

In August 2005, the IASB issued IFRS 7 – Financial Instruments: Disclosures and a complementary amendment to IAS 1 – Presentation of Financial Statements– Capital Disclosures, effective from January 1, 2007. IFRS 7 requires disclosures to be provided on financial instruments. The amendment to IAS 1 introduces requirements for disclosures about an entity's capital, without any effect on classification or measurement of capital items. The Group adopted this amendment beginning January 1, 2007.

Interpretations effective from 1 January, 2007 but not applicable to the Group

The following interpretations, effective beginning 1 January, 2007, relate to matters that are not applicable to the Group:

- IFRIC 7 –Applying the Restatement approach under IAS 29- Financial reporting in Hyperinflationary economies;
- IFRIC 8 – Scope of IFRS 2.

Accounting principles, amendments and interpretations not yet applicable

On November 30, 2006, the IASB issued the IFRS 8 –Operating Segments that will become effective for the Group on January 1, 2009 and which will replace IAS 14 – Segment Reporting from that date. The new standard requires the information provided in segment reporting to be based upon the components of the entity that management uses to make decisions about operational matters. The standard requires these operating segments to be identified on the basis of internal reports that are regularly reviewed by an entity's management in order to allocate resources to the segment and assess its performance. Adopting this standard will have no effect on the measurement of items in the financial statements.

On March 29, 2007 the IASB issued a revised version of IAS 23 – Borrowing costs. The standard shall be applied for annual period beginning after 1 January, 2009. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The standard shall be applied to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the 1 January 2009. At the date of this report this document has not yet been endorsed by the European Union.

On July 5, 2007 IFRIC issued the interpretation IFRIC 14 – IAS 19– The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The interpretation is mandatory from January 1, 2008. The interpretation provides general guidance on how to assess the limit in IAS 19 – Employee Benefits on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement. At the balance sheet date, this interpretation had not yet been endorsed by the European Union.

On September 6, 2007 the IASB issued a revised version of IAS 1 - Presentation of Financial Statements that is effective for annual periods beginning on or after 1 January 2009. The revised standard requires an entity to present changes in its equity resulting from transactions with owners in a statement of changes in equity. All non-owner changes (meaning changes in comprehensive income) are required to be presented either in a single statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Transactions with non-owners may not be presented in the statement of changes in equity. This standard had not yet been endorsed by the European Union at the balance sheet date.

The following standards and interpretations have also been issued, but are not applicable to the Group:

- I IFRIC 12 – Service Concession Arrangements (effective from January 1, 2008 but not yet endorsed by the European Union);
- I IFRIC 13 – Customer Loyalty Programmes (effective from January 1, 2009 but not yet endorsed by the European Union).

Note 3 - Risk management

Credit risk

For business purposes, specific policies are adopted in order to guarantee that clients honour payments.
With regards to financial counterparty risk, the Group does not present significant risk in credit-worthiness or solvency.

Liquidity risk

The group is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time. The cash flows, funding requirements and liquidity of Group companies are monitored on a centralized basis of the Group Treasury. The aim of this centralized system is to optimise the efficiency and effectiveness of the management of the Group's capital resources (maintaining the availability of minimum reserves of liquidity that are readily convertible to cash and committed credit).

Currency risk and interest rate risk

As the Group operates mainly in a "Euro area" the exposure to currency risks is limited.
The Group's exposure to interest rate risk is mainly associated to financial loans bearing free float interest rates. The Group manages this risk with the use of interest rate swaps which allows floating interest rates to be transformed to fixed interest rates.
Information related to the fair value of the derivative financial instrument is disclosed in Note 27.

Note 4 - Consolidation

Companies included in consolidation are consolidated on a line-by-line basis.

Change in consolidation compared to 31 December 2006 is related to the incorporation of the following companies:
- Axcel S.r.l.;
- Discovery Reply S.r.l.
- Square Reply S.r.l.
- Target Reply S.r.l.
- Xuccess Consulting GmbH
- Cluster sysko GmbH
- Comit sysko GmbH
- Ibex sysko GmbH

During 2007 Logistics Reply do Brasil Ltda, Logistics Reply SL and Themis Reply S.A have been liquidated.

Note 5 - Revenues

Revenues from sales and services, including change in work in progress, amounted to 277.176 thousand euros and are detailed as follows:

(thousand euros)	2007	2006	Change
Fixed price projects	138.061	119.946	18.115
Time and material	122.260	92.227	30.033
Assistance and maintenance services	13.877	11.966	1.911
Other	2.978	6.025	(3.047)
Total	**277.176**	**230.164**	**47.012**

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

Country	2007	2006
Italy	79,3%	80,4%
Germany	20,7%	19,6%
	100,0%	**100,0%**

Disclosure required by IAS 14 (“Segment reporting”) is provided in Note 33 herein.

Note 6 - Purchases

Detail is as follows:

(thousand euros)	2007	2006	Change
Software licenses for resale	3.620	3.853	(233)
Hardware for resale	866	552	314
Other	2.469	2.121	348
Total	**6.955**	**6.526**	**429**

The items “Software licenses for resale” and “Hardware licenses for resale” include change in inventory.

The item *Other* mainly includes the acquisition of fuel amounting to 1.837 thousand euros (1.550 thousand euros at 31 December 2006) and office material amounting to 295 thousand euros (245 thousand euros at 31 December 2006).

Note 7 - Personnel

Detail is as follows:

(thousand euros)	2007	2006	Change
Payroll employees	120.958	98.229	22.629
Executive Directors	10.940	11.760	(820)
Project collaborators	3.011	3.824	(813)
Total	**134.909**	**113.813**	**21.096**

The increase of 21.096 thousand euros in personnel expenses refers to the overall increase of the Group's business transactions.

Personnel expenses include the fair value of the stock options vested as at 31 December 2007 (597 thousand euros).

Detail of personnel by category is provided below:

(number)	31/12/2007	31/12/2006	Change
Directors	172	132	40
Managers	316	295	21
Staff	1.784	1.498	286
Total	**2.272**	**1.925**	**347**

Human resources comprise mainly electronic engineer and economic and business graduates from the best Italian and forgein Universities.

Note 8 - Services and other costs

Service expenses comprised the following:

(thousand euros)	2007	2006	Change
Commercial and technical consulting	43.177	36.015	7.162
Travelling and professional training expenses	14.468	11.835	2.633
Other service costs	22.726	18.357	4.369
Office expenses	5.645	5.108	537
Lease and rentals	5.931	6.001	(70)
Other	2.468	1.930	538
Total	**94.415**	**79.246**	**15.169**

Change in *Service* and other costs amounted to 15.169 thousand euros and owes to an overall increase in the Groups activities.

Office expenses, amounting to 2.722 thousand euros, include charges from related parties in connection to service contracts for the use of premises and centralised secretarial services.

Note 9 - Amortisation, depreciation and write-downs

Depreciation of tangible assets, amounting to 2.533 thousand euros at 31 December 2007, 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 assets.
Amortization of intangible assets for the year ended 2007 amounted to 1.473 thousand euros. The details are provided at the notes to intangible assets herein.
Furthermore, in compliance to IAS 36, partial impairment of goodwill related to EOS Reply S.r.l. was recognised in the income statement (240 thousand euros).

Note 10 - Other unusual operating income/expenses

Other unusual operating income/expenses amounting to 515 thousand euros are related events falling out of the ordinary course of business.

Note 11 - Result of equity investments

With relation to fiscal year ended 2006, this item was referred to the financial investment in Santer S.p.A., consolidated according to the equity method until 30 June 2006.

Note 12 - Financial income and expenses

Detail is as follows:

(thousand euros)	**2007**	**2006**	**Change**
Financial gains	1.657	1.037	620
Interest expenses	(1.874)	(1.358)	(516)
Other	1	(78)	79
Total	**(216)**	**(399)**	**183**

Interest charges mainly include the interest expenses related to the use of the syndicated bank loan granted by a pool of credit institutions for new M&A operations.

Note 13 - Income taxes

Income taxes for financial year 2007 totalled 19.475 thousand euros and are detailed as follows:

(thousand euros)	2007	2006	Change
IRES and other	17.978	11.852	6.126
IRAP	5.405	4.938	467
Current taxes	**23.383**	**16.790**	**6.593**
Deferred tax liabilities	1.125	2.285	(1.160)
Deferred tax assets	(5.033)	(2.617)	(2.416)
Deferred taxes (prepaid)	**(3.908)**	**(332)**	**(3.576)**
Total income taxes	**19.475**	**16.458**	**3.017**

In 2007, the increase in the charge for income taxes is the consequence of the significant rise in profits from operations.
Tax burden before taxation is equivalent to 51.6% (59.2% in 2006).

Note 14 - Assets, liabilities and result of discontinued operations

In accordance with IFRS 5 illustrated below are the assets, liabilities and result of discontinued operations of Syskoplan Consulting (USA) and Syskoplan Holding (USA), which are no longer running at 31 December 2007.

Detail is as follows:

(thousand euros)	31/12/2007	31/12/2006
Revenue	135	705
Operating costs	(139)	(337)
Income tax	(88)	(300)
Gain/loss from discontinued operations	**(92)**	**68**
Total assets from discontinued operations	660	1.095
Total liabilities from discontinued operations	69	387
Net financial position	511	974
No. employees	1	2

Note 15 - Earnings per share

Basic earnings per share

Basic earnings per share at 31 December 2007 is calculated with reference to the profit for the period of the Group which amounted to 15.719 thousand euros (10.274 thousand euros at 31 December 2006) divided by the weighted average number of shares outstanding during the year which were 8.968.447 (8.733.173 at 31 December 2006).

(euros)	2007	2006
Net profit for the year	15.719.000	10.274.000
Weighted average number of shares	8.968.447	8.733.173
Basic earnings per share	1,75	1,18

Diluted earnings per share

Diluted earnings per share at 31 December 2007 is calculated with reference to the profit for the period of the Group which amounted to 15.719 thousand euros divided by the weighted average number of shares outstanding during the year taking in consideration the diluting effect.

(euros)	2007	2006
Net profit for the year	15.719.000	10.274.000
Weighted average number of shares	8.968.447	8.733.173
Diluting effect	2.400	-
Weighted number of diluted shares	8.966.047	8.733.173
Diluted earnings per share	1,75	1,18

Note 16 - Tangible assets

Tangible assets as at 31 December 2007 amounted to 7.217 thousand euros and are detailed as follows:

(thousand euros)	31/12/2007	31/12/2006	Change
Buildings	3.042	3.243	(201)
Plant and machinery	952	1.018	(66)
Hardware	2.453	1.540	913
Other	770	683	87
Total	**7.217**	**6.484**	**733**

Change in tangible assets during 2007 is summarised in the table below:

(thousand euros)	Buildings	Plant and machinery	Hardware	Other	Total
Historical cost	4.112	4.098	8.211	2.822	19.243
Accumulated depreciation	(869)	(3.080)	(6.671)	(2.139)	(12.759)
Balance at 31 December 2006	**3.243**	**1.018**	**1.540**	**683**	**6.484**
Historical cost					
Additions	-	497	2.449	454	3.400
Disposals	(89)	(208)	(1.053)	(209)	(1.559)
Other changes	-	131	65	14	210
Accumulated depreciation					
Depreciation	(142)	(489)	(1.601)	(301)	(2.533)
Utilisation	30	4	1.099	135	1.268
Other changes	-	(1)	(46)	(6)	(53)
Historical cost	4.023	4.518	9.672	3.081	21.294
Accumulated depreciation	(981)	(3.566)	(7.219)	(2.311)	(14.077)
Balance at 31 December 2007	**3.042**	**952**	**2.453**	**770**	**7.217**

Additions in 2007 amounted to 3.400 thousand euros and were mainly related to computers and network equipment.

The item *Buildings* includes a building belonging to a Syskoplan group company amounting to 3.031 thousand euros which is located in Gutersloh, Germany.
The disposal amounting to 89 thousand euros is related to the sale of a building belonging to Sysproject Reply S.r.l., realising an extraordinary gain of 47 thousand euros.

The item *Other* at 31 December 2007 includes office furniture (425 thousand euros) and improvements to third party assets (184 thousand euros).

Other changes refer to first time consolidation of Axcel S.r.l and a syskoplan group company, Xuccess Consulting GmbH.

At 31 December 2007, 66.1% of tangible assets have been depreciated compared to 66.3% in 2006.

Note 17 - Goodwill

This item includes goodwill arising from consolidation of subsidiaries and the value of business branches purchased against payment from some Group companies.
Detail is as follows as at 31 December 2007:

(thousand euros)	Year of acquisition	% acquired	31/12/2007
@Logistics Reply S.r.l.	2000	30%	459
Cluster Reply S.r.l.	2000	15%	155
Sytel Reply S.r.l.	2000	20%	223
Business Reply S.r.l.	2000	30%	160
YH Reply S.r.l.	2000	100%	16
XYZ Reply S.r.l.	2001	70%	1.554
E* Finance Reply S.r.l.	2001	58%	1.012
Sysproject Reply S.r.l.	2002	100%	1.665
XYZ Reply S.r.l.	2003	30%	864
IrisCube Reply S.p.A.	2003	51%	2.594
Planet Reply S.r.l. (now Sytel Reply S.r.l.)	2004	20%	1.191
Blue Reply S.r.l.	2004	12%	285
E* Finance Reply S.r.l.	2005	42%	1.549
EOS Reply S.r.l.	2005	(*)	360
Discovery Reply S.r.l.	2005	(*)	210
IrisCube Reply S.p.A.	2005	49%	4.069
Spike Reply S.r.l.	2005	10%	298
syskoplan AG	2006	63.76%	9.611
Macros Innovation (**)	2006	100%	4.652
Interactiv! (**)	2006	85.1%	1.745
discovery sysko GmbH (**)	2006	100%	11
Santer Reply S.p.A.	2002 - 2006	53.77%	1.062
Xuccess Consulting GmbH (**)	2007	100%	5.708
Axcel S.r.l.	2007	100%	808
Other (*)		(*)	235
Total			**40.496**

(*) business branch acquisition
(**) syskoplan Group company

Change in Goodwill in 2007 was as follows:

(thousand euros)	
Balance at 31 December 2006	**34.218**
Increases	6.518
Impairment	*(240)*
Balance at 31 December 2007	**40.496**

Increase in 2007 refers to:

- Axcel S.r.l. (808 thousand euros)

  In the month of June Reply S.p.A. acquired the 100% stake in Axcel S.r.l., a related party that has been doing business with the group for some time. Axcel S.r.l. is in the process of becoming a competence centre in the broad band telecommunication and wireless fields. The acquisition was carried out through a share capital increase, with the exclusion of stock option rights, to be paid through contribution in kind of the same equity investment.

- Xuccess Consulting GmbH (5.708 thousand euros)

  In February 2007 syskoplan AG acquired the 100% share capital of Xuccess Consulting GmbH, a German company specialised in Consultancy and System Integration.
  The acquisition was finalised by a cash payment and syskoplan share contribution.

With reference to the aforementioned operations, the allocation of the cost of the investments in the fair value of the assets and liabilities acquired was completed by the end of 2007. Therefore, the Goodwill stated is to be considered final.

The following table shows how Goodwill for the above transactions was determined.

(thousand euros)	Carrying amount	Fair value
Tangible and intangible assets	157	157
Financial asset	15	15
Trade receivables and other receivables	2.880	3.093
Cash and cash equivalents	967	967
Trade payables and other payables	(3.215)	(2.860)
Deferred tax	(5)	(86)
Net assets acquired	**799**	**1.286**
Value of transaction		7.804
Goodwill		**6.518**

The item *Impairment* of 240 thousand euros refers to the partial depreciation of goodwill related to the company EOS Reply.

Goodwill was subject to the impairment test as required by IAS 36. This assessment, to be carried out at least once a year, was performed at the level of the Cash Generating Units (CGU), to which value of goodwill is attributed.

The impairment model adopted by Reply is based on an "Unlevered Discounted Cash Flow Analysis" and the figures used in the formula are taken from the financial statements, accounting ledgers and the 3 year business plan of each CGU.

The analysis is carried out on the basis of the strategic planning of the Group that presents a three planning.

The main assumptions used in the impairment model are the following

- the discount rate: reflects the cost of money on the market considering specific risks of the single CGU, if present;
- the growth rate: assumed according to the expected growth of the single business areas to which the same CGU belong, varying from 7 % to 13 %.

As to all CGUs subject to impairment test, no indications emerged that such business may have been subject to impairment with the exception of EOS Reply S.r.l.

Goodwill recognized as at 31 December 2007 does not present any impairment of value as confirmed by the expected financial results and related cash flows

For some group companies (evidenced in the annexed table "Companies included in consolidation") an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. As at 31 December 2007, the assessment of the achievement of such parameters did not lead to any impact on the financial statements as the underlying assumptions are highly variable and the commitments not very significant.

Note 18 - Other intangible assets

Intangible assets as at 31 December 2007 amounted to 3.015 thousand euros (2.128 thousand euros at 31 December 2006).

Detail is as follows:

(thousand euros)	**Historical cost**	**Accumulated amortisation**	**Net book value at 31/12/2007**
Development costs	5.135	(3.864)	1.271
Software	8.462	(7.238)	1.224
Trademarks	520	-	520
Total	**14.117**	**(11.102)**	**3.015**

Change in intangible assets during 2007 is summarised in the table below:

(thousand euros)	**Net book value at 31/12/2006**	**Increases**	**Accumulated amortisation**	**Net book value at 31/12/2007**
Development costs	794	1.000	(523)	1.271
Software	823	1.351	(950)	1.224
Trademarks	511	9	-	520
Total	**2.128**	**2.360**	**(1.473)**	**3.015**

Development costs are related to the Click Reply™ and Discovery™ products and are accounted for in accordance with provisions of IAS 38.

The item *Software* is related mainly to software licenses purchased and used internally by the Group companies. This item also includes work in progress of internally developed software for 484 thousand euros.

The item *Trademarks* expresses the value of the "Reply" trademark granted on June 9, 2000 to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) in connection to the Company's share capital increase that was resolved and undersigned by the Parent Company Alister Holding SA. Such amount is not subject to systematic amortisation and does not show signs of impairment in terms of expected financial results and related cash flows.

Note 19 - Equity investments

The item *Equity investments* is as follows:

(thousand euros)	31/12/2007	31/12/2006	Change
Investments in other non consolidated companies	-	10	(10)
Total	**-**	**10**	**(10)**

The item *Investments in other non consolidated companies* at 31 December 2006 was related to the company Discovery S.r.l. which was consolidated on a line-by-line basis in 2007.

Note 20 - Other financial assets

Other financial assets amounted to 2.954 thousand euros and are all referred to non-current assets.

Detail is as follows:

(thousand euros)	31/12/2007	31/12/2006	Change
Receivables from insurance companies	2.123	553	1.570
Guarantee deposits	831	290	541
L/T securities	-	238	(238)
Short term securities	-	1.480	(1.480)
Total	**2.954**	**2.561**	**393**

The *item Receivables from insurance companies* is related mainly to the insurance premium paid against directors' severance indemnities carried out by the syskoplan group.

The increase compared to the previous year owes to the restatement of the insurance premiums paid that in the previous year were offset against the related pension liability.

Note 21 - Deferred tax assets

This item amounted to 5.141 thousand euros at 31 December 2007 (4.644 thousand euros at 31 December 2006), and includes the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.

It should be noted that the Italian Group has adjusted the balance of this item in order to acknowledge the changes introduced in Italy by the Law no. 244 of 24 December, 2007 (IRES at 27.5% and IRAP at 3.9%).

The effect of the adoption brought a reduction to deferred tax assets of 64 thousand euros.

Detail of deferred tax assets is provided at the table below:

(thousand euros)	31/12/2006	Statements 2007	Reversals 2007	31/12/2007
Write down of equity investments deductible in 5 years	150	-	(150)	-
Prepaid tax on costs that will become deductible in future years	3.616	4.539	(4.219)	3.936
Prepaid tax on greater provision for doubtful accounts	107	78	-	185
Deferred fiscal deductibility of amortization	328	41	(36)	333
Consolidation adjustments and other items	443	375	(131)	687
Total	**4.644**	**5.033**	**(4.536)**	**5.141**

Note 22 - Inventories

The item inventories amounted to 8.691 thousand euros and is detailed below:

(thousand euros)	31/12/2007	31/12/2006	Change
Contract work in progress	27.505	21.228	6.277
Finished products and goods for resale	436	7	429
Advance payments from customers	(19.250)	(15.910)	(3.340)
Total	**8.691**	**5.325**	**3.366**

Contract work in progress at 31 December 2007 includes contract revenue amounting to 8.617 thousand euros.

Note 23 - Trade receivables

Trade receivables at 31 December, 2007 amounted to 121.128 thousand euros with an increase of 9.379 thousand euros.
Trade receivables are shown net of allowances for doubtful accounts of 1.577 thousand euros at 31 December 2007 (1.400 thousand euros at 31 December 2006).

(thousand euros)	31/12/2007	31/12/2006	Change
Domestic receivables	109.150	103.276	5.874
Foreign trade receivables	14.335	10.348	3.987
Credit notes to be issued	(780)	(475)	(305)
Total	**122.705**	**113.149**	**9.556**
Allowance for doubtful accounts	(1.577)	(1.400)	(177)
Total trade receivables	**121.128**	**111.749**	**9.379**

Allowance for doubtful accounts during 2007 evolved as follows:

(thousand euros)	31/12/2006	Provisions	Use	31/12/2007
Allowance for doubtful accounts	1.400	375	(198)	1.577

Over due trade receivables and the corresponding allowance for doubtful accounts is summarised in the tables below:

					Overdue 2007		
	Trade receivables	current	1-90 days	91-180 days	181-360 days	over 360 days	Total overdue
Trade receivables	122.705	102.325	17.381	1.187	594	1.218	20.380
Allowance for doubtful accounts	(1.577)	-	(178)	(81)	(100)	(1.218)	(1.577)
Total trade receivables	**121.128**	**102.325**	**17.203**	**1.106**	**494**	**-**	**18.803**

					Overdue 2006		
	Trade receivables	current	1-90 days	91-180 days	181-360 days	over 360 days	Total overdue
Trade receivables	113.149	100.879	6.547	2.025	1.277	2.421	12.270
Allowance for doubtful accounts	(1.400)	-	-	(98)	(128)	(1.173)	(1.400)
Total trade receivables	**111.749**	**100.879**	**6.547**	**1.927**	**1.149**	**1.248**	**10.870**

Note 24 - Other receivables and current assets

Detail is as follows:

(thousand euros)	31/12/2007	31/12/2006	Change
Tax receivables	2.695	1.491	1.204
Advances to employees	198	112	86
Other receivables	567	716	(149)
Accrued income and prepaid expenses	1.568	2.106	(538)
Total	**5.028**	**4.425**	**603**

The item tax receivables mainly included:

- Vat tax receivables (1.368 thousand euros);
- Advance payment on income tax for some Italian companies (764 thousand euros);
- Receivables for withholding tax (178 thousand euros).

Note 25 - Cash and cash equivalents

This item amounted to 40.810 thousand euros, with an increase of 7.111 thousand euros compared to 31 December 2006, and reflects the amount of cash at banks and on hand at the balance sheet date.
Change in cash and cash equivalents is fully detailed in the consolidated statement of cash flow.

Note 26 - Shareholders' equity

Share capital

As at 31 December 2007 the fully subscribed paid-in share capital of the Parent Company Reply S.p.A. amounted to 4.721.558 euros and is made up of 9,079,920 ordinary shares, par value 0,52 euros per share.

Change in the period is due to:

- The acquisition of the total minority shares of the company Axcel S.r.l. for a total value of 1.199.997 euros of which 26.840 euros as share capital increase and 1.173.157 euros as share premium;
- The exercising of no. 101,400 stock option rights for a total amount of 973.717 euros of which 52.728 euros as share capital increase and 920.989 euros as share premium.

The objectives identified by Reply S.p.A for managing capital are to create value for stockholders as a whole, to safeguard business continuity and support the growth of the Group. As a result Reply S.p.A. endeavours to maintain an adequate level of capital that at the same time enables it to obtain a satisfactory economic return for its stockholders and guarantee economic access to external sources of funds, including in this by means of achieving an adequate rating.

Other reserves

Other reserves comprised the following:

(thousand euros)	31/12/2007	31/12/2006	Change
Share premium reserve	17.551	25.530	(7.979)
Legal reserve	930	930	-
Reserve for treasury shares on hand	1.253	224	1.029
Reserve for purchase of treasury shares	28.747	19.703	9.044
Reserve for cash flow hedges	458	351	107
Retained earnings and other	25.113	17.453	7.660
Total	**74.052**	**64.191**	**9.861**

As at 31 December 2007 the *Share premium reserve* amounted to 17.551 thousand euros. Change of 7.979 thousand euros compared to 31 December 2006 is owing to the increase in the share capital as mentioned above (2.094 thousand euros) and the constitution of the *Reserve for purchase of treasury shares* following the resolution made by the Shareholders' Meeting of 14 June 2007 (10.073 thousand euros).

No changes have occurred in *Legal Reserve* during 2007.

The *Reserve for treasury shares on hand* amounting to 1.253 thousand euros, is related to shares held by the Parent company that as at 31 December 2007 were equal in number to 69,499. During 2007 Reply S.p.A. acquired 40,000 ordinary shares for a total out payment of 1.029 thousand euros.

The *Reserve for purchase of treasury shares,* amounting to 28.747 thousand euros was constituted through withdrawal from the *Reserve for treasury shares on hand,* following the resolution made by the General Shareholders Meeting of Reply S.p.A. which authorised, pursuant to art. 2357 of the Italian Civil Code, the purchase of a maximum of 30 million euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

The *Reserve for cash flow hedges* includes the effects deriving from financial hedge instruments measured at fair value.

Retained earnings and other includes the effects deriving from the costs related to the existing Stock Option Plans as at 31 December 2007 and the expenses related to the share capital increase.

Share based payment plans

The Group has share based payment plans for its employees.

The 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.

As mentioned in Note 2, with reference to share-based payment plans, the Group has applied the standard set out by IFRS 2 "Share-based payment" and has applied it to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005, and are related to the stock options plans of 2004 and 2006. With reference to these plans, the cost incurred for Reply S.p.A. share-based payments amounted to 597 thousand euros (406 thousand euros in 2006).

Stock option plan linked to the Parent Company

The Extraordinary Shareholders' Meeting of Reply S.p.A. 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.

The Board of Directors' of the Parent Company in charge of the stock option plan, has assigned stock options to more than 200 employees and directors of the group companies.

As 31 December 2007 the number of stock options were 168,400 and can be summarised as follows:

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

During 2007 no. 101,400 options were exercised in reference to plans summarised in the table below:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2002	11/06/2002	13/05/2004	9	9,416	11/11/2008 – 11/11/2013	89.000
2004	11/06/2004	11/11/2002	2	10,943	12/05/2009 – 12/05/2014	12.400

Stock option plans linked to Syskoplan AG

The Extraordinary Shareholders' Meeting of syskoplan AG of 20 September 2000 resolved the increase of the share capital by assigning no. 300,000 new ordinary shares of Syskoplan AG to employees and directors of the group.

At 31 December 2007 the main characteristics of the plan as resolved by the Shareholders' are detailed below:

Plan	Resolution of the General Shareholders' meeting	No. beneficiaries	Exercise price	Vesting period	No. options
2001	12/04/2001	300	21,16	12/04/2003 – 12/04/2008	73.499
2002	22/04/2002	317	22,08	22/04/2004 – 22/04/2009	48.612
2003	24/04/2003	323	6,71	24/04/2005 – 24/04/2010	45.405
2004	07/04/2004	329	7,63	07/04/2006 – 07/04/2011	71.407

In 2007 13,893 ordinary shares were exercised and at 31 December 2007 13,045 are still to be exercised.

Note 27 - Financial liabilities

Detail is as follows:

(thousand euros)	31/12/2007			31/12/2006		
	current	non current	Total	current	non current	Total
Advances on receivables and bank overdrafts	4	-	4	6	-	6
Financial bank borrowings	3.929	26.897	30.826	3.937	25.750	29.687
Total due to banks	**3.933**	**26.897**	**30.830**	**3.943**	**25.750**	**29.693**
Other financial borrowings	155	343	498	-	-	-
Total financial liabilities	4.088	27.240	31.328	3.943	25.750	29.693

The future out payments of the financial liabilities are detailed as follows:

(thousand euros)	31/12/2007				31/12/2006			
	Within one year	Between 1 and 5 years	Over 5 years	Total	Within one year	Between 1 and 5 years	Over 5 years	Total
Advances on receivables and bank overdrafts	4	-	-	**4**	6	-	-	**6**
Syndicated loan- Intesa SanPaolo Tranche A	4.000	-	-	**4.000**	4.000	4.000	-	**8.000**
Syndicated loan- Intesa SanPaolo Tranche B	-	25.730	-	**25.730**	-	20.453	-	**20.453**
Commerzbank	200	545	863	**1.608**	200	1.627	-	**1.827**
Other financial borrowings	155	343	-	**498**	-	-	-	-
Fair Value IRS and other	(271)	(241)		**(512)**	(263)	(330)	-	**(593)**
Total	**4.088**	**26.377**	**863**	**31.328**	**3.943**	**25.750**	**-**	**29.693**

The *Syndicated loan* is referred to the partial utilization of the credit facility for a maximum amount of 66 million euros as undersigned on December 30, 2005 by Reply S.p.A. with Intesa SanPaolo, pool leader of a group of banks for the granting of the loan.

The maximum total amount of 66 million euros has been divided in two tranches:

- Tranche A can be used as an overdraft for a maximum amount of 12.000.000 euros with the purpose of entirely reimbursing the previous loan. Instalments are paid on a half year basis (Euribor 6 months + 0.75%) and the loan expires on 31 December 2008.
- Tranche B can be used as an overdraft and/or as a performance guarantee for a maximum amount of 54.000.000 with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalised at the acquisition of companies, strategic investments or shares. Instalments are paid on a half year basis commencing June 30, 2009 (Euribor 6 months + 0.75%) and the loan expires on 31 December 2011.

Throughout the duration of the contract and until the loan is completely reimbursed, Reply S.p.A. must achieve predetermined ratios (Covenants) of economic and financial nature calculated on the consolidated financial statements as at 31 December of each year.

As contractually defined, such ratios are as follows:

- Net financial indebtedness / Equity ≤ 1,5
- Net financial indebtedness / Ebitda ≤ 3,0

At the balance sheet date the Covenants established by the loan have been fully achieved by the company.

The loan with *Commerzbank* is referred to a loan undersigned by syskotool, a syskoplan Group company, for the acquisition of the building in which the parent company has its registered office. Instalments are paid on a half year basis (at a rate of 2.28%) and expires on 30 September 2019.

Other financial borrowings are related to financial leases determined according to IAS 17 for some syskoplan Group companies.

Fair value IRS and other is mainly related to the fair value of the cash flow hedge.

Net financial position

In compliance with Consob regulation issued on July 28, 2006 and in accordance with CESR's *Recommendations for the consistent implementation of the European's regulation on Prospectuses issued* on February 10, 2005, the Net financial position at 31 December 2007 was as follows:

(thousand euros)	31/12/2007	31/12/2006	Change
Liquidity			
- Cash and cash equivalents	40.810	33.699	7.111
- Cash and cash equivalents included in discontinued operations	*356*	*974*	*(618)*
Current financial assets	-	1.480	(1.480)
Non-current financial assets	425	238	187
Non-current assets included in discontinued operations	*155*	*-*	*155*
Total financial assets	**41.746**	**36.391**	**5.355**
Current financial liabilities	(4.088)	(3.943)	(145)
Non current financial liabilities	(27.240)	(25.750)	(1.490)
Total financial liabilities	**(31.328)**	**(29.693)**	**(1.635)**
Total net financial position	**10.418**	**6.698**	**3.720**

Note 28 - Employee benefits

Detail is as follows:

(thousand euros)	31/12/2007	31/12/2006	Change
Employee severance indemnities	10.367	11.731	(1.364)
Employee pension funds	2.232	746	1.486
Directors severance indemnities	704	649	55
Other	59	84	(25)
Total	**13.362**	**13.210**	**152**

Benefits to employees that fall within the Italian regulation of Employee severance indemnities (TFR) are considered by IAS 19 as "post employment benefits" of the "defined benefits" type and are therefore subject to valuation by means of the actuarial procedure. As already mentioned in Note 2, the changes in the regulation in the matter of post-employment benefit plan ("TFR") provided for in Italian Law No. 296 of 27 December (the "2007 Budget Law") and the subsequent implementation Decrees and Regulations, companies with at least 50 employees must transfer, in accordance to the choice made by the employee, the severance indemnities (TFR) accrued after January 1, 2007, to complementary welfare funds as per Legislative Decree 252/05 or to a specific Fund (Treasury Funds) instituted at INPS – the Italian National Social Security Board - in order to transfer to the employees the severance indemnities in accordance with art. 2120 of the Italian Civil Code.

From an accounting point of view, the liability for severance indemnities must be calculated through the "Projected Unit Credit Method".

The procedure for the determination of the Company's obligation with respect to employees was carried out by an independent actuary according to the following stages:

- Projection of the Employee severance indemnity already accrued at the assessment date and of the portions that will be accrued until when the work relationship is terminated or when the accrued amounts are partially paid as an advance on the Employee severance indemnities;
- Discounting, at the valuation date, of the expected cash flows that the company will pay in the future to its own employees;
- Re-proportioning of the discounted performances based on the seniority accrued at the valuation date with respect to the expected seniority at the time the company must fulfil its obligations. In accordance to the 2007 Budget Law, the re-proportioning was applied only to those companies having less than 50 employees and that have chosen not to transfer the severance indemnities to complementary welfare funds.

Reassessment of Employee severance indemnities in accordance to IAS 19 was carried out "ad personam" and on the existing employees, that is analytical calculations were made on each employee in force in the company at the assessment date without considering future work force.

The actuarial valuation model is based on the so called technical bases which represent the demographic, economic and financial assumptions underlying the parameters included in the calculation.

The assumptions adopted can be summarised as follows:

Demographic assumptions	
Mortality	ISTAT 2000 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: - Frequency of advances in 2007: 2.50% - Frequency of turnover % 2007: 10%

Economic and financial assumptions	
Annual inflation rate	Constant average annual rate equal to 2%
Annual discount rate	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2007 was 4.6%
Annual growth rate of the Employee severance indemnities	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one percentage point.
Annual increase in salaries	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment (3.00 to 4.50%)

In accordance to IAS 19 Employment severance indemnities at 31 December 2007 is summarised in the table below:

(thosand euros)	
Balance at 31/12/2006	**11.731**
Service cost	1.571
Actuarial gain/loss	(484)
Interest cost	508
Employee severance indemnities paid during the year	(2.437)
Curtailment	(668)
Other changes	146
Balance at 31/12/2007	**10.367**

The *Actuarial gains and losses* and *Interest cost* are generated from the valuation of the fund according to the actuarial method recalculated at 1 January 2007 in accordance with the reform and are stated in the income statement as personnel costs (2.225 thousand euros).

As already mentioned, following the changes envisioned in the 2007 Budget Law and the following Decrees and Implementation Regulations, the amounts related to the post-employment benefit plan accrued until 31 December 2006 (11.731 thousand euros) have been re-measured in order to adapt the actuarial method previously applied to determine the future obligation of the company in relation to the new actuarial hypothesise (a revaluation rate, specifically set by law for this balance sheet item, replaces the salary increase projections). Due to the fact that this liability has totally come to maturity, the new method does not take anymore into account the pro-rata service provided by the employee on the entire expected employment period. Such re-calculation implied a curtailment of a non recurrent proceed equal to 668 thousand euros.

Note 29 - Deferred tax liabilities

Deferred tax liabilities at December 31, 2007 amounted to 4.264 euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

The Italian companies of the Group have adjusted this item in order to implement the changes introduced by the Law no. 244 of 24 December 2007 which provides for a change in the IRES and IRAP tax rates.

This adjustment resulted in a decrease of 86 thousand euros in the deferred tax liabilities.

(thousand euros)	
Costs stated only for tax return purposes	978
Other costs	3.286
Balance at 31/12/2007	**4.264**

Other costs not yet tax deductible mainly include the measurement of contract work in progress, employee benefits, capitalisation of development costs and reversal of amortisation of intangible assets.

Note 30 - Provisions

Provisions amounted to 11.854 thousand euros (of which 4.024 thousand euros non current).
Change in 2007 is summarised in the table below.

(thousand euros)	Balance at 31/12/2006	Accruals	Utilization	Change in consolidation	Other	Balance at 31/12/2007
Payables to minority shareholders	3.565	-	-	-	55	3.620
Fidelity provisions	2.011	2.323	(1.391)	565	(354)	3.154
Purchase price adjustment provision	1.374	2.149	(322)	-	-	3.201
Restructuring provisions	630	-	(362)	-		268
Warrantee provisions	733	99	(652)	-	-	180
Provision for other risks	1.586	1.446	(1.777)	176	-	1.431
Total	**9.899**	**6.017**	**(4.504)**	**741**	**(299)**	**11.854**

Payables to minority shareholders for 3.620 thousand euros represents the fair value of the minority interest equal to 49% of is4, a syskoplan group company. This amount has been stated according to IAS 32 as syskoplan has signed a put option agreement with the minority shareholders to be exercised with a 12 months notice.

Fidelity provisions are referred mainly to provisions made for some syskoplan group companies in relation to anniversary bonuses.

The provisions for *Purchase price adjustments* cover the earn-out components of acquiring shares in some syskoplan group companies.

Restructuring provision includes employee leave incentives.

The *Warranty provision* represents management's best estimate of commitments given by the Group for contractual, legal or constructive obligations which can arise after termination of a project.

The *Provision for other risks* represents the amounts set aside by the individual companies of the Group principally in connection with contractual and commercial risks and disputes.

Note 31 - Trade payables

Trade payables as at 31 December 2007 amounted to 25.334 thousand euros with a change of 6.470 thousand euros compared to year end 2006.
Detail is as follows:

(thousand euros)	31/12/2007	31/12/2006	Change
Domestic suppliers	24.050	18.866	5.184
Foreign suppliers	2.064	771	1.293
Advances to suppliers	(780)	(773)	(7)
Total	**25.334**	**18.864**	**6.470**

Note 32 - Other current liabilities

Other current liabilities as at 31 December 2007 amounted to 41.723 thousand euros with a change of 4.474 thousand euros compared to 2006.
Details are provided below:

(thousand euros)	31/12/2007	31/12/2006	Change
Income tax payable	3.522	4.291	(769)
VAT payable	2.694	4.029	(1.335)
Withholding tax and other	2.588	2.149	439
Total due to tax authorities	**8.804**	**9.816**	**(1.012)**
INPS	7.051	5.631	1.420
Other	656	327	329
Total due to social security authorities	**7.707**	**5.958**	**1.749**
Employee accruals	10.515	8.590	1.925
Other payables	12.214	8.648	3.566
Accrued expenses and deferred income	2.483	3.584	(1.101)
Total other payables	**25.212**	**20.822**	**4.390**
Total other payables and current liabilities	**41.723**	**37.250**	**4.473**

Due to tax authorities amounting to 8.804 thousand euros, mainly refers to payables due to tax authorities for withholding tax on employees and professionals' compensation

Other payables to social security authorities amounted to 7.707 thousand euros and refer to amounts payable for employee and employer contributions.

Other payables at 31 December 2007 amounted to 25.212 thousand euros and include:
- Amounts due to employees that at the balance sheet date had not yet been paid (10.515 thousand euros);
- Amounts due to directors (approximately 7 million euros).

Note 33 - Segment reporting

Segment reporting has been prepared in accordance to IAS 14, determined as the area in which the services are executed.

Economic figures (thousand euros)	**Italy**	**%**	**Germany**	**%**	**Intrasegment**	**Total 2007**	**%**
Revenues	219.802	100.0	57.472	100.0	(98)	277.176	100.0
Operating costs	(184.814)	(84.1)	(50.178)	(87.3)	98	(234.894)	(84.7)
Gross operating income	**34.988**	**15.9**	**7.294**	**12.7**	**-**	**42.282**	**15.3**
Amortisation, depreciation and write-downs	(2.842)	(1.3)	(1.404)	(2.4)	-	(4.246)	(1.5)
Operating income	**32.146**	**14.6**	**5.890**	**10.2**	**-**	**38.036**	**13.8**

Balance sheet figures	**31/12/2007**				**31/12/2006**		
(thousand euros)	**Italy**	**Germany**	**Intrasegment**	**Total**	**Italy**	**Germany**	**Total**
Net invested capital							
Current operating assets	122.637	12.425	(66)	134.996	113.574	8.046	121.620
Current operating liabilities	(61.122)	(10.094)	66	(71.150)	(52.230)	(9.452)	(61.682)
Net working capital (A)	**61.515**	**2.331**	**-**	**63.846**	**61.344**	**(1.406)**	**59.938**
Non current assets	39.062	19.336	-	58.398	37.237	11.090	48.327
Non current liabilities	(15.866)	(9.590)	-	(25.456)	(16.746)	(4.629)	(21.375)
Net fixed assets (B)	**23.196**	**9.746**	**-**	**32.942**	**20.491**	**6.461**	**26.952**
Net invested capital (A+B)	**84.263**	**12.077**	**-**	**96.788**	**81.835**	**5.055**	**86.890**

Note 34 - Additional disclosures to financial instruments and risk management policies

Types of financial risks and corresponding hedging activities

Reply has determined the guide lines in managing financial risks. In order to maximise costs and the resources Reply S.p.A. has centralised all of the groups risk management. Reply S.p.A. has the task of gathering all information concerning possible risk situations and define the corresponding hedge.

As described in the section "Risk management", the Group constantly monitors the financial risks to which it is exposed, in order to detect those risks in advance and take the necessary action to mitigate them.

The following section provides qualitative and quantitative disclosures on the effect that these risks may have upon the Group.

The quantitative data reported in the following do not have any value of a prospective nature, in particular the sensitivity analysis on market risks, is unable to reflect the complexity of the market and its related reaction which may result from every change which may occur.

Credit risk

The maximum credit risk to which the Group is theoretically exposed at December 31, 2007 is represented by the carrying amounts stated for financial assets in the balance sheet

Balances which are objectively uncollectible either in part or for the whole amount are written down on a specific basis if they are individually significant. The amount of the write-down takes into account an estimate of the recoverable cash flows and the date of receipt, the costs of recovery and the fair value of any guarantees received. General provisions are made for receivables which are not written down on a specific basis, determined on the basis of historical experience.

A quantative analysis is provided in Note 23.

Liquidity risk

The Group is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.

The two main factors that determine the Group's liquidity situation are on one side the funds generated by or used in operating and investing activities and on the other the debt lending period and its renewal features or the liquidity of the funds employed and market terms and conditions.

As described in the Risk management section, the Group has adopted a series of policies and procedures whose purpose is to optimise the management of funds and to reduce the liquidity risk, as follows:

- centralising the management of receipts and payments, where it may be economical in the context of the local civil, currency and fiscal regulations of the countries in which the Group is present;
- maintaining an adequate level of available liquidity;
- monitoring future liquidity on the basis of business planning.

Management believes that the funds and credit lines currently available, in addition to those funds that will be generated from operating and funding activities, will enable the Group to satisfy its requirements resulting from its investing activities and its working capital needs and to fulfil its obligations to repay its debts at their natural due date.

Currency risk

The Reply Group has a limited exposure to exchange rate risk; the Group's turnover denominated in foreign currency is approximately 2%.
The Group therefore does not deem necessary hedging exchange rates.

Interest rate risk

The Group makes use of external funds obtained in the form of financing and invest in monetary and financial market instruments. Changes in market interest rates can affect the cost of the various forms of financing, including the sale of receivables, or the return on investments, and the employment of funds, causing an impact on the level of net financial expenses incurred by the Group.

In order to manage these risks, the Group uses interest rate derivative financial instruments, mainly interest rate swaps with the object of mitigating, under economically acceptable conditions, the potential variability of interest rates on the net result.

Sensitivity analysis

In assessing the potential impact of changes in interest rates, the Group separates fixed rate financial instruments (for which the impact is assessed in terms of fair value) from floating rate financial instruments (for which the impact is assessed in terms of cash flows).

Floating rate financial instruments include principally cash and cash equivalents and part of debt.

A hypothetical, unfavourable and instantaneous change of 50 basis points in short-term interest rates at December 31, 2007, applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 165 thousand euros (140 thousand euros at December 31, 2006).

This analysis is based on the assumption that there is a general and instantaneous change of 50 basis points in interest rates across homogeneous categories. A homogeneous category is defined on the basis of the currency in which the financial assets and liabilities are denominated.

Note 35 - Transactions with Related parties

On the face of the consolidated financial statements the economic and financial effects deriving from transactions with group companies, that is consolidated companies, are eliminated.

Transactions carried out by the group companies with related parties that as of the reporting date are Alika S.r.l. are considered ordinary business and are carried out at normal market conditions.

The main economic and financial transactions with related parties is summarised below.

Main economic and financial transactions

(thousand euros)	2007	Nature of transaction
Financial transactions		
Trade receivables and other	67	Receivables from professional services
Trade payables and other	371	Payables for professional services and office rental
Economic transactions		
Services from Parent company and related parties	2.722	Services related to office rental and office of the secretary

In accordance with Consob Resolution no. 15519 of July 27, 2006 and Consob communication no. DEM/6064293 of July 28, 2006 the financial statements present the Consolidated Income statement and Balance Sheet showing transactions with related parties separately, together with the percentage incidence with respect to each account caption. The above can be found in the annexed tables.

Pursuant to art. 150, paragraph 1 of the Italian Legislative Decree no. 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.

Note 36 - Emoluments to Directors, Statutory Auditors and Key Management

The fees of the Directors and statutory Auditors of Reply S.p.A. for carrying out their respective function, including those in other consolidated companies, are as follows:

(thousand euros)	**2007**	**2006**
Directors	1.807	1.753
Statutory Auditors	82	62
Total	**1.889**	**1.815**

The fees to Key management amounted to approximately 1.688 thousand euros and include the accrual for director severance indemnities (38 thousand euros).

Note 37 - Guarantees, commitments and contingent liabilities

Guarantees, commitments and contingent liabilities, where existing, have been disclosed at the item to which they refer.

Certain claims against Sytel Reply S.r.l. with regards to the use of unauthorised software is still pending. Given this fact and the specific conditions of the related proceedings, the possible outcome of the claim cannot be reasonably estimated and, therefore the likelihood of any costs to be borne cannot be determined.

Note 38 - Events subsequent to December 31, 2007

In March 2008 the Reply Group, through Spike Reply S.r.l. acquired from Kyneste S.p.A., an infrastructure technological company part of the Unicredit Group, the 100% share capital of Communication Valley S.p.A., a company which operates in consultancy and integration and management of IT security systems.

Communication Valley S.p.A was founded in 1996 and since 2000 has been part of Kyneste. It has headquarters in Parma with a staff of 59 people and in 2007 generated revenues of 9,1 million euros, EBITDA of 17.6%, EBIT of 16.9% and a net equity of 9.5%. The company has grown at an average annual rate of 46% in the period 2003-2007.

Reply has financed the 14.5 million euros acquisition through the credit line facility granted for M&A operations in 2005.

Reply, with the acquisition of Communication Valley S.p.A., is able to expand its services to the Business Security and data protection segments.

_**Annexed** tables

Consolidated income statement
pursuant to Consob Resolution No. 15519 of July 27, 2006

(thousand euros)	2007	Of which related parties	%	2006	Of which related parties	%
Revenues	277.176	-	-	230.164	37	0.0%
Other revenues	1.900	-	-	1.386	-	-
Purchases	(6.955)	-	-	(6.526)	-	-
Personnel expenses	(134.909)	-	-	(113.813)	-	-
Services and other costs	(94.415)	2.722	2.9%	(79.246)	3.825	4.8%
Amortisation and write-offs	(4.246)	-	-	(3.616)	-	-
Other unusual operating income/expenses	(515)	-	-	(503)	-	-
Operating income	**38.036**			**27.846**		
Result of equity investments		-	-	350	-	-
Financial income/(expenses)	(216)	-	-	(399)	-	-
Result before tax of continuing operations	**37.820**			**27.797**		
Income taxes	(19.475)	-	-	(16.458)	-	-
NET RESULT CONTINUING OPERATIONS	**18.345**			**11.339**		
Result of discontinued operations	(92)	-	-	68	-	-
Minority interest	(2.534)	-	-	(1.133)	-	-
GROUP NET RESULT	**15.719**			**10.274**		
Earnings per share	1,75			1,18		
Diluted earning per share	1,75			1,18		

Consolidated balance sheet
pursuant to Consob Resolution No. 15519 of July 27, 2006

(thousand euros)	31/12/2007	Of which related parties	%	31/12/2006	Of which related parties	%
Tangible fixed assets	7.217	-	-	6.484	-	-
Goodwill	40.496	-	-	34.218	-	-
Other intangible assets	3.015	-	-	2.129	-	-
Equity investments	-	-	-	10	-	-
Other financial assets	2.954	-	-	1.081	-	-
Deferred tax assets	5.141	-	-	4.644	-	-
Non current assets	**58.823**	**-**	**-**	**48.566**	**-**	**-**
Inventories	8.691	-	-	5.325	-	-
Trade receivables	121.128	67	0.1%	111.749	11	0.0%
Other receivables and current assets	4.774	-	-	4.425	-	-
Deferred tax assets	254	-	-	1.480	-	-
Financial assets	40.810	-	-	33.699	-	-
Current assets	**175.657**	**67**	**-**	**156.678**	**11**	
Total assets from discontinued operations	660	-	-	1.095		
TOTAL ASSETS	**235.140**	**67**		**206.339**	**11**	
Share capital	4.722	-	-	4.642	-	-
Other reserves	74.052	-	-	64.191	-	-
Net result	15.719	-	-	10.274	-	-
Group Shareholders' equity	**94.493**	**-**		**79.107**	**-**	
Minority interest	12.713	-	-	14.481	-	-
TOTAL SHAREHOLDERS' EQUITY	**107.206**	**-**		**93.588**	**-**	
Financial liabilities	27.240	-	-	25.750	-	-
Employee benefits	13.362	-	-	13.210	-	-
Deferred tax liabilities	4.264	-	-	3.447	-	-
Other provisions	7.830	-	-	4.718	-	-
Non current liabilities	**52.696**	**-**		**47.125**	**-**	
Financial liabilities	4.088	-	-	3.943	-	-
Trade payables	25.334	371	1.5%	18.864	691	3.7%
Other payables and current liabilities	41.723	-	-	37.250	-	-
Other provisions	4.024	-	-	5.182	-	-
Current liabilities	**75.169**	**371**	**-**	**65.239**	**691**	
Total liabilities from discontinued operations	69	-	-	387	-	-
TOTAL LIABILITIES	**127.934**	**371**	**-**	**112.751**	**691**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**235.140**	**371**	**-**	**206.339**	**691**	**-**

Companies included in consolidation at 31 December 2007

Company name	Registered office		Share capital	Group interest
PARENT COMPANY				
Reply S.p.A.	Turin - Corso Francia, 110	€	4.721.558	-
SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS				
@Logistics Reply S.r.l.	Turin - Corso Francia, 110	€	78.000	100.00%
Aktive Reply S.r.l.	Turin - Corso Francia, 110	€	10.000	100.00%
Atlas Reply S.r.l.	Turin - Corso Francia, 110	€	10.000	100.00%
Axcel S.r.l.	Turin - Corso Francia, 110	€	15.000	100.00%
Blue Reply S.r.l.	Turin - Corso Francia, 110	€	10.000	100.00%
Business Reply S.r.l.	Turin - Corso Francia, 110	€	78.000	100.00%
Cape Reply Roma S.r.l.	Turin - Corso Francia, 110	€	10.000	100.00%
Cluster Reply S.r.l.	Turin - Corso Francia, 110	€	100.000	100.00%
Discovery Reply S.r.l.	Turin - Corso Francia, 110	€	10.000	100.00%
e*finance consulting Reply S.r.l.	Turin - Corso Francia, 110	€	34.000	100.00%
Ekip S.r.l.	Turin - Corso Francia, 110	€	10.400	100.00%
EOS Reply S.r.l.	Turin - Corso Francia, 110	€	10.000	80.00%
Hermes Reply S.r.l. (*)	Turin - Corso Francia, 110	€	10.000	95.00%
IrisCube Reply S.p.A.	Turin - Corso Francia, 110	€	651.735	100.00%
Open Reply S.r.l.	Turin - Corso Francia, 110	€	10.000	100.00%
Power Reply S.r.l. (*)	Turin - Corso Francia, 110	€	10.000	87.16%
Reply Consulting S.r.l. (*)	Turin - Corso Francia, 110	€	10.000	56.00%
Reply Services S.r.l.	Turin - Corso Francia, 110	€	10.000	100.00%
Spike Reply S.r.l.	Turin - Corso Francia, 110	€	50.000	100.00%
Square Reply S.r.l.	Turin - Corso Francia, 110	€	10.000	100.00%
Santer Reply S.p.A.	Milan - Via Don Minzoni, 24	€	2.209.500	100.00%
syskoplan AG	Gutersloh, Germany	€	4.715.197	56.83%
Syskoplan Reply S.r.l. (*) (ex Action Reply S.r.l.)	Turin - Corso Francia, 110	€	26.297	96.83%
Sysproject Reply S.r.l.	Turin - Corso Francia, 110	€	10.400	100.00%
Sytel Reply S.r.l.	Turin - Corso Francia, 110	€	115.046	100.00%
Target Reply S.r.l. (*)	Turin - Corso Francia, 110	€	10.000	80.00%
Technology Reply S.r.l.	Turin - Corso Francia, 110	€	79.743	100.00%
Twice Reply S.r.l.	Turin - Corso Francia, 110	€	10.000	94.00%
XYZ Reply S.r.l.	Turin - Corso Francia, 110	€	12.939	100.00%
YH Reply S.r.l.	Turin - Corso Francia, 110	€	21.224	100.00%

Information requested by Art. 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-duodeciesof the "Regolamento Emittenti" issued by Consob, reports the amount of fees charged in 2007 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network.

(thousand euros)	Service provider	Group entity	2007 fees
Audit	Deloitte & Touche S.p.A.	Parent Company - Reply S.p.A.	28
	Deloitte & Touche S.p.A.	Subsidiaries	102
	Deloitte & Touche Gmbh	Subsidiaries	209
Audit related services	Deloitte & Touche S.p.A.	Parent Company - Reply S.p.A.(1)	39
	Deloitte & Touche S.p.A.	Subsidiaries .(1)	9
	Deloitte & Touche Gmbh	Subsidiaries	9
Other services	Deloitte & Touche S.p.A.	Parent Company - Reply S.p.A. (2)	12
	Deloitte & Touche Gmbh	Subsidiaries	27
Total			**434**

(1) Report in accordance to article 2441, paragraph 6, of the Italian Civil Code and undersigning of the tax returns.

(2) Assessment activities for IFRS 7.

_**Declaration** pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and integrations

1. The undersigned, Sergio Ingegnatti, Chief Executive Officer and Giuseppe Veneziano, director in charge of drawing up the accounting documents of Reply S.p.A. pursuant to article 154-bis, paragraph 3 and 4 of legislative decree no. 58 of 24 February 1998, declare:

_ the correctness in terms of the company's characteristics and

_ the real application,

of the administration and accounting procedures and that all the economic, financial and earnings position reported in the Consolidated financial statements for year ended 2007.

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the consolidated financial statements at December 31, 2007 was based on a process defined by Reply in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally-accepted reference framework.

3. The undersigned also certify that the consolidated financial statements at December 31, 2007:

- correspond to the results documented in the books, accounting and other records;
- have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (as well as with the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005) and based on their knowledge, fairly and correctly present the financial condition, results of operations and cash flows of the issuer and of the Group companies included in the scope of consolidation.

Turin, April 18, 2008

Sergio Ingegnatti
(Chief Executive Officer)

Giuseppe Veneziano
(Director in charge of drawing up the accounting documents)

_**Statutory** auditors' report on the consolidated financial statements at 31 December 2007

To the Shareholders,

The Consolidated Balance Sheet at year end 2007 has been prepared in accordance with IFRS issued by IASB. The financial statements include the balance sheet, the statements of income, changes in shareholders' equity and cash flows and the related explanatory notes.

The consolidated balance sheet as at 31 December 2007 shows a net equity for the Group amounting to 94,493 million euros including net income of 15,719 million Euros.

The Report on Operations presents fairly the results, balance sheet and financial position of Reply S.p.A and its subsidiaries, the operations in 2007 and the events that have occurred since the end of the fiscal year, for all the companies included in consolidation as well as revenues by business line and consolidated results.

As at 31 December 2007 consolidation includes, a part from the Parent Company, thirty companies consolidated on a line-by-line basis.

The controls carried out by Deloitte & Touche S.p.A. have shown that the amounts included in the financial statements are consistent with the accounting records of the parent Company and its Subsidiaries and with the official information provided by said subsidiaries.

These results and information were communicated by the Subsidiaries to the Parent Company for use in the preparation of the consolidated financial statements. They were examined by the external auditors during their audit for the consolidated financial statements.

The Board of Statutory Auditors did not review these results.

Deloitte & Touche S.p.A., the independent audit firm engaged to audit Reply's Consolidated financial statements, issued its opinion on 26 May 2008 stating that the Consolidated financial statements were drawn up in accordance to the disciplining laws.

Based on our examination, we draw attention to the following facts:

- the consolidation scope was determined correctly;
- the preparation of the consolidated financial statements are prepared in accordance with the disciplining laws;
- the Directors' report on operations is coherent with the consolidated financial statements;
- all the information used for consolidation is referred to the entire accounting period of 2007;
- the accounting principles applied are the same used in the preparation of those in the previous year;
- the main changes in consolidation compared to 31 December 2006 refer to the addition of the companies Axcel S.r.l., Discovery Reply S.r.l., Square Reply S.r.l., Target Reply S.r.l., and the German companies with Parent Company and syskoplan AG's subsidiaries: Xuccess Consulting GmbH, Cluster sysko GmbH, Comit sysko GmbH and Ibex sysko GmbH.

Turin, 27 May 2008.

STATUTORY AUDITORS
(Prof. Piergiorgio Re)
(Dott. Tommaso Vallenzasca)
(Dott.ssa Ada Alessandra Garzino Demo)

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AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

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

1. We have audited the consolidated financial statements of Reply S.p.A. and its subsidiaries (the "Reply Group") as of and for the year ended December 31, 2007, which comprise the balance sheet, the income statement, statement of changes in shareholders' equity and cash flows statement and the related notes. 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 the Auditing Standards recommended by CONSOB, the Italian Regulatory Commission for listed Companies and the Stock Exchange. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, which balances are presented for comparative purposes, reference should be made to our auditors' report issued on May 28, 2007.

3. In our opinion, the consolidated financial statements present fairly the financial position of the Reply Group as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

DELOITTE & TOUCHE S.p.A.

Signed by
Luca Scagliola
Partner

Turin, Italy
May 26, 2008

This report has been translated into the English language solely for the convenience of international readers.

_**Financial** statements and related notes as of December 31, 2007

_**Reply S.p.A.** Income statement(*)

(in euros)	***Note***	**2007**	**2006**
Revenues	*5*	109.221.393	93.209.219
Other revenue	*6*	2.768.594	2.194.341
Purchases	*7*	(899.116)	(915.583)
Personnel expenses	*8*	(8.313.401)	(8.574.346)
Services and other costs	*9*	(105.067.498)	(88.554.950)
Amortisation, depreciation and write-downs	*10*	(755.747)	(628.394)
Other unusual operating income/expenses	*11*	30.871	251.749
Operating income		**(3.014.904)**	**(3.017.964)**
Profit/(loss) on equity investment	*12*	13.096.825	2.900.791
Financial income/(expenses)	*13*	1.562.895	535.147
Result before tax		**11.644.816**	**417.974**
Income taxes	*14*	149.725	131.963
NET RESULT		**11.794.541**	**549.937**
Earnings per share	*15*	*1,32*	*0,06*
Diluted earnings per share		*1,32*	*0,06*

(*) Pursuant to Consob Resolution no. 15519 of 27 July 2006, the effects of related-party transactions on the Income Statement are reported in the annexed tables

_**Reply S.p.A.** Balance sheet (*)

(in euros)	Note	31/12/2007	31/12/2006
Tangible fixed assets	16	1.102.164	880.275
Goodwill	17	86.765	86.765
Other intangible assets	18	993.581	740.203
Equity investments	19	63.417.392	55.388.019
Other financial assets	20	704.902	525.519
Deferred tax assets	21	416.289	891.355
Non-current assets		**66.721.093**	**58.512.136**
Trade receivables	22	61.486.340	56.228.813
Other receivables and current assets	23	16.571.795	11.733.047
Financial assets	24	27.144.479	27.013.020
Cash and cash equivalents	25	15.822.676	9.554.624
Current assets		**121.025.290**	**104.529.504**
TOTAL ASSETS		**187.746.383**	**163.041.640**
Share capital		4.721.558	4.641.991
Other reserves		55.020.431	54.982.567
Net result		11.794.541	549.937
TOTAL SHAREHOLDERS' EQUITY	26	**71.536.530**	**60.174.495**
Financial liabilities	27	25.488.956	24.122.872
Employee benefits	28	690.146	697.698
Deferred tax liabilities	29	234.008	222.848
Non- current liabilities		**26.413.110**	**25.043.418**
Financial liabilities	30	8.603.843	8.626.448
Trade payables	31	72.235.207	59.485.262
Other payables and current liabilities	32	8.957.693	9.712.017
Current liabilities		**89.796.743**	**77.823.727**
TOTAL LIABILITIES		**116.209.853**	**102.867.145**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		**187.746.383**	**163.041.640**

(*) Pursuant to Consob Resolution no. 15519 of 27 July 2006, the effects of related-party transactions on the Balance sheet are reported in the annexed tables.

_**Reply S.p.A.** Change in shareholders' equity

(in euros)	Share capital	Share premium reserve	Legal reserve	Reserve for treasury shares on hand	Extraord. reserve	Reserve for cash flow hedge	Other reserves	Result for the year	Total
Balance at 31/12/2005	**4.374.089**	**16.546.430**	**708.718**	**223.804**	**5.225.912**	**(17.000)**	**21.630.150**	**3.272.953**	**51.965.056**
Allocation 2005 result									
- reserves	-	-	221.042	-	1.792.230	-	(517.880)	(1.495.392)	-
- dividends	-	-	-	-	-	-	-	(1.777.561)	(1.777.561)
Increase in share capital	267.902	8.983.597	-	-	-	-	-	-	9.251.499
Reserve for stock option	-	-	-	-	-	-	383.930	-	383.930
Income (losses) stated directly to net equity	-	-	-	-	-	368.382	-	-	368.382
Other	-	-	-	-	-	-	(566.748)	-	(566.748)
Result for the year	-	-	-	-	-	-	-	549.937	549.937
Balance at 31/12/2006	**4.641.991**	**25.530.027**	**929.760**	**223.804**	**7.018.142**	**351.382**	**20.929.452**	**549.937**	**60.174.495**
Allocation 2006 result									
- reserves	-	-	-	-	549.937	-	-	(549.937)	-
- dividends	-	-	-	-	(2.530.646)	-	-	-	(2.530.646)
Increase in share capital	79.568	2.094.146	-	-	-	-	-	-	2.173.714
Reserve for stock option	-	-	-	-	-	-	1.022.012	-	1.022.012
Income (losses) stated directly to net equity	-	-	-	-	-	19.302	-	-	19.302
Treasury shares	-	-	-	1.029.209	-	-	(2.058.398)	-	(1.029.189)
Other	-	(10.073.184)	-	-	-	-	9.985.485	-	(87.699)
Result for the year	-	-	-	-	-	-	-	11.794.541	11.794.541
Balance at 31/12/2007	**4.721.559**	**17.550.989**	**929.760**	**1.253.013**	**5.037.433**	**370.384**	**29.878.551**	**11.794.541**	**71.536.530**

_**Reply S.p.A.** Cash flow statement

(in euros)	2007	2006
Net result for the period	11.794.541	549.937
Depreciation and amortisation	755.747	628.394
Other non-monetary income, net	1.910.097	71.770
Change in trade receivables	(5.258.746)	(7.844.227)
Change in trade payables	12.749.945	5.545.786
Change in other assets and liabilities	(3.938.425)	(1.601.708)
Income tax paid	(271.048)	(315.700)
Interest paid	(1.378.403)	(637.428)
Cash flows from operating activities (A)	**16.363.708**	**(3.603.176)**
Payments for tangible and intangible assets	(1.231.014)	(899.203)
Payments for equity investments	(7.871.692)	(19.474.647)
In payments from the sale of investments	616.317	-
Cash flows from investment activities (B)	**(9.975.259)**	**(20.373.850)**
In payments for the issuing of shares	973.717	384.638
Distribution of dividends	(2.530.646)	(1.777.561)
In payments from financial loans	5.227.000	20.122.872
Payment of instalments	(4.000.000)	(4.000.000)
Payments for financial assets	(179.383)	(82.762)
Payments for purchase of treasury shares	(1.029.209)	-
Cash flows from financing activities (C)	**(1.309.138)**	**14.647.187**
Net cash flow (D) = (A+B+C)	**6.338.798**	**(9.329.839)**
Cash and equivalents at beginning of period	31.680.739	41.010.578
Cash and cash equivalents at year end	38.069.537	31.680.739
Total change in cash and cash equivalents (D)	**6.338.798**	**(9.329.839)**

_**Notes** to the financial statements

Note 1 - General information

Reply S.p.A. is an Italian company with legal headquarters in Turin (Italy), it is listed on the STAR segment of the Italian Stock Exchange (REY.MI) and is the holding of a leading Italian group operating in the e-business segment.

The company mainly carries out the operational coordination and technical management of the group and also the administration, financial assistance and some purchase and marketing activities.

Reply S.p.A. also carries out "fronting" activities with primary clients as the sole manager of the processes that are ISO 9001 compliant.

Note 2 - Accounting principles

Compliance with International accounting principles

The year ended 2007 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union.

The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

Following the coming into force of European Regulation No. 1606 dated 19 July 2002, starting from January 1, 2005, Reply adopted International Financial Reporting Standards (IFRS) in the preparation of the consolidated financial statements. On the basis of national law implementing that Regulation, starting from 1 January 2006, Reply S.p.A is presenting its financial statements in accordance with IFRS.

The accounting policies applied in these financial statements are consistent with those adopted in preparing the IFRS opening balance sheet at January 1, 2005, as well the financial statements at December 31, 2005, as restated in accordance with IFRS.

Reconciliations between profit or loss and equity under previous GAAP (Italian GAAP) to profit or loss and equity under IFRS for the periods shown as comparatives, as required by IFRS 1 – First-time Adoption of IFRS, together with related explanatory notes, are included herein.

General principles

The financial statements are prepared under the historical cost convention, modified as required for the valuation of certain financial instruments. The fair value criteria is adopted as defined by IAS 39.

These financial statements are expressed in euros and are compared to the financial statements of the previous year prepared in accordance with the same principles.

These financial statements have bee drawn up under the general principles of continuity, accrual based accounting, coherent presentation, relevancy and aggregation, prohibition of compensation and comparability of information.

Format of the financial statements

The financial statements include, statement of income, balance sheet, statement of changes in shareholders' equity, statement of cash flows and the explanatory notes.

The income statement format adopted by the company classifies costs according to their nature, which is deemed to properly represent the company's business.

The balance sheet is prepared according to the distinction between current and non-current assets and liabilities.

The statement of cash flows is presented using the indirect method, in compliance with IAS 7 – Statement of cash flow.

The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.

In connection with the requirements of the Consob resolution No. 15519 of July 27, 2006 as to the format of the financial statements, specific supplementary income statement and balance sheet formats have been added for related party transactions so as not to compromise an overall reading of the statements.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and impairment losses. Goods made up of components, of significant value, that have different useful lives are considered separately when determining depreciation.

Fixed assets are stated at purchase, production or transfer costs including related charges and other direct or indirect expenses incurred to bring the asset to its intended use.

In compliance to IAS 36 – Impairment of assets, the carrying value is immediately remeasured to the recoverable value, if lower.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	3%
Plant and machinery	30% - 50%
Hardware	40%
Other	24% - 50%

Ordinary maintenance costs are fully expensed as incurred. Incremental maintenance costs are allocated to the asset to which they refer and depreciated over their residual useful lives.

Improvement expenditures on rented property are allocated to the related assets and depreciated over the shorter between the duration of the rent contract or the residual useful lives of the relevant assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Goodwill

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognised using the purchase method, and is recorded to reflect the positive difference between purchase cost and the Company's interest at the time of acquisition, after having recognised all assets, liabilities and identifiable contingent liabilities attributable to both the Company and third parties at their fair value.
Goodwill is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.
Impairment losses are recognised immediately as expenses that cannot be recovered in the future
Goodwill deriving from acquisitions made prior to the transition date to IFRS is maintained at amounts recognised under Italian GAAP at the time of application of such standards and is subject to impairment test at such date.

Other intangible assets

Intangible fixed assets are those lacking an identifiable physical aspect, are controlled by the company and are capable of generating future economic benefits.
Intangible fixed assets are recorded at purchase or production cost, including related charges incurred to bring the asset available for use.
In case of intangible fixed assets purchased for which availability for use and relevant payments are deferred beyond normal terms, the purchase value and the relevant liabilities are discounted by recording the implicit financial charges in their original price.
Assets with a defined useful life are systematically amortised from the moment when the asset is available for use throughout the period of its estimated utility; the recoverable value is assessed according to provisions set out in IAS 36.

Trademarks and patents and other assets with indefinite useful lives are not subject to systematic amortisation but are subject each year to an impairment test. Intangible assets with indefinite useful lives consist principally of acquired trademarks which have no legal, contractual, competitive, economic, or other factors that limit their useful lives. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired. Impairment losses, if any, cannot be reversed.
Expenditure on research activities is recognised as an expense in the period in which it is incurred.
Development costs can be capitalised on condition that they can be measured reliably and that evidence is provided that the asset will generate future economic benefits.

An internally-generated intangible asset arising from the company's e-business development (such as informatics solutions) is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

These assets are amortised when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognised as construction in progress. Amortisation is determined on a straight line basis over the relevant useful lives.
When an internally-generated intangible asset cannot be recorded at balance sheet, development costs are recognised to the statement of income in the period in which they are incurred.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible fixed assets having an undefined useful life among which goodwill, are assessed annually or each time there is an indication of a probable impairment in order determine whether there is a real impairment.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset, (or cash-generating unit), with the exception of goodwill, is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount that would have been determined had no impairment loss been recognised for the asset. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Equity Investments

Investments in subsidiaries and associates are stated at cost and are tested for impairment annually if there is any evidence that these investments have been impaired, due to one or more events that occurred after the initial measurement and such events have had an impact on the future cash flows inhibiting the distribution of dividends. Such evidence exists when the subsidiary's and associate's operating margins are repetitively and significantly negative. If such the case, impairment is recognised as the difference between the carrying value and the recoverable value, normally determined as the greater of net selling price and value in use.

At each reporting period, the Company assesses whether there is evidence that an impairment stated in previous periods may be lower or reversed. Such evidence exists when the subsidiary's and associate's operating margins are repetitively and significantly positive. In this case, the recoverable value is re-measured and eventually the investment is restated at initial cost.

Investments in other companies, comprising non-current financial assets that are not held for trading are initially measured at fair value. Any subsequent profits and losses resulting from changes in fair value, arising from quoted prices, are recognised directly in equity until the investment is sold or impaired; the total recognised in equity up to that date are recognised in the Income Statement for the period.

Minor investments in other companies for which a market quotation is not available are measured at cost, adjusted for impairment losses.

Dividends are recognised as financial income from investments when the right to collect them is established, which generally coincides with the shareholders' resolution. If such dividends arise from the distribution of reserves prior to the acquisition, these dividends reduce the initial acquisition cost.

Financial assets and liabilities

Financial assets and financial liabilities are recognised on the Company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Investments are recognised and written-off the balance sheet on a trade-date basis and are initially measured at cost, including transaction costs.

At subsequent reporting dates, financial assets that the Company has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured and amortised at cost according to the prevailing market interest rate method, less any impairment loss recognised to reflect irrecoverable amounts and are stated as non-current financial assets.

Investments other than held-to maturity financial assets are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in the net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

These assets are stated as current financial assets.

Trade payables and receivables and other current assets and liabilities

Trade payables and receivables and other current assets and liabilities are measured at nominal value and eventually written down to reflect their recoverable amount.

Write-downs are determined to the extent of the difference of the carrying value of the receivables and the present value of the estimated future cash flows discounted at the prevailing market interest rate at the time of recognition.

Receivables and payables denominated in non EMU currencies are stated at the exchange rate at period end provided by the European Central Bank.

Cash and cash equivalents

The item cash and cash equivalents includes cash, banks and reimbursable deposits on demand and other short term financial investments readily convertible in cash and are not subject to significant risks in terms of change in value.

Treasury shares

Treasury shares are presented as a deduction from equity. The original cost of treasury shares and proceeds of any subsequent sale are presented as movements in equity.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Company are presented according to their substance arising from their contractual obligations and in accordance to the definitions of financial liabilities and equity instruments. The latter are defined as those contractual obligations that give the right to benefit in the residual interests of the company's assets after having deducted its liabilities.

The accounting standards adopted for specific financial liabilities or equity instruments are outlined below:

- Bank borrowings
  Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently stated at its amortised cost, using the prevailing market interest rate method.
- Equity instruments
  Equity instruments issued by the Company are stated at the proceeds received, net of direct issuance costs.
- Non current financial liabilities
  Liabilities are stated according to the amortisation cost.

Derivative financial instruments and other hedging transactions

The Company's activities are primarily subject to financial risks associated with fluctuations in interest rates. Such interest rate risks arise from bank borrowings; in order to hedge these risks the Company's policy consists in converting fluctuating rate liabilities in constant rate liabilities and treat them as cash flow hedges. The use of derivative financial instruments is in accordance to the Company's risk management strategies and do not contemplate the use of financial derivatives for trading purposes.

Derivative financial instruments are initially recognised at cost and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to company commitments and forecasted transactions are recognised directly in equity. If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedge commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.

For hedging against change in fair value of specific items, the item hedged is restated to the extent of the change in fair value attributable to the risk hedged and recognised at the income statement. Gains and losses arising from the measurement of the derivative are also recognised at the income statement.

Changes in the fair value of derivative financial instruments that do not qualify as hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognised in equity is transferred to the net profit or loss for the period.

Implicit derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not strictly correlated to the underlying contractual obligation and the latter are not stated at fair value with recognition of gains and losses in the income statement.

Employee benefits

Employee termination indemnities can be recognised as "post-employment benefit" falling under the category of a "defined benefit plan"; the amount already accrued must be projected in order to estimate the payable amount at the time of employee termination and subsequently be discounted through the "Projected Unit Credit Method", an actuarial method based on demographic and finance data that allows to reasonably estimate the extent of benefits that each employee has matured in relation to the time worked.

Through actuarial valuation, the interest cost is recognised as financial gains or losses and represents the figurative expenditure the company would bear by securing a market loan for an amount corresponding to the Employee termination indemnities (TFR).

Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognised in Shareholders' equity.

Share-based payment plans (stock options)

The Company has applied the standard set out by IFRS 2 "Share-based payment". Pursuant to the transitional standards, IFRS 2 has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005. The Company stock option plans foresee only the physical delivery of the share when exercised.

Share-based payments are measured at fair value at granting date. Such amount is recognised in the income statement over a straight-line basis and over the vesting period.

The fair value of the option, measured at grating date, is assessed through actuarial calculations, taking into account the terms and conditions of the options granted.

Provisions and reserves for risks

Provisions for risks and liabilities are costs and liabilities having an established nature and the existence of which is certain or probable that at the reporting date the amount cannot be determined or the occurrence of which is uncertain. Such provisions are recognised when a commitment actually exists arising from past events of legal or contractual nature or arising from statements or company conduct that determine valid expectations from the persons involved (implicit obligations).

Provisions are recognised when the Company has a present commitment arising from a past event and it is probable that it will be required to fulfil the commitment. Provisions are accrued at the directors' best estimate of the expenditure required to settle the liability at the balance sheet date, and are discounted when the effect is significant.

Revenue recognition

Revenue from sales and services is recognised when the transfer of all the risks and benefits arising from the passage of title takes place or upon execution of a service.
Revenues from services also include the activities that the Company carries out as sole manager of the procedures that comply with quality standards. These activities are also executed by incurring expenses by other group companies and such expenses are recognised in the income statement as "Other service costs". With reference to the above principle, changes could be made in order to reflect European Commission's future endorsements concerning modified IFRS standards that would rise within 31 December 2007 and that could lead to stating the proceeds of such activity net of service costs executed by other Group companies.
Revenues from sales of products are recognized when the risks and rewards of ownership of goods are transferred to the customer. Revenues are recorded net of discounts, allowances, settlement discounts and rebates and charged against profit for the period in which the corresponding sales are recognised.
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable that represents the discounted interest rate of the future estimated proceeds estimated over the expected life of the financial asset in order to bring them to the accounting value of the same asset.

Dividends from investments is recognised when the shareholders' rights to receive payment has been established.

Financial income and expenses

Financial income and expenses are recognised and measured in the income statement on an accrual basis.

Taxation

Income tax represents the sum of the tax currently payable and deferred tax.
The tax currently payable is based on taxable profit for the year. Taxable profit defers from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.
Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit.
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.
Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests arising in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.
Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.
In the event of changes to the accounting value of deferred tax assets and liabilities deriving from a change in the applicable tax rates and relevant legislation, the resulting deferred tax amount is entered in income statement, unless it refers to debited or credited amounts previously recognised to Shareholders' equity.

Earnings per share

Basic earnings per share is calculated with reference to the profit for the period of the Group and the weighted average number of shares outstanding during the year. Treasury shares are excluded from this calculation.

Diluted earnings per share is determined by adjusting the basic earnings per share to take account of the theoretical conversion of all potential shares, being all financial instruments that are potentially convertible into ordinary shares, with diluting effect.

Use of estimations

The preparation of the financial statements and relative notes under IFRS requires that management makes estimates and assumptions that have effect on the measurement of assets and liabilities and on disclosures related to contingent assets and liabilities at the reporting date. The actual results could differ from such estimates. Estimates are used to accrue provisions for risks on receivables, to measure development costs, to measure contract work in progress, employee benefits, income taxes and other provisions. The estimations and assumptions are reviewed periodically and the effects of any changes are recognised immediately in income.

Change in accounting principles

Pursuant to IAS 8, these are recognised on the face of the income statement starting from the year of adoption.

New accounting principles

Accounting principles, amendments and interpretations in 2007

On March 3, 2006, the IFRIC issued interpretation IFRIC 9 – Reassessment of Embedded Derivatives, which requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required

On November 2, 2006, the IFRIC issued IFRIC Interpretation 11 – IFRS 2- Group and Treasury Share Transactions in order to address the accounting treatment of share-based payment arrangements under which an entity chooses or is required to buy treasury stock to satisfy its obligations and those under which the employees of one Group company are granted rights to the shares of another (such as the parent company).

The adoption of the above interpretation has no effect on the financial statements of the Company.

In August 2005, the IASB issued IFRS 7 – Financial Instruments: Disclosures and a complementary amendment to IAS 1 – Presentation of Financial Statements– Capital Disclosures, effective from January 1, 2007. IFRS 7 requires disclosures to be provided on financial instruments and was early adopted by the Group for the annual period beginning January 1, 2005. The amendment to IAS 1 introduces requirements for disclosures about an entity's capital, without any effect on classification or measurement of capital items. The Company adopted this amendment for the annual period beginning January 1, 2007.

Interpretations effective from 1 January, 2007 but not applicable to the Group

The following interpretations, effective for the annual period beginning 1 January, 2007, relate to matters that are not applicable to the Company:

- IFRIC 7 –Applying the Restatement approach under IAS 29- Financial reporting in Hyperinflationary economies;
- IFRIC 8 – Scope of IFRS 2.

Accounting principles, amendments and interpretations not applicable

On November 30, 2006, the IASB issued the IFRS 8 –Operating Segments that will become effective for the Group on January 1, 2009 and which will replace IAS 14 – Segment Reporting from that date. The new standard requires the information provided in segment reporting to be based upon the components of the entity that management uses to make decisions about operational matters. The standard requires these operating segments to be identified on the basis of internal reports that are regularly reviewed by an entity's management in order to allocate resources to the segment and assess its performance. Adopting this standard will have no effect on the measurement of items in the financial statements.

On March 29, 2007 the IASB issued a revised version of IAS 23 – Borrowing costs. The standard shall be applied for annual period beginning after 1 January, 2009. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The standard shall be applied to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the 1 January 2009.

At the date of this report this document has not yet been endorsed by the European Union.

On July 5, 2007 IFRIC issued the interpretation IFRIC 14 – IAS 19– The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The interpretation is mandatory from January 1, 2008. The interpretation provides general guidance on how to assess the limit in IAS 19 – Employee Benefits on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement. At the balance sheet date, this interpretation had not yet been endorsed by the European Union.

On September 6, 2007 the IASB issued a revised version of IAS 1 - Presentation of Financial Statements that is effective for annual periods beginning on or after 1 January 2009. The revised standard requires an entity to present changes in its equity resulting from transactions with owners in a statement of changes in equity. All non-owner changes (meaning changes in comprehensive income) are required to be presented either in a single statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Transactions with non-owners may not be presented in the statement of changes in equity. This standard had not yet been endorsed by the European Union at the balance sheet date.

The following standards and interpretations have also been issued, but are not applicable to the Company:

- I IFRIC 12 – Service Concession Arrangements (effective from January 1, 2008 but not yet endorsed by the European Union);
- I IFRIC 13 – Customer Loyalty Programmes (effective from January 1, 2009 but not yet endorsed by the European Union). In addition, Group Treasury has the committed credit facilities described in Note 28 as a hedge of liquidity risk.

Note 3 - Risk management

Reply S.p.A. operates on a worldwide level, for this reason its activities are exposed to different types of financial risks: market risk (which include exchange rate, interest rate and price risks), credit risk and liquidity risk.

In order to mitigate such risks Reply S.p.A. uses derivative financial instruments. Reply manages all the major hedge transactions. Reply S.p.A. does not use derivative financial instruments for negotiation purposes.

Credit risk

For business purposes, specific policies are adopted in order to guarantee that clients honour payments.
With regards to financial counterparty risk, the Company does not present significant risk in credit-worthiness or solvency.
For newly acquired clients, the Company accurately verifies their capability of facing financial commitments.
Transactions of a financial nature are undersigned only with primary financial institutions.

Liquidity risk

The Company is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.

The cash flows, funding requirements and liquidity of Group companies are monitored on a centralized basis of the Group Treasury. The aim of this centralized system is to optimise the efficiency and effectiveness of the management of the capital resources (maintaining the availability of minimum reserves of liquidity that are readily convertible to cash and committed credit).

Currency risk and interest rate risk

As the Company operates mainly in a "Euro area" the exposure to currency risks is limited.

The Company's exposure to interest rate risk is mainly associated to financial loans bearing floating interest rates. The Company manages this risk with the use of interest rate swaps which allows floating interest rates to be transformed to fixed interest rates.
Disclosure related to the fair value of the derivative financial instrument is in Note 27.

Note 4 - 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 carried out in drawing up the financial statements.

Fiscal Consolidation

Starting from fiscal year 2004 and for the following three years the Company has decided to enter into the National Fiscal Consolidation pursuant to articles 117/129 of the TUIR. Such option was renewed during 2007 for another three year period.

Reply S.p.A., Parent Company, acts as the consolidating company and determines just one taxable income for the Group companies that adhere to the Fiscal Consolidation, and will benefit from the possibility of compensating taxable income having fiscal losses in just one tax return.
Each adhering company transfers to Reply S.p.A. its taxable income recording a payable to the company corresponding to IRES payable, companies having fiscal losses can record a receivable from Reply, equal to IRES, on the part of the loss compensated at a Group level and remunerated according to the consolidation terms established among the Group companies.

Note 5 - Revenues

Revenues amounted to 109.221.393 euros and are detailed as follows:

(in euros)	**2007**	**2006**	**Change**
Revenues from services	92.070.066	78.909.642	13.160.424
Royalties on "Reply" trademark	5.938.558	4.909.007	1.029.551
Intercompany services	8.360.086	7.074.800	1.285.286
Other intercompany revenues	2.852.683	2.315.770	536.913
Total	**109.221.393**	**93.209.219**	**16.012.174**

The increase of Group revenues in 2007, has a direct influence on Reply S.p.A. who has developed in the past years *fronting* activities concerning relations with primary clients also in capacity of sole manager of procedures compliant to ISO 9001 quality standards.

Royalties on "Reply" trademark refer to charges to subsidiaries, equal to 3% of the subsidiaries' third parties revenues.
Revenues from *Intercompany services* and *Other intercompany revenues* 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.

Note 6 - Other revenues

Other revenues at 31 December 2007 amounted to 2.768.594 euros (2.194.341 euros at 31 December 2006) and mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies. They include expenses for social events, telephone, training courses and the acquisition of software licences.

Note 7 - Purchases

Detail is as follows:

(in euros)	2007	2006	Change
Software licenses	400.969	202.862	198.107
Hardware	-	106.109	(106.109)
Other	498.147	606.612	(108.465)
Total	**899.116**	**915.583**	**(16.467)**

This item refers to the costs incurred for software licences and hardware for resale.

Note 8 - Personnel

Personnel costs amounted to 8.313.401 euros, with a decrease of 260.945 euros and are detailed in the table below:

(in euros)	2007	2006	Change
Payroll employees	6.379.175	5.280.628	1.098.547
Executive Directors	1.844.381	3.144.480	(1.300.099)
Project collaborators	89.845	149.238	(59.393)
Total	**8.313.401**	**8.574.346**	**(260.945)**

Personnel expenses include the fair value of the stock options vested as at 31 December 2007 for 575 thousand euros.

Detail of personnel by category is provided below:

(number)	31/12/2007	31/12/2006	Change
Directors	21	17	4
Managers	10	9	1
Staff	78	41	37
Total	**109**	**67**	**42**

Note 9 - Services and other costs

Service and other costs comprised the following:

(in euros)	2007	2006	Change
Commercial and technical consulting	1.556.017	1.039.580	516.437
Professional services from group companies	94.366.908	79.168.652	15.198.256
Travelling and training expenses	1.040.342	1.318.889	(278.547)
Marketing expenses	489.916	403.778	86.138
Administrative and legal services	738.778	663.268	75.510
Statutory auditors and independent auditors	124.644	104.400	20.244
Lease and rentals	350.987	310.537	40.450
Office expenses	1.889.713	1.563.663	326.050
Services to be recharged to group companies	2.521.616	2.136.930	384.686
Other	1.988.577	1.845.253	143.324
Total	**105.067.498**	**88.554.950**	**16.512.548**

Services from Group companies are connected to revenues from services to third parties. Change compared to the previous year owes to the *fronting* role that Reply has led in the past years in executing services to third party clients and then subcontracting them to the Group companies.

Office expenses refer to service contracts related to the use of premises and centralized secretarial services.

Note 10 - Amortisation, depreciation and write-downs

Depreciation of tangible assets, amounting to 580.349 euros, 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.

Amortization of intangible assets for the year ended 2007 amounted to 175.398 euros. The details are provided at the notes to intangible assets herein.

Note 11 - Other unusual operating income/expenses

Other unusual operating income/expenses amounting to 30.871 euros are related to minor events falling out of the ordinary course of business.

Note 12 - Gains/(losses) on equity investments

Detail is as follows:

(in euros)	2007	2006	Change
Dividends	13.811.697	4.200.000	9.611.697
Loss on equity investments	(714.872)	(1.299.209)	584.337
Total	**13.096.825**	**2.900.791**	**10.196.034**

Dividends include proceeds received from several subsidiary companies during the year.

Detail is as follows:

(in euros)	31/12/2007
Aktive Reply S.r.l.	450.000
Atlas Reply S.r.l.	760.000
Blue Reply S.r.l.	305.000
Business Reply S.r.l.	80.000
Cluster Reply S.r.l.	920.000
e*finance consulting Reply S.r.l.	1.370.000
Ekip S.r.l.	120.000
IrisCube Reply S.p.A.	3.695.000
Spike Reply S.r.l.	250.000
syskoplan AG	696.697
Sysproject Reply S.r.l.	225.000
Sytel Reply S.r.l.	3.920.000
Technology Reply S.r.l.	575.000
YH Reply S.r.l.	445.000
Total	**13.811.697**

Loss on equity investments is related to the year end loss of several subsidiary companies. Such losses were deemed as non recoverable and posted to the income statement, and are referred to:

- EOS Reply S.r.l. (515 thousand euros);
- Ekip S.r.l. (125 thousand euros);
- Themis Reply SA (45 thousand euros);
- Reply Services S.r.l. (30 thousand euros).

Note 13 - Financial income and expenses

Detail is as follows:

(in euros)	2007	2006	Change
Interest income from subsidiaries	1.875.888	1.394.003	481.885
Interest income on bank accounts	660.885	322.746	338.139
Interest expenses	(1.455.003)	(1.207.096)	(247.907)
Other	481.125	25.494	455.631
Total	**1.562.895**	**535.147**	**1.027.748**

Interest income from subsidiaries is related to the interest bearing cash pooling accounts of the group companies included in the centralised pooling system.

Interest expenses are mainly related to the interest expenses on the use of the credit facility for the acquisitions made in 2007.

The item *Other* mainly *i*ncludes the extraordinary gain deriving from the liquidation of the investment in Logistics Reply do Brasil (387 thousand euros).

Note 14 - Income taxes

(in euros)	2007	2006	Change
IRES	617.445	179.248	438.197
IRAP	230.588	294.087	294.087
Current taxes	**848.033**	**473.335**	**374.698**
Deferred tax liabilities	29.310	95.168	(65.858)
Deferred tax assets	(1.027.068)	(700.466)	(326.602)
Deferred taxes (prepaid)	**(997.758)**	**(605.298)**	**(392.460)**
Total income taxes	**(149.725)**	**(131.963)**	**(17.762)**

The adoption of the new tax rates (Budget Law 2008 no. 244 of 24 December 2007) resulted in an increase of 31 thousand euros recognised in the income statement.

IRES theoretical rate

The following table provides the reconciliation between the IRES theoretical rate and the fiscal theoretical rate:

(in euros)	Amount	Tax
Result before taxes	11.644.817	
Theoretical tax rate	33%	3.842.790
Temporary differences, net	(13.551.679)	
Taxable IRES	**(1.906.862)**	
Payable taxes on income of the year		-
Gains on losses brought from fiscal consolidation	3.847.264	1.269.597
Reversal of the temporary differences from prior years		812.125
Fiscal benefits deriving from adoption of fiscal consolidation		(1.464.277)
Current IRES tax		**617.445**

Temporary differences, net refer to:

- Deductible differences amounting to 17.418 thousand euros owing mainly to dividends collected in the financial year under review (13.121 thousand euros) personnel expenses (1.630 thousand euros) and to the impairment of some equity investments (452 thousand euros);
- Non deductible differences amounting to 3.934 thousand euros due mainly to the fair value of the stock options according to IFRS 2;
- Tax effect of the accounting entries made directly to equity in accordance to IFRS principles (68 thousand euros).

Calculation of taxable IRAP

(in euros)	**Amount**	**Tax**
Difference between value and cost of production	(3.046.334)	
Temporary differences, net	7.905.514	
Taxable IRAP	**4.859.180**	**220.087**
Reversal of the temporary differences from prior years		8.588
Current IRAP tax		**230.588**

The differences refer to:

- Non deductible differences amounting to 9.660 thousand euros mainly due to personnel expenses;
- Deductible differences amounting to 674 thousand euros mainly due to service costs and amortisation;
- Deductions amounting to 1.080 thousand euros related mainly to tax rates.

Note 15 - Earnings per share

Basic earnings per share

Basic earnings per share at 31 December 2007 is calculated with reference to the profit for the period which amounted to 11.794.541 euros (549.937 euros at 31 December 2006) divided by the weighted average number of shares outstanding during the year which were 8.968.447 (8.733.173 at 31 December 2006).

(in euros)	2007	2006
Net profit for the year	11.794.541	549.937
Weighted average number of shares	8.968.447	8.733.173
Basic earnings per share	1,32	0,06

Diluted earnings per share

Diluted earnings per share at 31 December 2007 is calculated with reference to the profit for the period which amounted to 11.794.541 euros divided by the weighted average number of shares outstanding during the year taking in consideration the diluting effect.

(in euros)	2007	2006
Net profit for the year	11.794.541	549.937
Weighted average number of shares	8.968.447	8.733.173
Diluting effect	2.400	-
Weighted number of diluted shares	8.966.047	8.733.173
Diluted earnings per share	1,32	0,06

Note 16 - Tangible assets

Tangible assets as at 31 December 2007 totalled to 1.102.164 euros.
Detail is as follows:

(in euros)	31/12/2007	31/12/2006	Change
Plant and machinery	291.766	322.716	(30.950)
Hardware	362.152	179.254	182.898
Other	448.246	378.305	69.941
Total	**1.102.164**	**880.275**	**221.889**

The item *Other* includes computers, net work equipment, furniture and plants for new office locations.

Change in tangible assets during 2007 is summarised in the table below:

(in euros)	Plant and machinery	Hardware	Other	Total
Historical cost	749.056	815.878	1.446.993	3.011.927
Accumulated depreciation	(426.340)	(636.624)	(1.068.688)	(2.131.652)
Balance at 31 December 2006	**322.716**	**179.254**	**378.305**	**880.275**
Historical cost				
Additions	174.534	373.329	278.669	826.532
Disposals	-	(136.531)	(36.710)	(173.241)
Accumulated depreciation				
Depreciation	(205.483)	(190.431)	(184.435)	(580.349)
Utilisation	-	136.531	12.417	148.948
Historical cost	923.590	1.052.676	1.688.952	3.665.218
Accumulated depreciation	(631.824)	(690.524)	(1.240.706)	(2.563.054)
Balance at 31 December 2007	**291.766**	**362.152**	**448.246**	**1.102.164**

In 2007 the Company's additions totalled 827 thousand euros and referred mainly to:

- computers and network equipment for 373 thousand euros;
- furniture and fittings and plants for new office locations totalling 389 thousand euros.

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Note 17 - Goodwill

Goodwill at 31 December 2007 amounted to 86.765 euros and refers to the value of business branches (consulting activities related to *Information Technology* and management support) purchased in July 2000.

Goodwill recognized as at 31 December 2007 is deemed adequately supported in terms of expected financial results and related cash flows.

Note 18 - Other intangible assets

Intangible assets as at 31 December 2007 amounted to 993.581 euros (740.203 euros at 31 December 2006). Detail is as follows:

(in euros)	Historical cost	Accumulated amortisation	Net book value at 31/12/2007
Software	1.652.799	(1.178.936)	473.863
Trademark	519.718	-	519.718
Total	**2.172.517**	**(1.178.936)**	**993.581**

Change in intangible assets during 2007 is summarised in the table below:

(in euros)	Net book value at 31/12/2006	Increases	Accumulated amortisation	Net book value at 31/12/2007
Software	227.815	421.446	(175.398)	473.863
Trademark	512.388	7.330	-	519.718
Total	**740.203**	**428.776**	**(175.398)**	**993.581**

The item *Software* is related mainly to software licenses purchased and used internally by the company. The increase of 319 thousand euros refers to software in progress to be used internally.

The item *Trademarks* 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 Holding SA. Such amount is not subject to systematic amortisation and does not show signs of impairment in terms of expected financial results and related cash flows.

Note 19 - Equity investments

The item *Equity investments* at 31 December 2007 amounted to 63.417.392 euros, with an increase of 8.029.373 euros compared to 31 December 2006.

(in euros)	Balance at 31/12/2006	Acquisitions and subscriptions	Disposals	Financial loan remission	Other	Balance at 31/12/2007	Interest
@Logistics Reply S.r.l.	1.049.167	-	-	-	-	1.049.167	100,0%
Syskoplan Reply S.r.l. (ex Action Reply S.r.l.) (*)	388.330	835	-	610.000	99.160	1.098.325	96,8%
Aktive Reply S.r.l.	140.692	-	-	-	-	140.692	100,0%
Atlas Reply S.r.l.	356.575	-	-	-	-	356.575	100,0%
Axcel S.r.l.	-	1.199.997	-	-	-	1.199.997	100,0%
Blue Reply S.r.l.	527.892	-	-	-	-	527.892	100,0%
Business Reply S.r.l.	314.461	-	-	-	-	314.461	100,0%
Cape Reply Roma S.r.l.	535.411	-	-	-	-	535.411	100,0%
Cluster Reply S.r.l.	539.010	-	-	-	-	539.010	100,0%
Cape Reply S.r.l.	99.160	-	-	-	(99.160)	-	-
Discovery Reply S.r.l.	10.000	-	-	900.000	11.669	921.669	100,0%
e*finance consulting Reply S.r.l.	3.076.385	-	-	-	-	3.076.385	100,0%
Ekip S.r.l.	-	140.000	-	-	-	140.000	100,0%
EOS Reply S.r.l	8.000	-	-	-	-	8.000	80,0%
Hermes Reply S.r.l. (*)	49.500	-	-	-	-	49.500	95,0%
IrisCube Reply S.p.A	9.632.133	-	-	-	(2.907.181)	6.724.952	100,0%
Logistics Reply do Brasil LTDA	229.316	-	(229.316)	-	-	-	-
Logistics Reply SL	53.010	-	(53.010)	-	-	-	-
Open Reply S.r.l.	10.000	-	-	50.000	-	60.000	100,0%
Power Reply S.r.l. (*)	1.583.449	267	-	62.000	-	1.645.716	87,2%
Reply Consulting S.r.l. (*)	105.100	8.334	-	-	-	113.434	56,0%
Reply Services S.r.l.	10.000	-	-	-	-	10.000	100,0%
Spike Reply S.r.l.	392.866	-	-	-	-	392.866	100,0%
Square Reply S.r.l.	-	10.000	-	90.000	-	100.000	100,0%
Syskoplan AG	22.593.557	-	-	-	-	22.593.557	56,8%
Sysproject Reply S.r.l.	2.071.022	-	-	-	-	2.071.022	100,0%
Sytel Reply S.r.l.	2.153.255	-	-	-	2.895.512	5.048.766	100,0%
Target Reply S.r.l. (*)	-	8.000	-	-	-	8.000	80,0%
Technology Reply S.r.l.	241.353	-	-	-	-	241.353	100,0%
Themis Reply SA	45.117	-	(45.117)	-	-	-	99,9%
Twice Reply S.r.l.	407.000	-	-	-	-	407.000	94,0%
XYZ Reply S.r.l.	2.567.019	-	-	-	-	2.567.019	100,0%
YH Reply S.r.l.	89.657	-	-	-	-	89.657	100,0%
Santer Reply S.p.A.	6.109.582	5.277.384	-	-	-	11.386.966	100,0%
Total	**55.388.019**	**6.644.817**	**(327.443)**	**1.712.000**	**-**	**63.417.392**	

(*) For these companies an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. As at 31 December 2007, the assessment of the achievement of such parameters did not lead to any impact on the financial statements as the underlying assumptions are highly variable and the commitments not very significant.

Acquisition and subscriptions

Action Reply S.r.l.

The increase refers to the acquisition of 17% of the share capital.

Axcel S.r.l.

During 2007, Reply S.p.A. finalised the acquisition of Axcel S.r.l., a related party that has been doing business with the group for some time. Axcel S.r.l. is in the process of becoming a competence centre in the broad band telecommunication and wireless fields. The acquisition was carried out through a share capital increase.

Ekip S.r.l.

In the month of February 2007 Reply S.p.A. acquired 100% of Ekip S.r.l. , which was held by the subsidiary IrisCube Reply S.p.A.

Square Reply S.r.l.

In the month of March 2007 Square Reply S.r.l., was constituted, company in which Reply S.p.A. holds 100% of the share capital.
The company is specialised in implementing and creating solutions based on EMC2 technology and focalised in the Content Management and Archiving, Security, Resource Management & Virtualization segment.

Target Reply S.r.l.

In March 2007 Target Reply S.r.l., was constituted, company in which Reply S.p.A. holds 80% of the share capital.
The company is specialised in implementing and developing Business Intelligence solutions and Data warehousing which is able to support the various needs related to monitoring, analysing and reporting of different business areas.

Santer Reply S.p.A.

The increase of 5.277 thousand euros in the investment in Santer Reply S.p.A. is related to the acquisition of the minority shares through a public bid (46.23%) held by Lombardia - Servizi S.p.A., Camera di Commercio di Milano and Unioncamere Lombardia .

Disposals

Logistics Reply do Brasil Ltda

In May 2007 the liquidation of the Brazilian company was concluded and an extraordinary gain of 387 thousand euros was recognised in the income statement.

Logistics Reply SL

In December 2007 the liquidation of the Spanish company was terminated and an extraordinary loss of 105 thousand euros was recognised in the income statement.

Themis Reply SA

This amount is related to the total write-off of the investment as a result of the almost terminated liquidation procedures.

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 offset the 2007 loss.

In accordance to the Consob communication no. DEM6064293 of 28 July 2006 the list of equity investments is enclosed in the annexed tables.

The negative differences arising between the carrying value of the investments and the corresponding portion of their net equity are not related to permanent impairment of value, as the carrying value is supported by positive economic and financial forecasts that guarantee the recoverable amount of the investment.

Note 20 - Non current financial assets

Detail is as follows:

(in euros)	31/12/2007	31/12/2006	Change
Guarantee deposits	85.368	85.985	(617)
Financial receivables from subsidiaries	619.534	439.534	180.000
Total	**704.902**	**525.519**	**179.383**

Guarantee deposits are mainly related to deposits on lease contracts.

The item *Financial receivables from subsidiaries* is referred to non-interest bearing loans granted to Reply Consulting S.r.l. (200.000 euros), Themis Reply SA. (119.534 euros) and Target Reply S.r.l. (300.000 euros).

Note 21 - Deferred tax assets

This item amounted to 416.289 euros at 31 December 2007 (891.355 euros at 31 December 2006), and included the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.

Deferred taxes were calculated using the tax rates applicable from 1 January 2008, introduced by Law no. 244 of 24 December 2007 based on the applicable tax rates, IRES (27.5%) and IRAP (3.9%), at the moment when the temporary differences emerge. The effect from the adoption resulted in a decrease of 3 thousand euros.

(in euros)	
Temporary deductible differences	Tax
Total deferred tax assets at 31/12/2006	**891.355**
- accruals	397.804
- transfer of fiscal losses	629.264
- utilization	(1.499.138)
- tax rate adjustments	(2.996)
Total deferred tax assets at 31/12/2007	**416.289**
Of which:	
- maintenance, licenses and other deductible costs	15.649
- directors fees and employee bonuses accrued but not paid at year end	367.195
- other	33.445

Note 22 - Trade receivables

Trade receivables at 31 December, 2007, all due within 12 months amounted to 61.486.340 euros and mainly comprise accounts with highly rated companies.

(in euros)	**31/12/2007**	**31/12/2006**	**Change**
Third party trade receivables	46.957.370	45.782.141	1.175.229
Credit notes to be issued	(34.669)	(247.900)	213.231
Allowance for doubtful accounts	(150.483)	(150.483)	-
Third party trade receivables	**46.772.218**	**45.383.758**	**1.388.460**
Receivables from subsidiaries	14.710.314	10.842.528	3.867.786
Receivables from Parent Company	3.808	2.527	1.281
Trade receivables from subsidiaries and Parent Company	**14.714.122**	**10.845.055**	**3.869.067**
Total trade receivables	**61.486.340**	**56.228.813**	**5.257.527**

Receivables from third party mainly refers to professional services related to agreements entered with Reply S.p.A. and subcontracted by the latter to its subsidiaries. The above contractual practice was more frequent in 2007 even as a consequence of the ISO 9001 certification accomplished by Reply S.p.A.

Receivables from subsidiaries are related to services that the Parent Company Reply S.p.A. carries out in favour of the subsidiary companies at normal market conditions.

Trade receivables are all due within 12 months and due not include significant overdue balances.

Note 23 - Other receivables and current assets

Detail is as follows:

(in euros)	31/12/2007	31/12/2006	Change
Tax receivables	1.021.096	640.852	380.244
Advances to employees	12.976	3.996	8.980
Other receivables from subsidiary Companies	13.384.000	9.586.000	3.798.000
Other receivables	39.777	31.811	7.966
Accrued income and prepaid expenses	2.113.946	1.472.995	640.951
Total	**16.571.795**	**11.733.047**	**4.838.748**

Tax receivables mainly refer to receivables from tax authorities for VAT (395.604 euros), net of VAT liabilities and also includes withholding tax.

Other receivables from subsidiary companies refer to IRES receivables which are calculated on taxable income, and transferred by the Italian subsidiaries under national fiscal consolidation.

Accrued income and prepaid expenses amounted to 2.114 thousand euros and refer to prepaid expenses arising from the execution of services, lease contracts, insurance contracts and other utility expenses, which are accounted for on an accrual basis.

Note 24 - Current financial assets

This item amounted to 27.144.479 euros (27.013.020 euros at 31 December 2006) and is related to the cash pooling accounts of the subsidiary companies involved in the centralised pooling system with pool leader Reply S.p.A.. The interest yield on these accounts is in line with current market conditions.

Note 25 - Cash and cash equivalents

This item amounted to 15.822.676 euros, with an increase of 6.268.052 euros compared to 31 December 2006, and is referred to cash at banks and on hand at year-end.

Note 26 - Shareholders' equity

Share capital

As at 31 December 2007 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4.721.558 euros and is made up of 9,079,920 ordinary shares, par value 0,52 euros per share.

Change in the period is due to:

- The acquisition of the total minority shares of the company Axcel S.r.l. for a total value of 1.199.997 euros of which 26.840 euros as share capital increase and 1.173.157 euros as share premium;
- The exercising of 101,400 stock option rights for a total amount of 973.717 euros, of which 52.728 euros as share capital increase and 920.989 euros as share premium.

The objectives identified by Reply S.p.A for managing capital are to create value for stockholders as a whole, to safeguard business continuity and support the growth of the Group. As a result Reply S.p.A. endeavours to maintain an adequate level of capital that at the same time enables it to obtain a satisfactory economic return for its stockholders and guarantee economic access to external sources of funds, including in this by means of achieving an adequate rating.

Other reserves

Other reserves comprised the following:

(in euros)	31/12/2007	31/12/2006	Change
Share premium reserve	17.550.990	25.530.027	(7.979.037)
Legal reserve	929.760	929.760	-
Extraordinary reserve	5.037.432	7.018.142	(1.980.710)
Reserve for treasury shares on hand	1.253.013	223.804	1.029.209
Reserve for purchase of treasury shares	28.746.987	19.703.012	9.043.975
Reserve for cash flow hedges	370.683	351.382	19.301
Retained earnings and other	1.131.566	1.226.440	94.874
Total	**55.020.431**	**54.982.567**	**37.864**

As at 31 December 2007 the *Share premium reserve* amounted to 17.550.990 euros; with a change of 7.979.037 euros compared to 31 December 2006 arising from the aforementioned operations (2.094 thousand euros) and from the constitution of the *Reserve for treasury shares on hand* (10.073 thousand euros), following the resolution made by the General Shareholders' Meeting on 14 June 2007.

No changes have occurred in *Legal Reserve* during 2007.

Change in *Extraordinary reserve* owes to the allocation of the 2006 net result following the resolution made by the General Shareholders' Meeting on 14 June 2007.

The *Reserve for treasury shares on hand* amounting to 1.253.013 euros, is related to shares held by the Company that as at 31 December 2007 were equal to 69,499. In 2007 Reply S.p.A. acquired 40,000 ordinary shares for a total out payment of 1.029.209 euros.

The *Reserve for purchase of treasury shares*, amounting to 28.746.987 euros, was constituted through withdrawal from the Reserve for treasury shares on hand, following the resolution made by the General Shareholders Meeting of Reply S.p.A. which authorised, pursuant to art. 2357 of the Italian Civil Code, the purchase of a maximum of 30 million of euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

The *Reserve for cash flow hedges* includes the effects deriving from financial hedge instruments measured at fair value.
Retained earnings and other includes the effects deriving from the costs related to the existing Stock Option Plans as at 31 December 2007 and the expenses related to the share capital increase.
Shareholders' net equity stated according to its origin, possibility of utilization, possibility of distribution, availability and the utilization in the previous three fiscal years in annexed herein.

Share based payment plans

The company has share based payment plans for its employees.

The 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 S.p.A;
- to encourage employees to achieve the growth targets;
- to motivate employees and involve them in participating in the future economic results;
- to strengthen the relations between the Company and its employees by developing their loyalty and sense of responsibility.

As mentioned in Note 2 referring to share-based payment plans the Company has applied the standard set out by IFRS 2 "Share-based payment" and has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005 and are related to the stock options plans of 2004 and 2006. With reference to these plans, the cost incurred for Reply S.p.A. share-based payments amounted to 597 thousand euros (406 thousand euros in 2006)., which are stock options plans of 2004 and 2006.

The Extraordinary Shareholders' Meeting of Reply S.p.A. 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.

The Board of Directors' of Reply S.p.A. in charge of the stock option plan, has assigned stock options to over 200 employees and directors of the group companies.

As 31 December 2007 the number of stock options were 168,400 and can be summarised as follows:

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

During 2007 no. 101,400 options were exercised in reference to plans summarised in the table below:

Plan	Resolution of the General Shareholders'	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	Number of options
2002	11/06/2002	13/05/2004	9	9,416	11/11/2008 – 11/11/2013	89.000
2004	11/06/2004	11/11/2002	2	10,943	12/05/2009 – 12/05/2014	12.400

Note 27 - Financial liabilities

Detail is as follows:

(in euros)	31/12/2007			31/12/2006		
	current	non current	Total	current	non current	Total
Advances on receivables and bank overdrafts	308	-	308	2.225	-	2.225
Financial borrowings	3.705.917	25.488.956	29.194.873	3.737.318	24.122.872	27.860.190
Total due to banks	**3.706.225**	**25.488.956**	**29.195.181**	**3.739.543**	**24.122.872**	**27.862.415**
Transaction accounts from subsidiaries	4.897.618	-	4.897.618	4.886.905	-	4.886.905
Total financial liabilities	**8.603.843**	**25.488.956**	**34.092.799**	**8.626.448**	**24.122.872**	**32.749.320**

The future out payments of the financial liabilities are detailed as follows:

(in euros)	31/12/2007				31/12/2006			
	Due in 12 months	From 1 to 5 years	Over 5 years	Total	Due in 12 months	From 1 to 5 years	Over 5 years	Total
Advances on receivables and bank overdrafts	308	-	-	**308**	2.225	-	-	2.225
Syndicated loan Intesa SanPaolo Tranche A	4.000.000	-	-	**4.000.000**	4.000.000	4.000.000	-	8.000.000
Syndicated loan Intesa SanPaolo Tranche B	-	25.730.256	-	**25.730.256**	-	20.452.872	-	20.452.872
Transaction accounts from subsidiaries	4.897.618	-	-	**4.897.618**	4.886.905	-	-	4.886.905
Fair Value IRS and other	(294.083)	(241.300)	-	**(535.383)**	(262.682)	(330.000)	-	(592.682)
Total	**8.603.843**	**25.488.956**	**-**	**34.092.799**	**8.626.448**	**24.122.872**	**-**	**32.749.320**

The *Syndicated loan* is referred to the partial utilization of the credit facility for a maximum amount of 66 million euros as undersigned on December 30, 2005 by Reply S.p.A. with Intesa SanPaolo, pool leader of a group of banks for the granting of the loan.

The maximum total amount of 66 million euros has been divided in two tranches

- Tranche A can be used as an overdraft for a maximum amount of 12.000.000 euros with the purpose of entirely reimbursing the previous loan. Instalments are paid on a half year basis (Euribor 6 months + 0.75%) and the loan expires on 31 December 2008.
- Tranche B can be used as an overdraft and/or as a performance guarantee for a maximum amount of 54.000.000 with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalised at the acquisition of companies, strategic investments or shares. Instalments are paid on a half year basis commencing June 30, 2009 (Euribor 6 months + 0.75%) and the loan expires on 31 December 2011.

Throughout the duration of the contract and until the loan is completely reimbursed, Reply S.p.A. must achieve predetermined ratios (Covenants) of economic and financial nature calculated on the consolidated financial statements as at 31 December of each year.

As contractually defined, such ratios are as follows:

- Net financial indebtedness / Equity ≤ 1,5
- Net financial indebtedness / Ebitda ≤ 3,0

At the balance sheet date the Covenants established by the loan have been fully achieved by the company.

Fair value IRS and other is mainly related to the fair value of the cash flow hedge.

Net financial position

In compliance with Consob regulation issued on July 28, 2006 and in accordance with CESR's *Recommendations for the consistent implementation of the European's regulation on Prospectuses* issued on February 10, 2005, the Company's Net financial position, at 31 December 2007 was as follows:

(in euros)	**31/12/2007**	**31/12/2006**	**Change**
Liquidity	15.822.676	9.554.624	6.268.052
Cash pooling accounts	27.144.479	27.013.020	131.459
Current financial assets	42.967.155	36.567.644	6.399.511
Loans issued to subsidiaries	619.534	439.534	180.000
Total non current financial assets	619.534	439.534	180.000
Total financial assets	**43.586.689**	**37.007.178**	**6.579.511**
Due to banks	(25.488.956)	(24.122.872)	(1.366.084)
Total non current financial liabilities	(25.488.956)	(24.122.872)	(1.366.084)
Cash pooling accounts	(4.897.618)	(4.886.905)	(10.713)
Due to banks	(3.706.225)	(3.739.543)	33.318
Total current financial liabilities	(8.603.843)	(8.626.448)	22.605
Total financial liabilities	**(34.092.799)**	**(32.749.320)**	**(1.343.479)**
NET FINANCIAL LIABILITIES	**9.493.890**	**4.257.858**	**5.236.032**
Of which related parties	*22.866.395*	*22.565.649*	*300.746*

Note 28 - Employee benefits

Benefits to employees that fall within the Italian regulation of Employee severance indemnities (TFR) are considered by IAS 19 as "post employment benefits" of the "defined benefits" type and are therefore subject to valuation by means of the actuarial procedure. As already mentioned in Note 2,

It should be noted that following the changes in the regulation in the matter of post-employment benefit plan ("TFR") provided for in Italian Law No. 296 of 27 December (the "2007 Budget Law") and the subsequent implementation Decrees and Regulations, companies with at least 50 employees must transfer, in accordance to the choice made by the employee, the severance indemnities (TFR) accrued after January 1, 2007, to complementary welfare funds as per Legislative Decree 252/05 or to a specific Fund (Treasury Funds) instituted at INPS – the Italian National Social Security Board - in order to transfer to the employees the severance indemnities in accordance with art. 2120 of the Italian Civil Code.

From an accounting point of view, the liability for severance indemnities must be calculated through the "Projected Unit Credit Method".

The procedure for the determination of the Company's obligation with respect to employees was carried out by an independent actuary according to the following stages:

- Projection of the Employee severance indemnity already accrued at the assessment date and of the portions that will be accrued until when the work relationship is terminated or when the accrued amounts are partially paid as an advance on the Employee severance indemnities;
- Discounting, at the valuation date, of the expected cash flows that the company will pay in the future to its own employees;
- Re-proportioning of the discounted performances based on the seniority accrued at the valuation date with respect to the expected seniority at the time the company must fulfil its obligations.

Reassessment of Employee severance indemnities in accordance to IAS 19 was carried out "ad personam" and on the existing employees, that is analytical calculations were made on each employee in force in the company at the assessment date without considering future work force.

The actuarial valuation model is based on the so called technical bases which represent the demographic, economic and financial assumptions underlying the parameters included in the calculation.

The assumptions adopted can be summarised as follows:

Demographic Assumptions	
Mortality	ISTAT 2000 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: - Frequency of advances in 2007: 2.50% - Frequency of turnover % 2007: 10%

Economic and financial assumptions	
Annual inflation rate	Constant average annual rate equal to 2%
Annual discount rate	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2007 was 4.6%
Annual growth rate of the employee severance indemnities	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one percentage point.
Annual increase in salaries	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment (3.00 to 4.50%)

In accordance to IAS 19, Employment severance indemnities at 31 December 2007 is summarised in the table below:

(in euros)	
Balance at 31/12/2006	**697.698**
Service cost	45.180
Actuarial gain/loss	(24.027)
Interest cost	31.911
Amounts paid	(47.452)
Curtailment	(13.164)
Balance at 31/12/2007	**690.146**

The *Actuarial profits and losses* and the *Interest cost* are generated from the valuation of the liability according to the actuarial method recalculated at 1 January 2007 in accordance with the reform.

As already mentioned, following the changes envisioned in Italian Law No. 296 of 27 December 2006 (the "2007 Budget Law") and the following Decrees and Implementation Regulations, the amounts related to the post-employment benefit plan accrued until 31 December 2006, equal to 697.698 euros, have been re- measured in order to adapt the actuarial method previously applied to determine the future obligation of the company in relation to the new actuarial hypothesise (a revaluation rate , specifically set by law for this balance sheet item, replaces the salary increase projections). Due to the fact that this liability has totally come to maturity, the new method does not take anymore into account the pro-rata service provided by the employee on the entire expected employment period. Such re-calculation implied a curtailment of a non recurrent proceed equal to 13.164 euros.

Note 29 - Deferred tax liabilities

Deferred tax liabilities at December 31, 2007 amounted to 234.008 euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

The Company has adjusted this item in order to implement the changes introduced by the Law no. 244 of 24 December 2007 which provides for a change in the IRES and IRAP tax rates.
This adjustment resulted in a decrease of 34 thousand euros in the deferred tax liabilities.

(in euros)	
Total 31.12.2006	**222.848**
- accruals	63.317
- utilization	(18.150)
- effect of the tax rate adjustments	(34.007)
Total at 31/12/2007	**234.008**
- On deductible items off the books	197.671
- Employee benefits IAS 19	24.227
- different goodwill measurements	12.110
Total at 31/12/2007	**234.008**

Note 30 - Trade payables

Change in trade payables compared to period ended 2006, amounted to 12.749.945 euros, and is detailed below:

(in euros)	31/12/2007	31/12/2006	Change
Due to suppliers	3.106.137	1.743.503	1.362.634
Due to subsidiary companies	60.152.833	51.658.883	8.493.950
Advance payments	8.976.237	6.082.876	2.893.361
Total	**72.235.207**	**59.485.262**	**12.749.945**

Due to suppliers mainly refers to services from domestic suppliers (2.988 thousand euros).

The item *Due to subsidiary companies* 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 2007 compared to the prior year and this explains the difference in the payable position.

Advance payments include advances received from customers for contracts subcontracted to subsidiary companies, which at the balance sheet date were not yet completed.

Note 31 - Other current liabilities

Details are provided below:

(in euros)	31/12/2007	31/12/2006	Change
IRES - IRAP	2.481.615	2.993.149	(511.534)
Withholding tax and other (IRPEF)	225.771	157.772	67.999
Other	80.163	51.216	28.947
Total due to tax authorities	**2.787.549**	**3.202.137**	**(414.588)**
INPS	401.635	332.029	69.606
Other	91.488	51.147	40.341
Total due to social security authorities	**493.123**	**383.176**	**109.947**
Employee accruals	550.078	528.763	21.315
Due to subsidiary companies	1.784. 352	2.218.160	(433.808)
Other payables	1.331.315	1.810.882	(479.567)
Accrued expenses and deferred income	2.011.276	1.568.899	442.377
Total other dues	**5.677.021**	**6.126.704**	**(449.683)**
Total trade payables and other liabilities	**8.957.693**	**9.712.017**	**(754.324)**

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

Due to social security authorities is related to both Company and employees contribution payables.

Employee accruals mainly include payables to employees for remunerations due but not yet paid at year-end.

Due to subsidiary companies represents the remuneration due for the tax losses contributed by subsidiaries to the national tax consolidation for 2007 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.

Note 32 - Transactions with Related parties

In relation to CONSOB communication no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2007 financial statements related to such transactions are summarized below.

Transactions carried out by Reply S.p.A. with related parties, that as of the closing date is Alika S.r.l., are considered ordinary business and are carried out at normal market conditions.
Financial and business transactions among the Parent Company Reply S.p.A. and its subsidiary and associate companies are carried out at normal market conditions.

Main economic and financial transactions

(thousand euros)	With subsidiary and associate companies	With related parties	With subsidiary and associate companies	With related parties	Nature of transaction
Financial transactions	**31/12/2007**		**31/12/2006**		
Financial receivables	620	-	440	-	Financial loans yielding interest
Transaction accounts	22.247		22.126	-	Transaction accounts held by the Parent Company and introduced with the Group cash pooling system
Trade receivables and other	27.900	4	20.428	12	Royalties, administration services, marketing and quality management, management services and office rental
Trade payables and other	70.913	9	59.960	-	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies

Economic transactions	2007		2006		
Revenues from royalties	5.939	-	4.909	-	Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	10.923	-	9.208	11	Administration services, marketing and quality management and office rental
Revenues from management services	2.797	-	2.304	-	Strategic management services
Costs for professional services	94.827	-	79.680	-	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Services from Parent Company and related parties	-	680	-	519	Services related to office rental and office of the secretary
Interest income on loans, net	1.876	-	1.394	-	Interest on financial loans: 3 month Euribor with a spread of 2 percentage points

In accordance with Consob Resolution no. 15519 of July 27, 2006 and Consob communication no. DEM/6064293 of July 28, 2006 the financial statements present the Income statement and Balance Sheet showing transactions with related parties separately, together with the percentage incidence with respect to each account caption.

Pursuant to art. 150, paragraph 1 of the Italian Legislative Decree no. 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

Note 33 - Significant non-recurring transactions

Pursuant to the Consob communication no. 6064293 of 28 July, 2006, there were no significant non- recurring transactions carried out by Reply S.p.A. in 2007.

Note 34 - Transactions resulting from unusual and/or abnormal operations

Pursuant to the Consob communication no. 6064293 of 28 July, 2006, Reply S.p.A has not taken part in any unusual and/or abnormal operations as defined in that Communication, under which unusual and abnormal transactions are those which because of their significance or importance, the nature of the parties involved, the object of the transaction, the means of determining the transfer price or of the timing of the event (close of the year end) may give rise to doubts regarding the accuracy/completeness of the information in the financial statements, conflicts of interest, the safeguarding of the entity's assets or the protection of minority interests.

Note 35 - Guarantees, commitments and contingent liabilities

Guarantees, commitments and contingent liabilities, where existing, have been disclosed at the item to which they refer.
Guarantees granted to related parties are not remunerated.

At the present date Reply S.p.A. does not have any contingent liabilities.

Note 36 - Emoluments to Directors, Statutory Auditors and Key Management

Emoluments to Directors, Statutory Auditors and key management of Reply S.p.A. including those in other subsidiary companies are summarised in the table below:

(in euros)

Name	Office	Term of office	Emoluments	Other fees	Non-cash benefits
Mario Rizzante	Chairman	01/01/07 – 31/12/07	540.000	120.000	-
Sergio Ingegnatti	Chief Executive Officer	01/01/07 – 31/12/07	420.000	-	-
Tatiana Rizzante	Chief Executive Officer	01/01/07 – 31/12/07	330.000	127.364	-
Oscar Pepino	Executive director	01/01/07 – 31/12/07	210.000	-	-
Claudio Bombonato	Executive director	13/12/07 – 31/12/07	(*)	-	-
C. A. Carnevale Maffé	Non executive and independent director	01/01/07 – 31/12/07	20.000	-	-
Marco Mezzalama	Non executive and independent director	01/01/07 – 31/12/07	20.000	-	-
Fausto Forti	Lead Independent Director	01/01/07 – 31/12/07	20.000	-	-
Piergiorgio Re	Chairman of the Board of Statutory auditors	01/01/07 – 31/12/07	34.473	-	-
Tommaso Vallenzasca	Statutory auditor	01/01/07 – 31/12/07	23.532	-	-
Ada A. Garzino Demo	Statutory auditor	01/01/07 – 31/12/07	23.739	-	-
Key management		01/01/07 – 31/12/07	-	1.799.300	38.400

(*) fee for Office held will commence on January 1, 2008.

Stock options granted to Members of the Board of Directors and Key management

		Options held at 31/12/06			Options granted during the year				Options held at 31/12/07
Name	**Office held**	**Number of options**	**Average exercise price (euros)**	**Exercise period**	**Number of options in 2007**	**Number of options**	**exercise price (euros)**	**Exercise period**	**Number of options**
Mario Rizzante	Chairman	9.900	9,416	13-05 -07 to 13-05-12	9.900	-	-	-	-
Sergio Ingegnatti	Chief executive officer	9.800	9,416	13-05 -07 to 13-05-12	9.800	-	-	-	-
Tatiana Rizzante	Chief executive officer	9.900	9,416	13-05 -07 to 13-05-12	9.900	-	-	-	-
Tatiana Rizzante	Chief executive officer	15.000	21,339	12-05-09 to 12-05-14	-	-	-	-	15.000
Oscar Pepino	Executive director	9.900	9,416	13-05 -07 to 13-05-12	9.900	-	-	-	-
Key management		49.500	9,416	13-05 -07 to 13-05-12	49.500	-	-	-	-
Key management		75.000	21,339	12-05-09 to 12-05-14	-	-	-	-	75.000

During the financial year under review no. 89,000 stock options have been assigned to Members of the Board of Directors and Key management.

Note 37 - Events subsequent to December 31, 2007

No significant events have occurred subsequent to December 31, 2007.

_**Annexed** tables

Income statement
pursuant to Consob Resolution no. 15519 of July 27, 2006

(in euros)	**2007**	***Of which related parties***	***%***	**2006**	***Of which related parties***	***%***
Revenues	109.221.393	*17.671.647*	*16.2%*	93.209.219	*14.371.677*	*15.4%*
Other revenues	2.768.594	*2.562.627*	*92.6%*	2.194.341	*2.048.190*	*93.3%*
Purchases	(899.116)			(915.583)		
Personnel expenses	(8.313.401)			(8.574.346)		
Services and other costs	(105.067.498)	*(95.507.229)*	*90.9%*	(88.554.950)	*(80.199.440)*	*90.6%*
Amortisation and write-offs	(755.747)			(628.394)		
Other unusual operating income/expenses	30.871			251.749		
Operating margin	**(3.014.904)**			**(3.017.964)**		
Income/(loss) from equity investment	13.096.825			2.900.791		
Financial income/(expenses)	1.562.895	*1.875.888*	*120.0%*	535.147	*1.394.003*	*260.5%*
Result before tax	**11.644.816**			**417.974**		
Income taxes	149.725			131.963		
NET RESULT	**11.794.541**			**549.937**		

Balance Sheet
pursuant to Consob Resolution no. 15519 of July 27, 2006

(in euros)	31/12/2007	*Of which related parties*	%	31/12/2006	*Of which related parties*	%
Tangible fixed assets	1.102.164			880.275		
Goodwill	86.765			86.765		
Other intangible assets	993.581			740.203		
Equity investments	63.417.392			55.388.019		
Financial assets	704.902	*619.534*		525.519	*439.534*	
Deferred tax assets	416.289			891.355		
Non current assets	**66.721.093**			**58.512.136**		
Trade receivables	61.486.340	*14.516.503*	*23.6%*	56.228.813	*10.774.658*	*19.2%*
Other receivables and current assets	16.571.795	*13.384.000*	*80.8%*	11.733.047	*9.586.000*	*81.7%*
Financial assets	27.144.479	*27.144.479*	*100.0%*	27.013.020	*27.013.020*	*100.0%*
Cash and cash equivalents	15.822.676			9.554.624		
Current assets	**121.025.290**			**104.529.504**		
TOTAL ASSETS	**187.746.383**			**163.041.640**		
Share capital	4.721.558			4.641.991		
Other reserves	55.020.431			54.982.567		
Net result	11.794.541			549.937		
TOTAL SHAREHOLDERS' EQUITY	**71.536.530**			**60.174.495**		
Financial liabilities	25.488.956			24.122.872		
Employee benefits	690.146			697.698		
Deferred tax liabilities	234.008			222.848		
Non-current liabilities	**26.413.110**			**25.043.418**		
Financial liabilities	8.603.843	*4.897.618*	*56.9%*	8.626.448	*4.886.905*	*56.7%*
Trade payables	72.235.207	*69.129.070*	*95.7%*	59.485.262	*57.741.759*	*97.1%*
Other payables and current liabilities	8.957.693	*1.784.352*	*19.9%*	9.712.017	2.218.160	22.8%
Current liabilities	**89.796.743**			**77.823.727**		
TOTAL LIABILITIES	**116.209.853**			**102.867.145**		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**187.746.383**			**163.041.640**		

Equity investments in subsidiaries with additional information required by Consob.
(communication no. 6064293 of 28 July 2006)

Company (in euros)	Registered office	Share capital	Shareholders' equity at 31 December 2007	Result	% owned	Carrying value at 31 December 2007
@Logistics Reply S.r.l.	Turin	78.000	915.355	715.599	100.0%	1.049.167
Aktive Reply S.r.l.	Turin	10.000	1.968.769	1.504.299	100.0%	140.692
Atlas Reply S.r.l.	Turin	10.000	1.997.320	1.686.230	100.0%	356.575
Axcel Reply S.r.l.	Turin	15.000	376.354	7.313	100.0%	1.199.997
Blue Reply S.r.l.	Turin	10.000	2.345.062	1.424.595	100.0%	527.892
Business Reply S.r.l.	Turin	78.000	1.694.920	1.441.479	100.0%	314.461
Cape Reply Roma S.r.l.	Turin	10.000	27.714	7.745	100.0%	535.411
Cluster Reply S.r.l.	Turin	100.000	2.850.616	2.486.358	100.0%	539.010
Discovery Reply S.r.l.	Turin	10.000	21.233	(947.920)	100.0%	921.669
e*finance consulting Reply S.r.l.	Turin	34.000	3.034.961	2.464.761	100.0%	3.076.385
Ekip S.r.l.	Turin	10.400	14.871	(170.837)	100.0%	140.000
Eos Reply S.r.l.	Turin	10.000	(633.442)	(643.443)	80.0%	8.000
Hermes Reply S.r.l.	Turin	10.000	258.807	246.936	95.0%	49.500
IrisCube Reply S.p.A.	Turin	651.735	1.173.059	371.216	100.0%	6.724.952
IrisCube S.A.	Bioggio	60.237	299.296	849	100.0%	307.053
Open Reply S.r.l.	Turin	10.000	14.566	(75.939)	100.0%	60.000
Power Reply S.r.l.	Turin	10.000	10.829	(69.659)	87.16%	1.645.716
Reply Consulting S.r.l.	Turin	10.000	906.493	739.825	56.0%	113.434
Reply Services S.r.l.	Turin	10.000	12.244	(28.757)	100.0%	10.000
Santer Reply S.p.A.	Milan	2.209.500	13.804.654	3.141.723	100.0%	11.386.966
Spike Reply S.r.l.	Turin	50.000	1.847.431	1.221.903	100.0%	392.866
Square Reply S.r.l.	Turin	10.000	14.237	(85.762)	100.0%	100.000
Syskoplan Reply S.r.l. (ex Action Reply S.r.l.)	Turin	26.297	30.547	(706.715)	96.83%	1.098.325
Syskoplan AG and subsidiaries	Gutersloh, Germany	4.729.090	28.501.955	2.977.572	56.83%	22.593.557
Sysproject Reply S.r.l.	Turin	10.400	669.156	466.167	100.0%	2.071.022
Sytel Reply S.r.l.	Turin	115.046	8.539.725	5.788.847	100.0%	5.048.766
Target Reply S.r.l.	Turin	10.000	128.217	118.215	80.0%	8.000
Technology Reply S.r.l.	Turin	79.743	2.529.202	2.188.556	100.0%	241.353
Twice Reply S.r.l.	Turin	10.000	791.973	681.971	94.0%	407.000
XYZ Reply S.r.l.	Turin	12.939	197.445	92.684	100.0%	2.567.019
YH Reply S.r.l.	Turin	21.224	211.260	37.732	100.0%	89.657

Detail of Shareholders' net equity

stated according to origin, possibility of utilization, possibility of distribution, availability and the utilization in the previous three fiscal years.

				Summary of the amounts used in the prior three fiscal years	
Nature/description (in euros)	**Amount**	**Possibility of utilization**	**Available amount**	**For coverage of losses**	**Other**
Capital	**4.721.558**				
Capital reserves					
Reserve for treasury shares	1.253.013				
Share premium reserve	17.550.990	A, B, C	17.550.990		
Reserve for purchase of treasury shares	28.746.987	A, B, C	28.746.987		
Income reserves					
Legal reserve	929.760	B	-		
Extraordinary reserve	5.037.432	A, B, C	5.037.432		2.530.646
Reserve for shares to be issued (art. 2349 C.C.)	104.000	A, B	104.000		
Retained earnings	570.737	A, B, C	570.737		
Total			**52.010.146**		
Amount not available			118.552		
Residual available amount			**51.891.594**		
Reserves from transition to IAS/IFRS					
FTA reserve	303.393				
Retained earnings	2.038.722				
Reserve for cash flow hedge	370.683				
Treasury share	(1.253.013)				
IAS 32 accounting	(632.273)				
	59.741.989				

Legend

A: for share capital increase

B: for loss coverage

C: distribution to shareholders

Information requested by Art. 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-duodeciesof the "Regolamento Emittenti" issued by Consob, reports the amount of fees charged in 2007 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network.

(thousand euros)	Service provider	Fees 2007
Audit	Deloitte & Touche S.p.A.	28
Audit related services	Deloitte & Touche S.p.A. (1)	39
Other	Deloitte & Touche S.p.A. (2)	12
Total		**79**

(1) Report in accordance to article 2441, paragraph 6, of the Italian Civil Code and undersigning of the tax return.

(2) Assessment activities for IFRS 7

_**Declaration** pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and integrations

1. The undersigned, Sergio Ingegnatti, Chief Executive Officer and Giuseppe Veneziano, director in charge of drawing up the accounting documents of Reply S.p.A. pursuant to article 154-bis, paragraph 3 and 4 of legislative decree no. 58 of 24 February 1998, declare:

- the correctness in terms of the company's characteristics and
- the real application,

of the administration and accounting procedures and of all the economic, financial and earnings position reported in Reply S.p.A's 2007 financial statements:

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the financial statements at December 31, 2007 was based on a process defined by Reply in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally-accepted reference framework.

3. The undersigned also certify that the financial statements at December 31, 2007:

- correspond to the results documented in the books, accounting and other records;
- have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (as well as with the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005) and based on their knowledge, fairly and correctly present the financial condition, results of operations and cash flows of the issuer.

Turin, April 18, 2008

Sergio Ingegnatti
(Chief Executive Officer)

Giuseppe Veneziano
(Director in charge of drawing up the accounting documents)

_**Statutory** Auditors' Report

on to the Shareholders pursuant to art. 153 of Italian legislative decree no. 58/1998 and art. 2429, paragraph 3 of the Italian civil code in relation to the financial statements as of December 31, 2007

To the Shareholders,

Pursuant to art. 153 of the Italian Legislative Decree no. 58/98, and in compliance with the Italian Civil Code, the Board of Statutory Auditors refers to the Shareholders the supervision activities carried out throughout fiscal year 2007 and in accordance with the Independent Auditors, we have performed supervision activities pursuant to article 149 of Legislative Decree 24/02/1998 no. 58 and in compliance with correct conduct principles set out by the Statutory Auditors and recommended by the National Board of Accountants ("Dottori Commercialisti and Ragionieri") and also by CONSOB resolutions and recommendations.

Our activities are summarized below:

1. Significant economic, financial and monetary transactions.

We have received adequate and detailed information from the Board of Director's with regards to the Company's business and on the main operating, financial and asset transactions carried out or in the process of being carried out by the Company and/or its subsidiaries. In this regard communications, on matters falling under our jurisdiction, we can confirm the following:

- In February the German company syskoplan AG completed the acquisition of the 100% share capital of Xuccess Consulting GmbH, for a total amount of 6,6 million euros.
- In June 2007 the acquisition of the 100% share capital of the company Axcel S.r.l., was completed for a total amount of 1,2 million euros.
- In October 2007 REPLY S.p.A acquired 46.23% of Santer S.p.A's share capital for a total amount of 5,3 million euros which allowed REPLY S.p.A. to acquire 100% of Santer's share capital.

Such activities carried out have been executed in compliance with the Law and with the Articles of Incorporation.

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 the following is noted:

- REPLY S.p.A. has received professional services from group companies in relation to revenues from third parties;
- REPLY S.p.A. has provided guarantees in favour of some subsidiaries;
- REPLY S.p.A. has granted to its subsidiaries Reply Consulting S.r.l., Target Reply S.r.l. and Themis Reply S.A. non-interest bearing loans for the execution of their 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;
- REPLY S.p.A. has introduced a cash pooling system and activated transaction accounts with the single group companies;
- 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 Alika S.r.l. (indirect Parent company of REPLY S.P.A.) to the Group companies at normal market conditions. These operations are ongoing at present.
As mentioned above, in the month of June 2007 the acquisition of 100% Axcel S.r.l.'s share capital was finalised. This operation can be qualified as a transaction with related parties as 69% of Axcel's S.r.l. share capital is held by Alika S.r.l., company that indirectly controls Reply S.p.A., 18% is held by several executive directors of Reply S.p.A. and the remaining 13% by a third party company.
As a result of the above mentioned acquisition, consulting services carried out by Axcel S.r.l. to the Group companies are considered as operations with related parties.
With reference to the above mentioned acquisition, the Board of Statutory Auditors deems that the procedures adopted by the company are in compliance to art. 2391-bis of the Italian Civil Code, to the company's Corporate Governance Code and to the Regulations on significant operations with related parties.

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 2007 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 2007, issued its report on 26 May 2008 in which it asserts that REPLY S.p.A.'s financial statements as of 31 December 2007 comply with laws governing the criteria for their preparation.

5. Complaints pursuant to art. 2408 Italian Civil Code

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. **Additional engagements conferred to the independent audit firm and related charges.**

In the financial year under review the following additional engagements were conferred to Deloitte & Touche S.p.A.:

- Report on the price adequacy of the shares issued in relation to the share capital increase for the acquisition of Axcel S.r.l.
  Fee for execution of this service amounted to 37.500.
- Assessment activities on the application of IFRS 7.
  Fee for execution of this service amounted to 12.000.
- Assistance in filing of the company's tax return. Fee for execution of this service amounted to 1.000 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. **Existence of opinions issued during the year**

During 2007, in accordance to the Italian law, opinions were issued by the Statutory Auditors.

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

In 2006 the Board of Directors met 12 times, and the Statutory Auditors held 9 meetings.

11. **Instructions given by the company to its subsidiaries in accordance with art 114, paragraph 2 of Law Decree 58/1998**

Instructions given to the subsidiary companies, in accordance to paragraph 2, art.114 of Law Decree 58/1998, seem to be adequate and the same subsidiaries provided Reply S.p.A. with timely and appropriate information concerning the companies activities.
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 Italian subsidiary companies.
We also inform you that Mr. Mario Rizzante, Chairman of the Board of Directors of Reply S.p.A., holds office as Chairman of the Supervisory Board of syskoplan AG.

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.

13. Compliance with the conduct code set out by the Corporate Governance Committee of listed companies.

Since 2000 the Company complies with the Corporate Governance set out by Borsa Italiana S.p.A..
On 18 April 2008 the Board of Directors approved the annual report concerning the Corporate Governance System currently adopted by the Company, covering information on the organisational structure in accordance to art. 123 bis of Legislative Decree 58/1998.

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

Supervision activities carried out were as follows:

- We monitored compliance with the law and decrees;
- Participated in Board meetings;
- Acquired information regarding the auditing controls carried out by the external auditors and reported periodically;
- Gathered further information through meetings with the Director in charge of drawing up the accounting documents and the Internal control committee;
- Analysis of new Consob adoptions or communications.

The Board of Statutory Auditors has verified the existence of the organisational bases for the proper running and respect of the articles of incorporation, regulating laws.

More specifically We bring to the attention of the Shareholders that:

- The Programmatic Document on Security has been correctly updated in compliance to the ruling law decree;
- We have verified the proper criteria adopted by the Board of Directors in assessing the existence of independency conditions concerning the "independent directors";
- On March 28, 2008 the Board of Directors has approved the Organisational, Management and Control Model in compliance to Legislative Decree 231/2001 in conclusion of the project started in 2006;
- We have verified that in relation to "Internal Dealing" obligations related to "*Market abuse*" and "T*utela del risparmio*" were carried out.

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 and 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, concluding 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 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.

The Financial statements at 31 December 2007 were prepared according to the European regulation no. 1606/2002 of 19 July 2002, in compliance to (IAS/IFRS).

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.

The Board of Statutory Auditors, in specific reference to requirements set out by Law Decree 58/1998, paragraph 2, does not have any further proposals to make.

With reference to the point on the agenda concerning the purchase and disposal of treasury shares, even for the purpose of stock option plans, 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, in accordance to article 132 of Legislative Decree 58/98 and to art. 144 –bis of Consob Regulation no. 11971 dated 14 May 1999.

Turin, 27 May 2008.

The statutory auditors
(Prof. Piergiorgio Re)
(Dott. Tommaso Vallenzasca)
(Dott.ssa Ada Alessandra Garzino Demo)

Deloitte.

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AUDITORS' REPORT PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

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, 2007, which comprise the balance sheet, the income statement, statement of changes in shareholders' equity and cash flows statement and the related notes. 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 the Auditing Standards recommended by CONSOB, the Italian Regulatory Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, the balances of which are presented for comparative purpose, reference should be made to our auditor's report issued on May 28, 2007.

3. In our opinion, the financial statements present fairly the financial position of Reply S.p.A. as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

DELOITTE & TOUCHE S.p.A.

Signed by
Luca Scagliola
Partner

Turin, Italy
May 26, 2008

This report has been translated into the English language solely for the convenience of international readers.

_**Corporate** Governance

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

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Introduction

This Report reflects and illustrates the governing structure that the Company has adopted in accordance with the indications set forth in the new March 2006 edition of the Corporate Governance Code.

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

1. Corporate governance system

The *Corporate governance system* of the company, which is a set of laws and bylaws adopted in order to ensure the efficient and transparent functionality of the corporate bodies and the control system inspired on the principles and criteria recommended by the Code.
The Company is incorporated under Italian law and listed on the stock exchange on the MTA market, STAR segment. The *governance* structure of Reply S.p.A. – based on the traditional model, is made up of three bodies: The General Shareholders' Meeting, Board of Directors (that carries out its function through executive directors and is advised by an Internal Control Committee and a Remuneration Committee), Board of Statutory Auditors and Independent Auditors.
The General Shareholders' Meeting is the corporate body which expresses the wishes of the shareholders through its resolutions. Resolutions passed in compliance with the law and the bylaws are binding on all shareholders independently whether they agree or disagree with them unless the latter draw out, in the cases allowed. The Shareholder's are convened according to the rules set out for listed companies.
The Board of Directors has the function to define and approve the company's strategic, operating and financial plans in addition to the corporate structure it heads. The Board invests the broadest possible powers of management of the company in order to perform all the actions held to be most appropriate in the pursuit of the company objects, except those reserved for the Shareholders' meeting.
The Statutory Auditors supervises compliance with the law and bylaws and exercises management control and has to verify the following: The Board of Statutory Auditors must ensure that the laws and bylaws are properly applied and carries out the following controls:

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

The Statutory auditors are not responsible for controlling the accounting records which is a function preformed by an external company registered in the special Consob register as requested by law and chosen by the Shareholders' meeting.
The Audit Firm checks during the year that the company's accounts are properly kept and the management events are correctly reflected in the accounting records. The auditors also verify that the corporate and consolidated financial statements correspond with the outcomes of the accounting records and the verifications performed and that the accounting documents themselves are in compliance with the applicable regulations.

The Independent Auditors can also perform other services resolved by the Board of Directors, when not incompatible with the audit engagement.
The *governance* also includes the Internal Control System and the Organisational Model pursuant to Article 6 of the Law decree 231/2001 and the structure of the powers and proxies, as presented herein.
In the following Report the corporate governance code examined by the Board of Directors on 18 April 2008 is included and it should be noted that some recommendations have not been adopted by the Board of Directors and shall be further explained herein.
This Report has also been integrated with the information requested by laws and regulations of the governance.
The Report on Corporate Governance, which completes the explanatory notes and the code can be consulted on the company's website (www.reply.it).

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

A Share capital structure

The share capital structure of Reply S.p.A. is summarised below.
The share capital fully paid and subscribed, at 18 April 2008, amounts to 4.721.558,40 euros, comprises 9.079.920 ordinary shares with par value of 0,52 Euros each.
The share capital can be increased by a maximum of 87.568,00 euros following the assignment of stock options, related to Reply ordinary shares, at an established exercise price.
The following table shows the existing stock options as at 31 December 2007 which had not yet been exercised:

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

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

B Restrictions on the transfer of securities

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

C Significant shareholdings

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

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

D **Securities which grant special rights**

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

E **Employee shareholdings: mechanism for exercising voting rights**

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

F **Restrictions on voting rights**

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

G **Agreements between shareholders**

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

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

3. Agreement dated 15 June 2006 between Mr. Giacomo Segalli and the Company by which Mr. Segalli, holder of 8,526 (eight thousand five hundred twenty six) shares equivalent to approximately 0.09% (zero point zero nine percent) of the share capital cannot directly or indirectly, or publicly announce the intention of, directly or indirectly executing the following actions: offer, sell and in general not to dispose by any means of the shares owned and the rights attributed to the same, with the exceptions allowed under art. 123 TUF as outlined below:
   - after 24 months following 15 June 2006, the lock-up period shall expire in relation to 4,263 (four thousand two hundred sixty two) shares, equivalent to approximately 0.05% (zero point zero five percent) of the share capital;
   - after 36 months following 15 June 2006, the lock-up period shall expire in relation to 4,263 (four thousand two hundred sixty two) shares, equivalent to approximately 0.05% (zero point zero five percent) of the share capital;

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

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

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

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

5. Agreement dated 9 November 2004, tacitly renewed for a further three year period and until 9 November 2010, by which Alika S.r.l., with headquarters in Torino Corso Francia no. 110, share capital of 90.600,00 euros entirely called up, fiscal code and Torino company registration no. 07011510018, holder of 46.206,00 euros equivalent to 51% of the share capital and more specifically:

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

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

H Appointment and substitution of directors and amendments to the bylaws

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

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

Art. 16 of the Corporate Governance, regulates that:

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

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

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

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

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

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

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

The Shareholder's, following resolution past on June 14, 2007, have authorised the acquisition of treasury shares in accordance to art. 2357 of the Italian Civil Code as follows:

number of shares: considering the treasury shares already held by the Company at the said date, a maximum number of 863,191 ordinary shares at 0,52 euros, corresponding to 9.6695 % of the existing share capital, in the limits of 30.000.000 euros;

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

minimum purchase price: nominal value of the ordinary shares (presently 0,52 euros);

maximum purchase price not greater than the official trade price on the MTAX Market the day prior to the purchase applying a spread of 10% and a disbursement of maximum 30.000.000 euros;

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

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

L Change of control clause

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

Financing contracts

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

This contract allows the financing banks the faculty to call off the contract if “Iceberg S.A.” looses control directly or indirectly of Reply S.p.A., in accordance to 2359 of the Italian Civil Code.

Business agreements and contracts

Within some business agreements and contracts undersigned by Reply S.p.A. it is mandatory to notify the change of control, the Company has also undersigned contracts in which the clause “Change of control” implies immediate cancellation of the contract.

Such agreements, which are not very significant, compared to the entire Group activities, are subject to confidentiality clauses.

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

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

3. Management and coordination activities

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

The subsidiary companies do not exercise control and coordination activities for Reply S.p.A. inasmuch as they qualify as a holding, lacking an autonomous organisational structure and consequently do not carry out management activities for Reply S.p.A.

All the Italian subsidiaries held, directly or indirectly, by Reply S.p.A. have accurately published the control and coordination to which they are subject by Reply S.p.A. in accordance to art. 2497 – bis of the Italian Civil Code.

4. Board of directors

A Members

The Company's Board of Directors is made up of a variable number of components from a minimum of 3 to a maximum of 11 members. The number of components is resolved by the Annual General Shareholders' Meeting.

As required by the Corporate Governance Code the Board of Directors is made up of executive and non executive directors, the number, competence, authority and time availability of non-executive directors shall be such as to ensure that their judgment may have a significant impact on the taking of board's decisions.

At present the Board of Directors is made up of eight (8) Directors of which five (5) executive:

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

and three (3) non Executive and Independent Directors:

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

The non Executive and Independent Directors bring about their specific competencies in the meetings contributing in taking decisions of company interest.
The above mentioned directors have been appointed under shareholders' resolution of June 15 2006, with the exception of Ing. Claudio Bombonato, appointed under shareholders' resolution of 13 December 2007. The mandate of the above directors expires upon approval of the year end 31 December 2008 financial statements.
The nomination of the next Board of Directors will take place according to the bylaws and are detailed in the paragraph "APPOINTMENT AND SUBSTITUTION OF DIRECTORS AND AMENDMENTS TO THE BYLAWS"
The Directors operate and take decisions in an informed and unconditioned matter, pursuing the primary objective of creating value for the investor. They hold office with the awareness of being able to dedicate the necessary time in order to carry out their actions diligently.
The Chairman coordinates the activities and conducts the Board of Directors Meetings and takes the necessary actions so as to inform the members well in advance on significant points and useful items in order to participate in a profitable manner.
The Chairman furthermore, by means of the operational members of the company, makes sure that the Directors participate in initiatives aimed at increasing their knowledge of the company reality and its evolution and that they are informed about the major new legislation and regulations that concern the Company and its governing bodies.

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

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

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

The criteria in evaluating the requisites of the Board of Directors has not been integrated or modified.
The Board of Directors has verified the other offices held by Directors and Statutory auditors in other listed companies, finance, bank, and insurance companies or big enterprises.
The following arose

- Ing. Claudio Bombonato is a member of the Board of Directors of Fonspa S.p.A. and SI Holding S.p.A,
- Prof. Marco Mezzalama is member of the Board of Directors of CSI Piemonte, of Innogest S.p.A. and of Fondazione Torinowireless.
- Prof. Carlo Alberto Carnevale Maffè is a member of the Board of Directors of Poligrafica San Faustino S.p.A.,
- Dott. Fausto Forti is Chairman and is member of the Board of Directors of DHL Express Italy S.r.l..

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

B Role of the board of directors

The Board of Directors is the statutory managing body of the company invested with all powers with regards to the ordinary and extraordinary administration of the company.
The Board of Directors primarily carry out a management and control function with relation to the general activities of the company and the subsidiary companies.
More specifically the Board of Directors:

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

In accordance to the *Corporate Governance Code* (art. 1.C.1, letter f), the company has granted to the Board of Directors the examination and the approval of the operations deemed "significant" and some specific operations with related parties, fully detailed in this Report at the section dedicated to the topic.
The Board of directors meet on a regular basis, at least every three months or whenever deemed necessary.
The Directors report to the Statutory auditors on a quarterly basis with regards to the activities carried out during the year, to significant operations carried out by the company or its subsidiaries and with regards to operations that could be of potential conflict of interest.
During 2007 the Board of Directors met 12 (twelve) times.

The Board of Directors are scheduled to meet at least 6 (six) times in 2008.
The Board of Directors have held three (3) meetings at the present date of the Report.
The participating members of the Board are also allowed to intervene through audiovisual connection.
In order to facilitate the participation of a greater number of Managers and Statutory auditors, a draft of the annual meetings is scheduled.
Prior to the meetings, the Directors and Statutory auditors are provided with the Agenda of the meeting.

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

The Board of Directors currently holding office is composed of two Managing Directors, an Executive Director and has empowered the Chairman with all operational delegations.
Mr. Mario Rizzante, Chairman of the Board of Directors, has the powers of the ordinary and extraordinary administration of the company with the exception of those specifically empowered by law to the Board of Directors and excluding the operations empowered to the Board of Directors, as set out by the *Regulation on Significant Operations and with related parties.*

Mr. Sergio Ingegnatti and Mrs. Tatiana Rizzante, Chief Executive Officers, have the following disjoint main powers:

- ordinary administration of the company, including the activities related to purchase, sales, trade-in of products, goods and automobiles, real estate and any other asset related to the company's activities;
- sign rent and lease contracts for a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, by signing the related contracts with the public administration or private institutions;
- Carry out any type of operation with the offices of the public debt, banking institutions, post offices, administration and finance authorities, customs agents and transport institutions in general, governmental authorities whether federal, provincial or local, with ministries and in general with any public or private office, including the undersigning of any acts or declarations pursuant to fiscal laws;
- to represent the Company before any judicial authority, before any administration authority of the Italian Republic, even with reference to litigations of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- request, accept and use short term or long term lines of credit, with no sum limitation, according to the necessary conditions and terms with any banking or credit institution;
- hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;

- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 euros; and can:
  - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - confer or receive the related mandate in the event of a temporary group enterprise participation;
  - undersign the contracts following the assignment of the bid;
  - grant to third parties, to the extent foreseen by the law, the execution of the contracts.

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

- sign rent and lease contracts for a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 euros; and can:
- draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
- negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5.000.000,00 euros for each operation from an asset side and 500.000,00 euros for operations from a liability side;
- to represent the Company before any judicial authority, before any administration authority of the Italian Republic, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;

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

_ individual powers:

a) represent the Company Reply S.p.A. with external contacts and business negotiations and authorise the issuing of the related business offer with a limit of 5.000.000 euros per transaction;

b) negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5.000.000,00 euros for each operation;

c) participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 euros; and can:

- draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
- confer or receive the necessary mandate in the case of temporary joint ventures;
- undersign contracts following the awarding of the bid
- allow third parties the execution of the contracts awarded;

d) to carry out in the interest of the Company whatever is necessary or convenient within his powers;

_ joint powers, with another director having the necessary powers, the powers outlined at letters a), b) and c) in the case of exceeding the limits defined above.

The Chairman, under the company's Articles of Incorporation, has the power to convene the Board of Directors' meetings.
In preparing the Board of Directors' meetings, the Chairman informs the Directors and Statutory Auditors about the agenda and provides the necessary documentation and information for an effective participation in the Board's work.
The Chairman coordinates the activities of the Board of Directors and coordinates the meetings.
In order to have a better management of the Group activities, the Board of Directors of Reply S.p.A. has the possibility to attribute specific delegation powers so several key managers of the Group Companies can act in name and on behalf and interest of the Company.
At present, the following persons have proxies related to different levels of responsibilities and operational areas: Daniele Angelucci, Domenico Piantelli, Fernando Masella, Riccardo Lodigiani, Riccardo Iezzi, Luigi Luoni, Salvatore Zangari, Elena Previtera Filippo Rizzante, Francesco Savino, Flavia Rebuffat, Daniela Novelli, Giuseppe Veneziano and Fabio Zappelli; detailed information can be obtained at the competent Register of Companies.

D **Independent directors**

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

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

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

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

a) if he/she controls, directly or indirectly, the issuer also through subsidiaries, trustees or through a third party, or is able to exercise over the issuer dominant influence, or participates in a shareholders' agreement through which one or more persons may exercise a control or considerable influence over the issuer;

b) if he/she is or has been in the previous three accounting periods a key person of the issuer, of one of its subsidiaries having a significant strategic relevance or of a joint venture of the issuer, or a company that together with others or under special agreements control the issuer or is able to exercise a notable influence;

c) if he/she has, or had in the preceding fiscal year, directly or indirectly (e.g. through subsidiaries or companies of which he/she is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:
– with the issuer, one of its subsidiaries, or any of its significant representatives;
– with a subject who, jointly with others through a shareholders' agreement, controls the issuer,
or – in case of a company or an entity – with the relevant significant representatives; or is, or has been in the preceding three fiscal years, an employee of the abovementioned subjects;

d) if he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer, a significant additional remuneration compared to the "fixed" remuneration of non-executive director of the issuer, including the participation in incentive plans linked to the company's performance, including stock option plans;

e) if he/she was a director of the issuer for more than nine years in the last twelve years

f) if he/she is vested with the executive director office in another company in which an executive director of the issuer holds the office of director;

g) if he/she is shareholder or shareholder or director of a legal entity belonging to the same network as the company appointed for the accounting audit of the issuer;

h) if he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

The Board of Directors, in its entirety, has verified and obtained positive results with respect to the independency of the abovementioned Directors, by drawing on information provided by each of the Directors in accordance with the definition provided by the Corporate Governance Code.

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

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

E Lead independent director

The Code requires that, in case the Chairman of the Board of Directors is the key person in charge of the running of the company, and even when office is held by the person that controls the Company, the Board must designate a *"Lead Independent Director"*, that represents a reference and coordination point of the motions of the non executive Directors and more specifically the independent ones; for this scope, should these circumstances occur, in accordance to article 2.C.3 of the Code, the role of *Lead Independent Director* is head by the non Executive and Independent Director, Dott. Fuasto Forti.

5. Processing of confidential information

The Chief Executive Officer and the Investor Relator handle the processing of confidential information in order to avoid the spreading of such information through means not in compliance with law, provisions or rulings or by means that are not timely, or that are incomplete or inadequate.
More specifically, all company communication to the external and all press releases are accurately drawn up and under the strict supervision of the abovementioned persons that verify the correctness and compliance, in terms of content and means of diffusion, to the existing laws.
Furthermore, all employees, and in particular those having a managing position, have been instructed as to their duties concerning confidentiality of information of a listed company and must verify that the chief executive officer's directions are followed.

Following the so called regulation "market abuse" enacted by Community Law 2004 (Law 18, April 2005 no. 62), which restated article 114 of legislative decree 58/1998 (TUF) and endorsed by the corresponding Consob regulation (new articles from 152-bis to 152-octies introduced in Title VII of Part III of the regulation of listed companies no. 11971/99, endorsed by Consob resolution no. 15232 of 29 November 2005, in force since April, 1 2006), a law was passed concerning the obligation to notify the public about any transactions carried out by "important persons" and people strictly associated to them in relation to financial instruments of the company.
Consequently, the Internal Conduct Code on Internal Dealing already adopted by Reply S.p.A. since January 2003, was eliminated as of April 1, 2006 date in which the new Consob Regulation no.11971/99 was implemented. Consequently, the previously in force Internal Dealing included in the Market Regulation organised and managed by Borsa Italiana and related Instructions, applied by Reply since January 1, 2003 through the adoption of a specific Internal Dealing Code, has been abolished since the new regulations set out by Consob came into force, that is since April 1, 2006.
In execution of the new regulation of April 1, 2006, a new Conduct Code was implemented aimed at disciplining the flow of information from "Important persons" and "Parties connected to them" with respect to the Company and the corresponding obligations and informative and communication means with respect to Consob and to the market related to operations carried out by these parties.
The new Corporate Governance Code was enacted starting April 1, 2006 following the Board of Directors' resolution of March 31, 2006.
More specifically, the new Corporate Governance Code, with reference to Internal Dealing concerning operations on financial derivative instruments issued by Reply S.p.A. executed by the so called "key persons", disciplines the information to provide the Company, Consob and the market when purchase, sales, undersigning and negotiating of shares or financial derivative instruments connected to the shares, are executed for personal reasons by "Key Persons", that is those being close to the Company that can legitimately negotiate his shares having access to information concerning the parent Company's or its subsidiaries financial-economic trends.
The new code defines the conduct in terms of "internal dealing" and the ways of applying the same. The code disciplines more specifically, the identification of the so called "key" parties, the types of operations subject to mandatory communication, identification of the party in charge of receiving such information and the notification to Consob and to the market, timing and the means of communication that must be carried out by the so called "Key persons".
The complete version of the Corporate Governance Code is available on the Company's website (www.reply.it).

6. Committees within the board of directors

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

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

7. Remuneration committee

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

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

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

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

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

At present, the Committee does not include external consultants.

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

8. Remuneration of directors

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

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

In compliance to article 7.C.1 of the Code in the March 2006 release, article 22 of the Articles of Incorporation allows the possibility that a variable fee be attributed to the Directors invested with special powers, as participation in the profits of the parent Company, and dependent of the economic trends of the Group and more specifically to the Consolidated Gross Margin, and is resolved by the Annual General Shareholders' Meeting approving the annual financial statements.

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

The following table summarises remuneration of controlling bodies:

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

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

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

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

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

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

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

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

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

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

9. Internal control committee

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

The internal control committee:

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

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

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

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

During the year 2007 the Internal control committee met five (5) times and once (1) in 2008 and examined the following:

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

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

10. Internal control system

The internal control system is a set of procedures that contributes to safeguard the company's assets, the efficiency and effectiveness of business transactions, the reliability of financial information and the compliance with laws and regulations.
The Board of Directors is responsible for the internal control and defines the guide-lines of the internal control system and the company's risk management.
In relation to the company's objectives, operational and of compliance and reporting the Company uses the following instruments:

Instruments able to monitor operational objectives

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

Instruments able to monitor compliance objectives

- *Law 262/2005 in relation to accounting and financial disclosures* - Following the coming into force of law 262/2005 concerning the safeguarding of savings, Reply S.p.A. has terminated the project related to the upgrading of procedures. The objective of the project was to revise the administrative and accounting procedures with reference to the reliance of the economic-financial information disclosed to the market and more specifically:
  - mapping of the main sub- processes within the administration and relevant accounting procedures;
  - assessment of the adequacy of the existing controls and proposal of further areas of control in view of compliance and greater reliance of the processes considered;
  - drafting of a series of procedures and consequently the drafting of an Administration Procedures Manual;
  - creation of future control and monitoring instruments.
- *Legislative Decree 231/2001* - see related paragraph.
- *Security, environment and quality* - Reply has established a procedure system and an organisational structure dedicated to the management of data security (also with regards to the laws on Privacy), protection of the environment, security of equipment and personnel and the quality of services carried out (Iso certification 9001:2000).
- *Other laws and regulations* - Monitoring the evolution and compliance to new laws and regulations is carried out internally.

Instruments able to monitor reporting objectives

- *Accounting disclosures* – The Group accounting Manual sets the guidelines to the information to be disclosed with relation to consolidated and separate financial statements, to the administrative-accounting procedures recently upgraded/ integrated within the Project related to Law no. 262/2005, illustrated previously.
- *Processing of confidential information:* see relevant paragraph;
- *Internal information* – Reply S.p.A. has an internal communication system, orientated to facilitate and promote the internal communication within the company and the Group, also through a structured system as the Management and coordination Committee.

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

On 15 June 2006, the Board of Directors, appointed Dott. Sergio Ingegnatti to the position of Executive Officer in charge to supervise the functionality of the internal control system and has also nominated Ms. Celestina Massenzio, who was temporarily substituted by Ms. Rosa Scalise, as head of internal controls.
Head of internal controls reports his activities to the members of the Board of Directors, key management and to the Board of Statutory Auditors.

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

In November 2004, the Board of Directors approved the "Ethic Code" whose introduction represents an important step towards the constitution of a sound internal control system and transparency principles that guide the company's internal and external activities, and outlining the fundamental principles necessary to guarantee legality, loyalty and correctness in conducting Reply's relations.

In 2006 the adoption of a new organisation, management and control model pursuant to Legislative Decree 231/2001 (the Model) was underway and completed in the first quarter of 2007, with relation to the responsibilities of enterprises, in order to prevent the execution of illicit. The model was approved by the Board of Directors on 28 March 2008. The Model adopted, starting from an accurate analysis of the company activities with the objective of identifying the potential activities at risk, is the set of general principles, rules of conduct, control instruments and organisational procedures, formational and informational activities and disciplinary system finalised at assuring the prevention of offences.

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

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

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

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

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

C Independent audit firm

The General Shareholders' meeting of June 10, 2004 resolved to confer auditing of the Financial Statements of the Company and the Consolidated Financial Statements as well as the limited auditing of the Half-year financial statements for the fiscal year 2004, 2005 and 2006 to the independent auditors Deloitte & Touche S.p.A.

With the modifications introduced with Law no. 262 of December 2005 and the Legislative decree no.303 of December 2006 with regards to accounting principles, the Shareholders' Meeting of 14 June 2007 have evaluated positively the extension of the term of the auditing firm Deloitte & Touche S.p.A from 2007-2009, in order to guarantee the coordination and the adaptation of the measures introduced by the same Law with the existing regulations. The auditing period will terminate with the auditing of the Financial statements of 2009.

D Director in charge of drawing up the accounting and legal documents

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

Pursuant to article 24 of the Articles of Incorporation, the Director must set up adequate administration and accounting procedures for the drawing up of the statutory financial statements, the consolidated statements and any other financial communication.

The Director, together with the other executive organs, must assert in a specific report, annexed to every financial statements and to any other financial communications that the procedures set up have been abided to.

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

The Annual General Shareholders' meeting will be asked to approve changes to the Articles of Incorporation deemed necessary in view of the new regulations introduced by Legislative Decree 303/206 in relation to the *Director in charge of drawing up the accounting and legal documents.*

11. Director's interests and transactions with elated parties

In compliance with the Corporate Governance Code transactions carried out with related parties are preformed in a transparent manner and meet criteria of substantial and procedural fairness. Directors who have an interest, even if only potential or indirect with related parties shall:

- promptly inform the board in detail of the existence of the interest and of the related circumstances;
- abandon the board meeting when the issue is discussed.

The Board of Directors can however, under certain circumstances, allow the directors to participate and/or vote.
The company has set up a Regulation of significant operations and with related parties that foresees the following:

Significant operations

Pursuant to the Corporate Governance Code, the Board of Directors has the task of reviewing and approving operations of significant economic, financial and earning value, including the most significant operations with related parties, which are subject to specific substantial procedural correctness criteria.
Decisions concerning Significant Operations cannot be taken by delegated directors.
Significant operations are those that put the Company in the position to make the necessary communication to the market and accompany it with ad-hoc accounting situations according to the requirements of the market controlling body. When the Company has to put in action significant operations, the delegated directors provide the Board of Directors, reasonably in advance, a summary of the analysis conducted in terms of strategic coherence, economic feasibility, and the expected benefits for the company.

Operations with related parties

Identification of related parties

Related parties are:

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

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

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

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

Pursuant to the International accounting standard IAS 28, a company is considered an associate when the holder of the investment has a significant influence but is neither a subsidiary nor a joint venture. Significant influence means the power to participate in administration and operational decisions of the company without having control of it.

Therefore, pursuant to art. 2359 of the Italian Civil Code, associate companies are also those over which another company has significant influence; significant influence is presumed when the company, in the general Shareholders' meeting, can exercise at least one fifth of the voting rights or a tenth if the company's shares are listed.

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

a) Significant Operations

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

These operations must be previously authorized by the Board of Directors and specific notice must be provided to CONSOB.

b) Intercompany transactions

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

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

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

c) Transactions with related parties

These are defined as transactions with related parties other than "group companies".

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

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

12. Appointment of statutory auditors

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

Article. 23 of the Code is as follows:

- the lists of the candidates for the office of Statutory Auditor must be deposited at the Company's offices at least fifteen days prior to the date set for the Shareholders' Meeting on first call;
- Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or any other minimum number requested by other laws and regulations;
- The voting mechanism foresees that the votes obtained from each list, Statutory Auditors are separated from Alternate Auditors, will be divided by one, two, three for the Statutory Auditors and one, two for the Alternate Auditors, according to the progressive number of auditors to be appointed. These percentages will then be progressively assigned to the candidates on each list and a grade in descending order will be formed. The candidates with the highest percentage will be appointed, being that one Statutory Auditor and Alternate Auditor have been elected from the second list according to the number of votes obtained and must not be connected, neither indirectly, to the Shareholders which presented or voted the list which obtained the highest number of votes;
- President of the Board of Statutory Auditors is held by the statutory auditor which was elected from the minority list which obtained the highest number of votes.

13. Statutory auditors

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

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

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

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

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

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

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

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

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

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

14. Shareholders relations

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

Mr. Riccardo Lodigiani has been appointed, under resolution made 15 June 2006, the person in charge of relations with Institutional Investors and with Shareholders (Investor relator) in order to create continuous dialogue with the said persons.
The abovementioned person must exclusively and periodically inform the Chairman and the Chief Executive Officer, Mr. Sergio Ingegnatti of his activities.

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

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

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

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

15. General meetings

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

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

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

16. Changed subsequent to the year end close

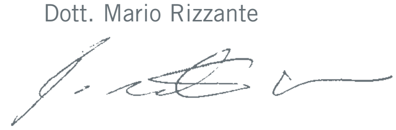
Following the year end close no significant changes have been made to the structure of the Corporate Governance.

Turin, 18 April 2008

For the Board of Directors

The Chairman

Dott. Mario Rizzante



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