REPLY

ANNUAL REPORT 2010

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BOARD OF DIRECTORS AND CONTROLLING BODIES

Board of Directors	
Chairman and Chief Executive Officer	Mario Rizzante
Chief Executive Officer	Tatiana Rizzante
Executive Directors	Oscar Pepino Claudio Bombonato Fausto Forti (1) (2) (3) Marco Mezzalama (1) (2) Carlo Alberto Carnevale Maffè (1) (2)

Statutory Auditors	
President	Cristiano Antonelli
Statutory Auditors	Paolo Claretta Assandri Ada Alessandra Garzino Demo

Independent auditors	Reconta Ernst & Young 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.

FINANCIAL HIGHLIGHTS

Economic figures (Euros/000)	2010	%	2009	%	2008	%
Revenues	384,202	100.0	340,166	100.0	330,210	100.0
Gross operating income	49,215	12.8	42,860	12.6	46,044	13.9
Operating income	41,570	10.8	35,882	10.5	41,159	12.5
Income before taxes	40,094	10.4	33,968	10.0	40,135	12.2
Group net income	20,367	5.3	16,628	4.9	18,924	5.7

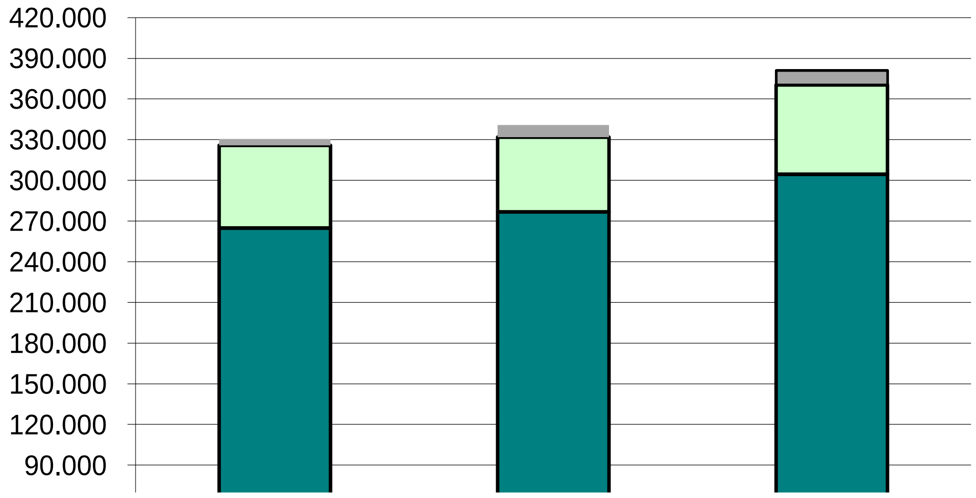
Financial figures (Euros/000)	2010	2009	2008
Group shareholders' equity	137,493	123,823	111,646
Minority interest	1,331	6,462	13,278
Total assets	362,333	309,071	301,038
Net working capital	92,416	89,345	81,358
Net invested capital	138,610	140,785	143,551
Cash Flow (*)	25,301	26,022	10,267
Net financial position	214	(10,500)	(18,627)

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

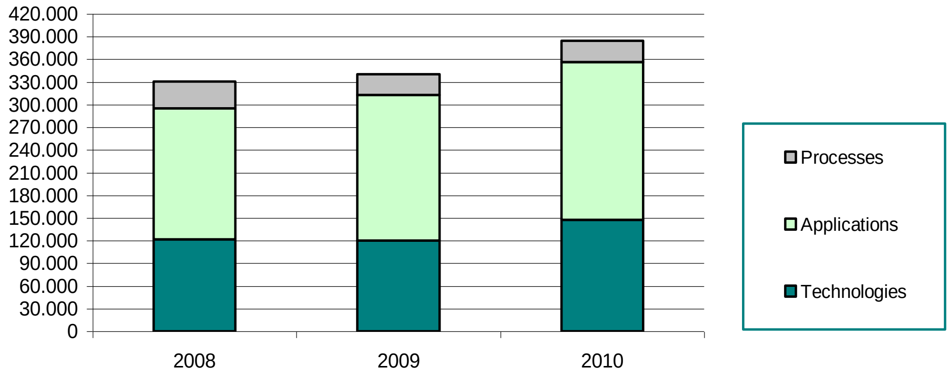
Data per single share (in Euros)	2010	2009	2008
Number of shares	9,222,857	9,222,857	9,222,857
Operating income per share	4.51	3.89	4.46
Net result per share	2.21	1.80	2.05
Cash Flow per share	2.74	2.82	1.11
Shareholders' equity per share	14.91	13.43	12.11

Other information	2010	2009	2008
Number of employees	3,149	2,994	2,686

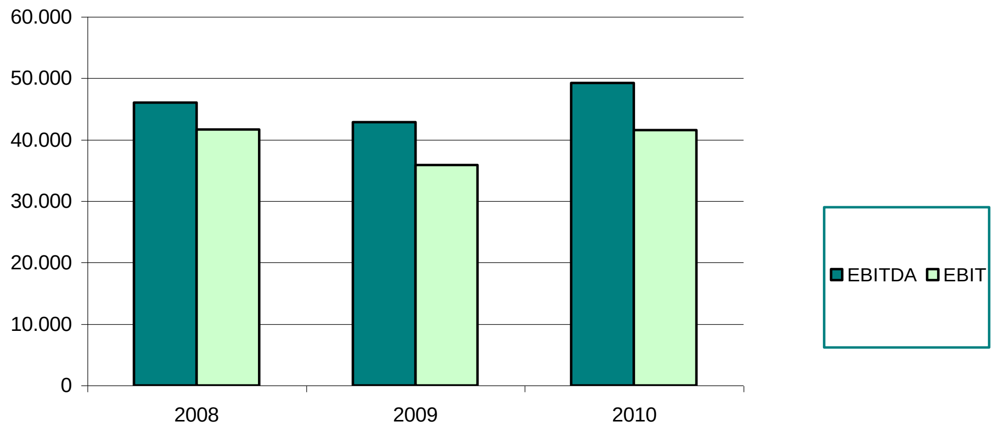
Revenues
(thousand Euros)



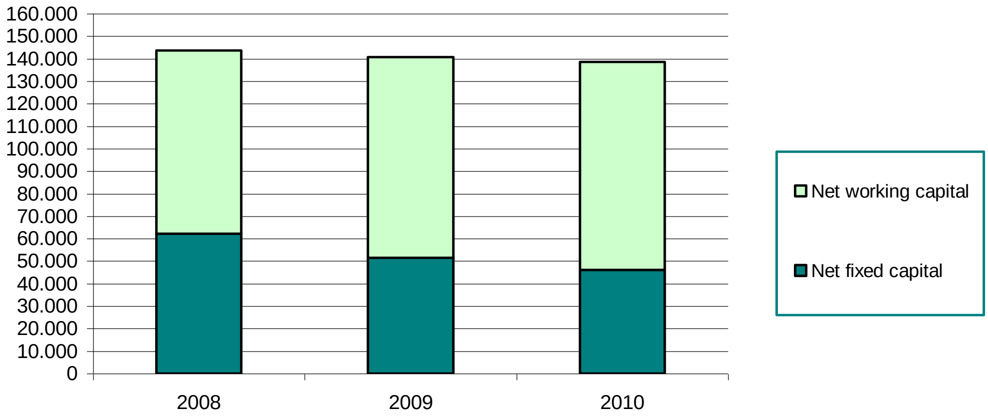
Revenues by business lines
(thousand Euros)



Margins
(thousand Euros)

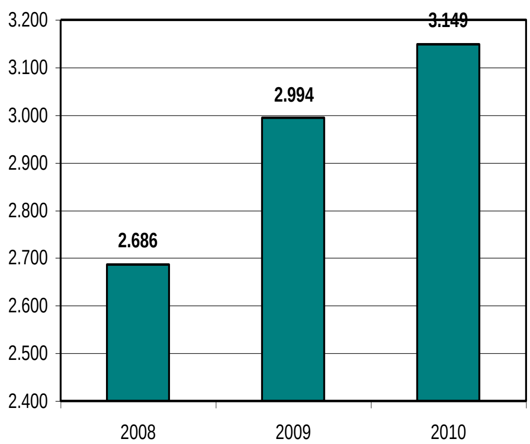


Net invested capital
(thousand Euors)



Reply share market trend in 2010

Human resources
(number)



LETTER TO THE SHAREHOLDERS

Dear Shareholders,

In 2010, Reply proved able to achieve further growth and consolidation: our turnover exceeded 384 million Euros, an increase of almost 13% when compared to 2009; and at the same time we recorded a net profit increase of over 20%.

Reply obtained these results by focusing its development on the capacity to put both technological and business innovation at the service of its clients, owing to a process of continuous research, selection and promotion of solutions that can support and uphold value within organisations.

Nowadays we all live and work in a world where digital and technological components increasingly form part of our everyday lives: we are facing the new network paradigms of consumerization and industrialisation. The push towards convergence of Telecommunications, Media and Consumer Electronics signifies that components previously unrelated to any form of connectivity must now be seen as “Network Devices”.

The infrastructures and applications now available allow for the creation of a new generation of services, constructible by users and accessible at any time, from any place and via different platforms and devices. New service models, enabled by Cloud architecture, are taking hold in all commercial and industrial sectors. The communications market has seen exponential growth in the importance attached to the single brand, product or service on the various digital platforms.

A company like Reply operates in a context that is experiencing profound change. Now, as never before, it is vitally important to be able to transform the opportunities given by technology into innovation for companies.

We have worked with commitment and determination throughout these past months to establish ourselves in specialist niches that will become ever more essential in the near future, such as Social Networking, Digital Media, Cloud Computing, Mobile Applications, the Internet of things and Business Intelligence.

We have invested in the consolidation of our proprietary assets and have continued to re-engineer our offer, working on our technology and consulting skills in order to better support businesses running cohesive technology in line with ever more rapid and capillary business processes.

We have extended our market penetration in Europe, thanks to a distinctive offering of new technologies, not only in the UK and Germany, where we were already present, but also in Belgium, the Netherlands, Luxembourg and Poland. We have also opened offices in Brazil, a country which represents a very interesting market with great development potential.

2010 has been a successful year in terms of acquiring new market shares and building a solid basis for the creation of an even more significant European presence for our Group.

In a now global and highly competitive sector, Reply is a vital new brand, perceived as innovative and first-rate.

We are now committed to achieving new and greater levels of excellence.

Chairman
Mario Rizzante

Reply
Living network

REPLY LIVING NETWORK

Reply is a Consulting, Systems Integration, Application Management and Business Process Outsourcing company, specialising in the design and implementation of solutions for new communication channels and digital media.

Comprising a network of highly specialist companies, Reply provides Europe's leading industrial groups with effective support in terms of the definition and development of business models enabled by the new technology and communication-based paradigms, such as social networking, cloud computing and the Internet of Things, to optimise and integrate processes, applications and devices.

Reply is synonymous with:

- a mindset highly focused on technological innovation;
- a flexible structure capable of anticipating market developments and interpreting new technological drivers;
- a successful and proven delivery method;
- a network of companies specialising in their own area of competence;
- teams composed of experts from top universities;
- a highly experienced management team;
- continuous investment in research and development;
- long-term relationships with existing clients.

ORGANISATIONAL MODEL

With more than 3100 employees on its books (31st December 2010), Reply operates as a network composed of companies specialising in processes, applications and technologies.Each company is representing a centre of excellence in its respective field of expertise.

Processes – for Reply understanding and using technologies means introducing a new enabling factor into processes, as a result of in-depth knowledge of the market and of the specific industrial implementation contexts.

Applications – in Reply the design and implementation of application solutions are aimed at meeting the core business needs of enterprises.

Technologies – in Reply the use of innovative technologies is optimised to create solutions that ensure customers benefit from maximum operational efficiency and flexibility.

The range of services offered by Reply includes:

Consulting - strategic, communications, process and technology;

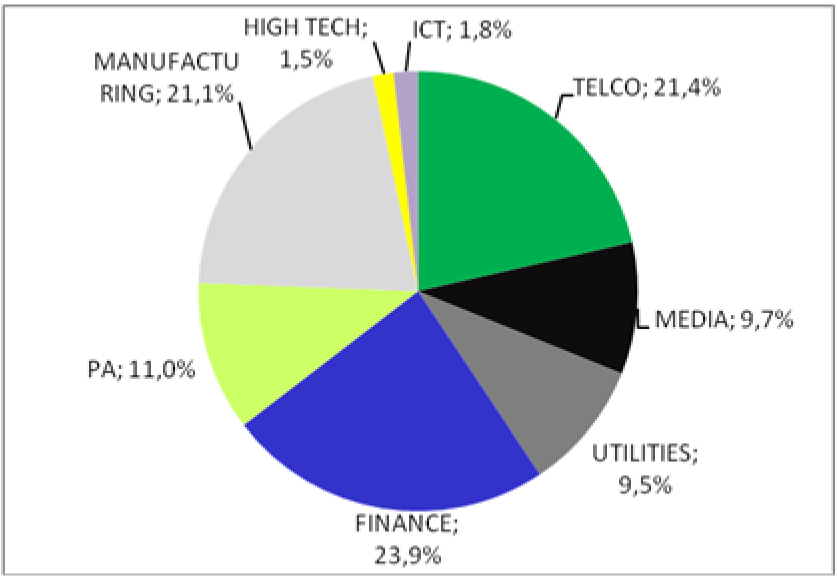
Systems Integration – taking technology to the highest level, by combining business consulting with high value-added and innovative technology solutions;

Application Management - management, monitoring and continuous evolution of the application assets.

MARKET FOCUS

In each of the market segments where Reply is currently active, the Group combines its specific sector skillswith its long experience as a service provider and wide range of advanced technological capabilities.

In 2010, the Group's turnover among various vertical sectors was splitted as follows:



Telco and Media

Reply features among the leading technological partners in the telecommunications market. A sector which has been characterised over the last few years by the rapid transformation of operators from being suppliers of connectivity to providers of innovative services and digital content.

In this context, Reply supports these operators as they undergo process and service integration across two key fields: Business Support Systems (BSS) and Operation Support Systems (OSS).

At the same time, the ever-increasing diversity of last generations' devices, along with the exponential growth of social networks and directly generated user content, has led to an effective convergence between communication channels through the proliferation and exploitation of value-added services. Reply's response to this new generation of content production integrates consulting, communication and creativity, based on the most advanced technologies.

Banking, Insurance and Finance Institutions

Reply collaborates with the main banking and insurance institutions to create solutions for key company activities, basing its results on an in-depth, innovative revision of business models, company procedures and their underlying technological platforms. Examples include:

- Multichannel retailing, with CRM and segment oriented marketing solutions, advanced mobile banking and online trading platforms, innovative digital product development, web marketing, the development of the new generation of call centres and the digitalisation of processes.

- Wealth management, with solutions and business models for both factory and distribution network asset management, including new models of paid consulting.

- Credit, compliance and risk management, with a range of experience both in Italy and in Europe concerning ground-breaking solutions applicable to both processes and systems for the allocation of retail credit (mortgages and consumer credits). These entail the creation of business models and systems which evaluate and control the various types of risk, as well as the design and implementation of the relevant data systems.

Industry and Services

Reply works alongside businesses during all IT system transformation and management stages; from strategic design to the conception and redefinition of core processes, up to the implementation of solutions to ensure applications are integrated within the extended enterprise.

Technological innovation in this sector involves the definition of CRM and e-commerce solutions in support of marketing, sales and service, the development of logistics and stock management projects and the design of systems capable of regulating supply chains and shortening the time needed to adapt to new product specifications, which are increasingly defined by the client himself.

Energy and Utilities

Over the last few years, the energy & utilities sector has come up against stiff competition and deregulation as a result of new EC legislation which has caused the division of the distribution and sales processes, driven by an increased pressure on revenue and profit, as well as the need to continuously provide higher service and safety levels. These developments help to heighten interest from investors who are increasingly seeing ICT components as the elements which afford any company a competitive edge.

Reply supports gas and electricity sales and distribution companies in the initiatives governing operational, organisational and technological changes, implemented in order to comply with new legislation which focuses on the progressive orientation towards renewable sources and the increased competition offered by a free market.

More specifically, Reply creates software solutions for the key CRM and billing processes specific to the utilities market, and collaborates with some of the most important energy companies in projects concerning pricing, forecasting, smart metering and meter data management.

Public Administration and Health

The objective of increasing the quality of public services and trends governing public spending within Italy, necessitates the re-engineering of front and back office processes and instruments on behalf of the Public Administration. This can be achieved by redesigning infrastructures to achieve greater operational efficiency and flexibility.

Within the central and local government and health sectors, Reply benefits from experience gained in the more advanced on-line services by verticalising applications and skills to generate specific solutions for the management of the rapport with the public and businesses.

TECHNOLOGICAL INNOVATION

Technological innovation is at the heart of Reply's business, which has always pursued the objective of providing its clients with the tools necessary for increasing flexibility and efficiency. Reply is continually dedicated to the research, selection and promotion of innovative solutions that can support and uphold value within organisations.

Cloud Computing

Reply considers cloud computing yet another step forward in the evolution of current IT systems; it devises, organises and administers business services, systems and processes based on two key elements: the power of the Internet and a pay-per-use model. In this context, Reply focuses on providing end-to-end support in the cloud computing process, from consulting services, to the choice of the cloud model best suited to a company's needs, from deployment and integration of custom platforms and applications, to easy-to-measure maintenance and management services based on consumption cost.

Specifically, Reply proposes a cloud computing approach built around three core elements:

- End-to-end consulting support (from the process itself to its operational management) to assist customers in understanding, choosing and developing the best technology and application solutions;

- Reply's own Enterprise Private Cloud platform to help organisations quickly implement this new provision methods;

- SaaS services and solutions based on Reply's main application platforms (TamTamy, SideUp Reply, Gaia Reply, Discovery Reply).

The company's partnerships with some of the most important global vendors, including Amazon, Google, Microsoft and Oracle, also allow Reply to offer the best solution for each individual company, both in terms of the model to be chosen and the technology to be used.

Internet of Things

The ever-increasing convergence between Telco, Media and Consumer Electronics mean an ever-increasing need to consider objects which up until now have been free from all kinds of connectivity, as "network devices" (electrical appliances, controllers for integrated home automation systems, etc.). Machine 2 Machine, or Internet of Things, is destined to become a key sector for the diffusion of new technologies, both within companies and in everyday life. Reply intends to be a key player in this sector and the services connected to it.

The aim of the Internet of Things is the development of the current Internet network communication paradigm, mainly through the exchange of information which almost always views the human user as the intended recipient or source of such information. In the new paradigm, machines acquire the capability to interact with one another even without human intervention, and therefore must present a high level of auto-configuration and auto-regulation, based on information drawn automatically from the operating context ("context awareness"). There are many fields of application: from industrial applications (production processes), to logistics and info-mobility, through to energy efficiency, remote assistance and environmental protection.

Reply, with its own centre for Research and Development on the Internet of Things, is committed to developing a platform of services, devices and innovative middleware, which goes beyond the limits set by existing market solutions. The key elements of such a platform are pervasiveness, transparency, portability, flexibility, sensitivity to context and the capacity to adapt and configure itself. The platform is aimed at providing a basis for new specific vertical applications such as info-mobility, advanced logistics, environmental safety, content-aware payments, health, car wellness and product traceability.

CRM

In an environment experiencing considerable change, the true essence of CRM continues to be the study, planning, building and reinforcement, day after day, of the reasons and principles for which a client remains loyal to a brand, product or service. It therefore becomes vital that companies identify and implement a relationship strategy based on what drives their clients - customer analytics – as well as, the factors which distinguish the company itself.

The ever-increasing integration with new communication technologies, especially those in the field of mobility, the "social" component of participation and collaboration, and the diffusion of multi-channelling are extremely important when creating CRM solutions to generate actual value within the entire value chain.

As a result, Reply's vision of the organisational processes and models to be applied, has been defined specifically to establish an appropriate and efficient level of integration between the framework of the CRM solutions proposed and the existing company structures.

An increasing number of clients are being assisted in the definition of CRM system principles, the revision of processes and creation of CRM technological structures and solutions by applying the systems as an end-to-end way of managing their respective operational and organisational processes.

Moreover, thanks to Reply's long experience in many markets where end-to-end assistance is a key component of the CRM framework, the Group is capable of integrating sophisticated reporting management models, based on the main technologies available, such as Oracle, Microsoft, SAP and other "best of bread", including in on-demand mode.

Business Intelligence

As predicted by key market analysts at the end of 2009, investments in business intelligence and data warehousing have continued to dominate a significant share of company IT budgets during 2010.

In this context, Reply supports its clients in the design and development of business intelligence and data warehousing solutions for corporate performance management and business analytics, and specifically in the strategic implementation of those processes which are designed to improve corporate efficiency, such as CRM.

Another element which contributed to development of this area was the increasingly wide range of solutions for performance management which was recently expanded by new applications for incentive & compensation management.

Social Networking

The ever-increasing popularity of social networks, including those within the context of the enterprise sector, is the starting point for development of new software methods and applications that emphasise sharing. The application of social networking models and technologies does, in fact, introduce new ways of participating in companies, based on dispersed and unstructured knowledge.

With a view to increasingly lend a voice to users, knowledge management platforms are more disposed to bottom-up approaches of construction and information sharing based on wikis, blogs, chat and forums.

Apart from specific solutions aimed at maximising user and stakeholder participation via the Internet (social engagement) and using the right tools to monitor and engage conversation and interactions within communities (social listening), Reply bases the specific offering for corporate social networking on its own TamTamy™ platform, which uses an SaaS (Software as a Services) delivery model in a cloud computing system.

Mobile & Wireless

The network infrastructures and applications available today have paved the way for a new generation of services. These services can be built by the users themselves and used at any time, in any place and on various different platforms and devices. Access via browser is being increasingly matched in popularity by access via client, an essential facility in offering a better quality of experience to users who log in using ultramodern devices and smartphones.

Thanks to its wealth of experience in devices, user experience and communication protocols, as well as its knowledge of the most important processes, Telco and Media, Reply is able to support its clients in creating multichannel interaction setups with new collaborative environments that guarantee:

- easy access to services and information anywhere and anytime
- wired and wireless device integration
- an always-on infrastructure for managing and distributing services and content.

The ever-increasing demand for services offering a higher level of user interaction across all mobile platforms, channels and devices (desktop, mobile, Internet, TV) has led the company to create its own Application Factory, dedicated to the development of mobile applications in both business and consumer contexts.

Digital Communication

Over the past few years the communication market has seen an increase in the importance of the presence of a single brand, product or service on the various digital platforms. A new, active presence which invites the consumer/user to interact: this "dialogue" is what renders the concept completely different from the traditional "display only" model used in all markets and by all brands in the past 10 or 20 years.

Creative skills (which have always represented the true added value of an efficient advertising campaign) are now to be accompanied by a high standard of technological skills and design. In other words, added value now comprises all the elements which bring creativity to life and render it interactive on the new channels: Internet, mobile telephones, but also digital P.O.S., game platforms and others.

This new scenario requires a closer relationship between creativity and technology, a gap which will undoubtedly continue to narrow in the context of excellent communication media which successfully maintains the brand's competitiveness.

In response to this demand from the market, in 2009 Reply and Armando Testa decided to merge Aware and Testawebedv. The result was Bitmama, a digital creative agency with expertise in multichannel brand marketing.

In addition to the creation and management of all aspects concerning brand image using interactive digital media, Bitmama's expertise also extends to the application of creative concepts and technology to important sectors such as mobile telephone, e-commerce and gaming, These sectors are now, and will continue to be, targeted by commercial brands, as the main international communication markets already show today.

Gaming

With around 57 million Europeans ‑ almost a quarter of all users ‑ using mobile gaming platforms, gaming today represents one of the fastest growing sectors, with total growth exceeding 50% from year to year. According to predictions made by key analysts, apps downloads will rise from the 2010 figure of 10.9 billion to well on 76.9 billion by 2014.

The extension of mobile apps to all aspects of our personal and professional lives will be a distinguishing feature of the current decade and will continue to generate opportunities in practically all sectors of the business world, thanks to the growing popularity of the smartphone, mobile devices and the new generation of objects connected by Internet.

For this reason, at the end of 2010, Reply set up a mobile gaming offering which combines technological skills with experience in digital design addressing not only the consumer needs but also most complex business2business scenarios.

Security

Reply's Business Security services cover all aspects linked to the protection of company property and moveable assets, by following an integrated model which addresses each risk component: from the identification of threats and vulnerabilities, the definition, design and implementation of the most suitable countermeasures in terms of technology, law, organisation, insurance or risk reduction.

Reply can also boast market leadership in managed security services, thanks to its ability to offer round-the-clock services via its own Security Operation Centre (SOC).

New competence areas developed in 2010 concern borderless security or, in other words, the security problems resulting from the combination of three worlds – Mobile, Cloud and Social – which are increasingly attracting the spotlight of the business world.

REPLY SERVICES

Today the Net is "the information system", through which an increasing volume of data, media and complex contents can be accessed by users in real time. This new way of using the Internet presents new kinds of competition, based on approaches to services which rely on three key elements: the software platforms used, an understanding and command of the processes, and service management.

Reply supports its clients in the face of such innovation, by supplying services and platforms designed to maximise the new possibilities offered by the Internet and by communication technologies.

Business Process Outsourcing

Reply supplies specialised BPO services in three fields of expertise:

- ***Finance & Administration*** *– management of accounting processes, drafting of financial statements and consolidated balance sheets, management of tax obligations, digitisation of the accounting documents and relative filing.*

- ***Human Resources*** *- training, ECM, career profiles, corporate knowledge, management analysis tools.*
- ***Pharmaceutical*** *– management and control of pharmaceutical expenditure.*

CFO services

The need to use complex tools for reporting and simulation purposes in order to rapidly receive adequate information on the company's progress and capacity to create value are forcing the CFO to radically change role. Within its Business Performance Management services, Reply has designed specific products providing support to CFOs, who are increasingly finding themselves having to come to terms with topics and tasks previously the responsibility of CEOs:

- *Definition of the corporate control model;*
- *Strategic planning and budgeting;*
- *Drafting of the consolidated balance sheet;*
- *IPO Support.*

Application Management

Reply has designed an application management model characterised by:

- *a modular approach which allows the client to purchase single components of the service (e.g. application maintenance only, operational support only) or structured groups of services;*
- *a flexible, user-friendly model which aims to integrate Reply's services with the client's existing processes in the best possible way, by adapting it to suit the client's specific requirements.*

REPLY PLATFORMS

Click Reply™

Click Reply™ - the Reply platform for supply chain execution – delivers optimised management of inventory, warehouse, transportation management and order fulfilment processes. The solution's architecture, which is entirely service-orientated and based upon open standards, integrates with ERP, SCM and MES systems. Click Reply™ can be used with a wide range of devices for the reading and writing of tags based on RFID technology, as well as more traditional devices such as barcode scanners and voice recognition.

Definio Reply™

Definio Reply™ - the Reply platform for risk management and wealth management – is designed for financial companies – banks, asset management companies, insurance companies, pension funds, bank foundations, investment and private banks and family offices – that analyse and monitor managed financial activities, both directly and through third parties.

Discovery Reply™

Discovery Reply™ - the Reply platform for digital asset management - renders the entire lifecycle of digital assets more efficient, thanks to innovative methods for managing workflow, a high level of interoperability with existing company systems and advanced services providing multichannel distribution of content.

Discovery Reply™ provides support for integrated production models, use and filing of content via a flexible open platform, and a simple, easy-to-use interface for acquiring, processing, cataloguing, accessing, searching for and distribution of digital assets on the various traditional delivery channels, (TV and digital TV) and IP-based ones (IPTV, WebTV, Over-The-Top TV, MobileTV).

Gaia Reply™

Gaia Reply™ is a flexible framework that offers scalability for the development and supply of services and content for various mobile devices. GAIA Reply™ integrates data coming from any structured source, formats it according to the service criteria and makes it available, in a standard format, for any channel or mobile device; the framework also improves display and browsing facilities, making them more user-friendly for the various devices used. In addition to offering a flexible model, the tools available for managing services render GAIA Reply™ highly scalable and suitable for various company needs, whether these be relative to the development of particularly complicated services (e.g. mobile banking) or to the implementation of less complicated ones (e.g. mini-MSIT; promotional activities; landing page; etc.).

TamTamy™

TamTamy™ - the Social Network platform developed by Reply – responds to companies' ever-increasing requirements involving the facilitating and sharing of individual knowledge, collaboration and new forms of communication. For this reason, TamTamy™ Reply has combined the most important widely-used community tools currently available online (wikis, blogs, tags, video and photo sharing, podcasts, rss, etc.) in one single customisable interface, along with a series of basic services such as identity and attendance management, categorisation, rating, search function and online texting.

SideUp Reply™

SideUp Reply™ - the Reply service platform for Warehouse Management - delivers optimised management of inventory, warehouse and order management processes. The solution, entirely based on the cloud computing model, integrates with ERP, SCM and MES systems. SideUp Reply™ is especially suitable for businesses wishing to implement warehouse management solutions in a short time or for a certain period. Unlike traditional warehouse management systems, SideUp Reply™ is accessible directly via the Internet as a pay-per-use model; i.e. payment according to actual consumption.

PARTNERSHIP – RESEARCH and DEVELOPMENT

Reply considers research and continual innovation as the key assets for supporting clients when they implement new technologies.

The company's partnerships with some of the most important global vendors, allow Reply to offer the best solution for each individual company. Specifically, in Italy and Germany, Reply boasts the highest level of certification amongst the three top technology names in the enterprise sector: Microsoft, Oracle and SAP.

Microsoft

Reply has one of the main Microsoft skills centres, both in technological terms as well as Microsoft Business Suites, and in 2010 it consolidated its skills and experiences in fields linked to Cloud Microsoft with Microsoft Azure and Office 365, IAAS and virtualised environments. Platforms such as Azure (the Microsoft Platform as a Service/PAAS solution) and Office 365 (on-line services) are currently the foundation of various projects entirely created on infrastructural platforms which are no longer tangible but virtualised, in keeping with the rules of cloud computing. Reply has also developed skills in Microsoft Surface - the Microsoft platform based on new ways of interaction to manage digital content – with various projects in the making, especially in the fashion, design and automotive fields. The company's participation in pre-launch testing of new platforms, such as Microsoft Sharepoint 2010, by management of the pre-launch implementation programme, together with Microsoft, has resulted in activity on the

Windows7, Office2010 and Sharepoint 2010 platforms. In the same way, Reply operates on the rest of the entire Microsoft product range via continuous updating, implementation and use of the application platforms and infrastructure: SQL Server, Biz Talk, Microsoft Dynamics CRM and Microsoft Dynamics NAV/AX.

Oracle

Reply, an Oracle Platinum Partner, has always followed the evolution of Oracle services, both in terms of technology and product, and can now boast one of Europe's main competence centres, which can combines full-stack support with mastery of the application suites and key vertical industry solutions. Reply is also a leading Oracle partner within the European utilities sector, conducting projects for major market operators in Italy, Ireland, the UK and France. Reply participated in a worldwide co-development initiative to create solutions based on Oracle's Application Integration Architecture (AIA). The aim was to integrate Oracle and third party applications when creating end-to-end processes in standard and open mode. In 2009 Reply won the award of best Oracle technology partner and in January 2010 it was the first partner - at world level - to obtain a specialisation in Oracle Business Intelligence Foundation. Reply have a dedicated Demoground, where companies can gain real time experience in the power of Oracle software such as the Oracle Exadata Database Machine.

SAP

Reply uses its wide international experience in the development of application solutions based on the SAP product suite, to help businesses optimise activities and processes. It takes an integrated approach to the design and development of corporate information systems. In particular, as regards business and the changes demanded by the market, its skills cover traditional enterprise processes and functions of the extended company, such as: supply chain, customer & supplier relationship, financial services. In addition, its extensive experience in SAP business intelligence tools enables Reply to assist customers in defining and developing reporting structures, control dashboards and the functions of simulation and planning. Technological and design skills represent another important area. The SAP Netweaver infrastructure enables Reply to address application integration and people & knowledge integration issues, using an approach to services based on SOA principles.

Since its creation Reply has devoted resources and activities to research and development, focusing on two areas: the development and evolution of proprietary platforms and the definition of a continuous process of scouting, selection and learning of new technologies to bring to market innovative solutions that support the creation of value within companies.

DEVELOPMENT AND EVOLUTION OF PROPRIETARY PLATFORMS

Click Reply ™

In 2010 the Click Web software compatibility matrix was improved for application server components (Tomcat 6) and client servers (IE8), as well as modules for RF management, for dispatching the spooling operation and for communication with external systems that are now also AIX certified. Unicode support for all technological components was introduced, while LDAP authentication for access via web clients and radio frequency was completed, while communication protocols such EDI/X12, Tibco, JMS / MQ, ESB / Neai, were integrated into the Universal Link communication module. After having implemented the management of mobile devices on Microsoft.NET technology, a new radio frequency module was created. This handles authentication via LDAP and in particular exploits the new .NET platform allowing the upload/download of images and integration with external handling execution systems by reading and writing files. Finally, Vocollect VIO ™ voice recognition technology was chosen and integrated, to enable the start of construction of the new Click Reply ™ JVoice module.

Definio Reply™

The Definio Reply™ platform was expanded in 2010 both functionally and technologically. Specifically, its ability to perform risk analysis on individual financial instruments was expanded and its computing engines were completely ported over to the 64-bit platform. The first version of Definio Reply™ for the iPad was developed as part of the extensions for remote use of the platform. The Performance Management module was extended with the addition of a delayed performance feature for funds of funds.

Discovery Reply™

In 2010, new features were made available for the management of audiovisual content for the broadcasting industry, which is increasingly evolving towards IT-based systems. The year 2010 was also marked by a progressive extension of the features of Discovery Reply ™ to content management and digital media in vertical contexts other than Broadcasting, including Industry and Security. Also in 2010, Discovery Reply ™ was equipped with a new layer to integrate different delivery channels, such as digital signage systems. Finally, a system was integrated into Discovery Reply ™ that, using speech-to-text analysis before and semantic analysis afterwards, enables the rapid and effective classification and subsequent identification of audiovisual content.

Gaia Reply™

The main purpose of developments in 2010 was to bring the platform even closer to the needs of companies and users of services. In addition to increasing the number and type of mobile devices managed (mobile phones, game consoles, Net TV), Gaia Reply™ was also made available in SaaS mode during that year, along with the classic setup at the customer's premises,. Finally, to facilitate monetisation opportunities for companies, Gaia Reply™ was integrated into the major advertising networks (AdMob, DoubleClick, etc.), facilitating advertising on their sites.

SideUp Reply™

Development in 2010 focused on two main principles: ergonomics and user experience, and the extension of new logistics services in cloud computing mode. Enhancing the user experience translates into ease of use, reduced training times, increased self-customisation, and thus quick startup, a critical factor of success for SaaS. The extension to new services, such as parcel management for transit points, in addition to core WMS products, increases the richness and completeness of Reply's services, thus allowing customers to take advantage of the opportunities of the SaaS model in a more far-reaching supply chain.

TamTamy™

In 2010 Reply continued the development of the TamTamy ™ platform so as to extend the social features offered by the solution and to be effective and usable in different business contexts. In particular, 2010 saw an increasing use of the Dedicated SaaS (Software as a Service) delivery mode, which exploits the latest technologies and online service distribution models based on cloud computing. This product allows for the creation of business communities with a pricing model based on actual use, thus considerably reducing startup times and running costs. New investments are planned for 2011, with three major releases that aim to continue expanding the platform's features, services and integrability, in line with the perpetual beta approach adopted by Reply for the development of TamTamy ™.

THE VALUE OF PEOPLE

Reply is based on the excellence of its people. The men and women of Reply represent and build the company brand with its customers and partners.

The Reply Group includes professionals from the best universities and polytechnics in the sector. It invests in human resources on an on-going basis to develop privileged and collaborative relationships with several universities in order to enhance its workforce with highly skilled personnel.

The company is primarily looking for young graduates. Reply has a particular interest in the following skills: Computer Science, Computer Engineering, Electronic Engineering, Telecommunications Engineering, Engineering Management, and Economics and Business. Reply's relationship with the universities also includes internships, theses and company participation in lectures and seminars.

Reply people are characterised by enthusiasm, excellence, methodology, team spirit, initiative, as well as an ability to understand the context and to clearly communicate the proposed solutions. A continuous drive to conceptualise, experiment and explore new solutions enables staff to quickly and efficiently head pursue innovative directions.

Joining the world of Reply means having the best opportunities to express one's potential within an organisational model based on culture, ethics, trust, honesty and transparency.

These values are indispensable for continuous improvement and ever-increased attention to quality.

All Group managers strive on a day-to-day basis to uphold the principles underpinning Reply, which have supported it throughout its growth.

REPLY TEAM

- Shared customer's objectives
- Professionalism and rapid implementation
- Culture and flexibility

Excellence: the company's fundamental culture, analysis, attention to quality, reliability and maximisation of results.

Team: cooperation, communication of ideas and knowledge, sharing of objectives and results and respect for individual characteristics.

Customer: shared objectives, customer satisfaction, conscientiousness, professionalism, sense of responsibility and integrity.

Innovation: creativity, experimentation, courage, analysis and the search for improvement.

Speed: methodology, project management experience, collaboration, and commitment to achieving results and the customer's goals.

REPORT ON OPERATIONS

MAIN RISKS AND UNCERTAINTIES TO WHICH REPLY S.p.A. AND THE GROUP ARE EXPOSED

The Reply Group adapts specific procedures in managing risk factors that can have an influence on the group results. Such procedures are a result of an enterprise management that has always aimed at maximizing value for its stakeholders putting into place all necessary measures to prevent risks related to the Group activities.
Reply S.p.A. as Parent Company, is exposed to the same risks and uncertainties as those to which the Group is exposed.
The risk factors described in the paragraphs below must be jointly read with the other information disclosed in the Annual Report.

EXTERNAL RISKS

RISKS ASSOCIATED WITH GENERAL ECONOMIC CONDITIONS

The informatics consultancy market is strictly related to the economic trend of industrialized countries where the demand for highly innovative products is greater. An unfavorable economic trend at a national and/or international level or high inflation could alter or reduce the growth of demand and consequently could have negative effects on the Group's activities and on the Group's economic, financial and earnings position.

RISKS ASSOCIATED WITH EVOLUTION IN ICT SERVICES

The ICT service segment in which the Group operates is characterized by rapid and significant technological changes and by constant evolution of the composition and professionalism and skills to be combined in the realization of services, with the need to continuously develop and update new products and services. Therefore, future development of Group activities will also depend on the capability of anticipating the technological evolutions and contents of the Group's services even through significant investments in research and development activities.

RISKS ASSOCIATED WITH COMPETITION

The ICT market is highly competitive. Competitors could expand their market share squeezing out and consequently reduce the Group's market share. Intense competition, related to new possible entries in segments in which the Group operates of parties equipped with human resources, financial and technological capabilities that can offer competitive prices could influence the Group activities and the possibility of consolidating or expanding its competitive position with negative drawbacks on its activities and on the Group's economic, financial and earnings position.

RISKS ASSOCIATED WITH INCREASING CLIENT NEEDS

The Group's solutions are subject to rapid technological changes that together with the increasing need of customers and their need to improve informatics, which result in a request of even more complicated development activities, sometimes require excessive efforts that are not proportional to the economic aspects. This in some cases could cause negative effects on the Group's activities and on the Group's economic, financial and earnings position.

RISKS ASSOCIATED WITH SEGMENT REGULATIONS

The activities carried out by the Group are not subject to any particular segment regulation.

INTERNAL RISKS

RISKS ASSOCIATED WITH KEY MANAGEMENT

The Group's success is largely dependent on the ability of its senior executives and other members of management to manage the Group such as the Chairman and the Executive Directors of the Parent Company Reply S.p.A.

The Group is structured with a group of directors (Senior Partners and Partners) with many years of experience in the segment and have a key role in the management of the Group's business. The loss of any of these key figures without an adequate replacement or the inability to attract and retain new, qualified personnel could therefore have an adverse effect upon the Group's business prospects, earnings and financial position.

Management deems that in any case the Group has a sufficient operational and managerial structure enable to guarantee continuity in the running of business.

RISKS ASSOCIATED WITH RELATIONSHIP WITH CLIENT

The Group offers services mainly to middle and big sized enterprises operating in different market segments (Telco, Manufacturing, Finance, etc.). A significant part of the Group's revenues, although in a decreasing fashion in the past years, is concentrated on a relatively limited number of clients. If such clients were lost this could have an adverse effect on the Group's activities and on the Group's economic, financial and earnings position.

RISKS ASSOCIATED WITH INTERNATIONALIZATION

The Group, with an internationalization strategy, could be exposed to typical risks deriving from the execution of its activities on an international level, such as changes in the political, macro-economic, fiscal and/or normative field, along with fluctuation in exchange rates.

These could negatively influence the Group's growth expectations abroad.

RISKS ASSOCIATED WITH CONTRACTUAL OBLIGATIONS

The Group's solutions are rich in technological content and of great value, the underlying related contracts can foresee the application of penalties in relation to timeliness of delivery and qualitative standards.

The application of such penalties could have adverse effects on the Group's economic, financial and earnings position.

The Group has undersigned adequate precautionary insurance contracts against any risk that could arise under professional responsibility for an annual maximum amount deemed to be adequate in respect of the actual risk.

Should the insurance coverage not be adequate and the Group is called to compensate damages greater than the amount covered, the Group's economic, financial and earnings position could be deeply jeopardized.

FINANCIAL RISKS

CREDIT RISK

For business purposes, specific policies are adopted in order to guarantee that clients honor 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 through the Group Treasury. The aim of this centralized system is to optimize 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).

The present difficulties both in the markets in which the Group operates and in the financial markets necessitate special attention being given to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing up to 2011, which promises to be a difficult year. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

RISKS ASSOCIATED WITH FLUCTUATIONS IN CURRENCY AND INTEREST RATES

The exposure to interest rate risk arises from the need to fund operating activities and the necessity to deploy surplus. Changes in market interest rates may have the effect of either increasing or decreasing the Group's net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.
As the Group operates mainly in a "Euros 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.

FINANCIAL REVIEW OF THE GROUP

Foreword

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 December 31, 2010, 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.

Trend of the period

In 2010 the consolidated turnover of the Reply group amounted to 384.2 million Euros with an increase of 12.9% compared to the consolidated turnover of 2009 which amounted to 340.2 million Euros.

EBITDA amounted to 49.2 million Euros (42.9 million Euros in 2009) with EBIT of 41.6 million Euros (35.9 million Euros in 2009). Net result totaled 20.4 million Euros (16.6 million Euros in 2009).

As at December 31, 2010 the Net Financial Position stood at a positive 0.2 million Euros and has had a substantial improvement compared to December 31, 2009 when it reported a negative value worth 10.5 million Euros.

2010 was a very positive year for Reply. In a difficult economic circumstance, Reply has recorded a two digit growth with a net result above 20 million Euros and a growth of 22% compared to 2009. In the last 12 months Reply has strengthened its presence in the European market, not only in England and Germany but also in the Netherlands and Luxemburg, thanks to its offer of new technologies. Furthermore Reply has established a base in Brazil where the market appears interesting and with a great potentiality.

Reply has made investments to position itself in competitive niches which will be fundamental in the near future. Development was spurred on by the ground-breaking boost provided by the integration of web and mobile technologies – Social Networking, digital communication, Cloud Computing and the Internet of Objects. Reply, in particular, concentrated on the development of their proprietor assets and continued the re-engineering of offers through the investment on application and consultancy competence as to respond to companies which interpret technology as cohesive and aligned with rapid and diffused business processes.

Reclassified consolidated Income statement

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)	2010	%	2009	%
Revenues	**384,202**	**100.0**	**340,166**	**100.0**
Purchases	(8,652)	(2.3)	(8,207)	(2.4)
Personnel	(194,122)	(50.5)	(176,652)	(51.9)
Services and other costs	(124,444)	(32.4)	(112,442)	(33.1)
Other unusual operating income/(expenses)	(7,769)	(2.0)	(5)	(0.0)
Operating costs	**(334,987)**	**(87.2)**	**(297,306)**	**(87.4)**
Gross operating margin (EBITDA)	**49,215**	**12.8**	**42,860**	**12.6**
Amortization, depreciation and write-downs	(7,645)	(2.0)	(6,978)	(2.1)
Operating income EBIT)	**41,570**	**10.8**	**35,882**	**10.5**
Financial income/(expenses)	(1,476)	(0.4)	(1,914)	(0.6)
Result before tax of continuing operations	**40,094**	**10.4**	**33,968**	**10.0**
Income tax	(19,482)	(5.0)	(17,098)	(5.0)
Net result of continuing operations	**20,612**	**5.4**	**16,870**	**5.0**
Result from discontinued operations	-	0.0	125	0.0
Non controlling interests	(245)	(0.1)	(367)	(0.1)
Group net result	**20,367**	**5.3**	**16,628**	**4.9**

Key events of 2010 are summarized below:

- February 2010: Technology Reply, a Reply Group company specializing in Oracle technology, was awarded Best Technology Partner at OPN Days Satellite Italy, the event dedicated to Oracle's Italian partners.
  Technology Reply is the first partner worldwide to have achieved specialization inOPN Specialized. In particular, Technology Reply is specialized on Oracle Business Intelligence Foundation. Furthermore, Reply is the first partner in Italy to have reached the Platinum level, the highest level in the new Oracle Certification Program.

- June 2010: Adobe hosted the first *EMEA* edition of the Adobe Partner Solution Showcase**,** in Amsterdam, the event where Adobe selects and awards the best partner solutions developed on the Adobe LiveCycle platform and on Adobe's Enterprise technologies. Partners from all over Europe took part in the event in which a jury of Adobe experts evaluated the solutions and chose the winners.
  Aktive Reply reached the finals with two solutions and won with "Carta Intestata – Letterhead". This important recognition reaffirms the skills of Aktive Reply's Adobe competence centre.
  Adobe and Aktive Reply will work together to bring this winning solution, which simplifies the management of letterhead paper through automation and reduces paper waste, to the marketplace.

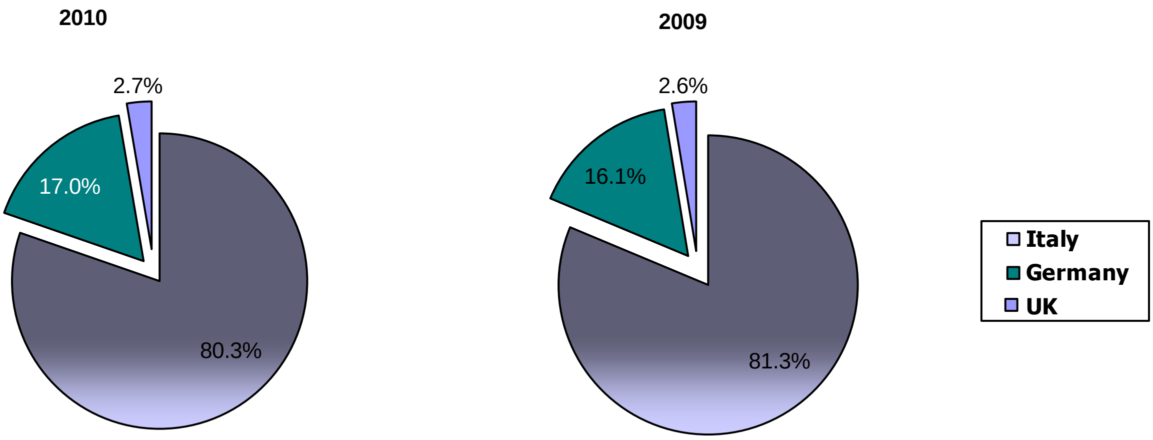
- October 2010: During the recent RSA EMEA Partner Council held in Barcelona, Security Reply, the Reply Group business unit specializing in managed security services, was awarded the prize for the best EMEA partner for 2010 by RSA, the security division of EMC2.
  Communication Valley Reply, BU of Security Reply, was given this recognition because of its in-depth knowledge of RSA products, its strong skills in system integration, and its focus on developing security services offering high added-value for its clients.

- October 2010: The company Geodis Wilson, a leader in the field of international transport, has chosen Warehouse Management SideUp Reply™ to manage the warehouse activities of their Italian subsidiary company. SideUp Reply™ offers cost containment, extremely fast activation times, ease of use and extreme flexibility; the main features on offer influencing Geodis Wilson's choice to select this innovative solution for their logistics and transport sector.

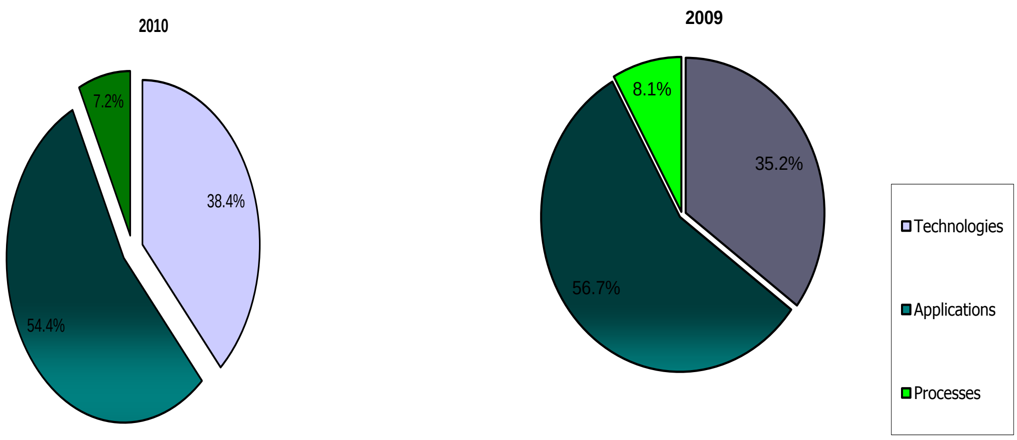
- November 2010: The live streaming app for iPad, developed by Reply for Sky Deutschland, is one of the most successful Apps for iPad; 70,000 downloads since its launch in June 2010.
  In Hamburg, in occasion of the 2010 Kress Award, the Sky Sport App, which was developed by Reply by order of Sky Deutschland, won the prize for the best application of 2010 in the Web/Mobile category.
  Reply was chosen by SKY Deutschland as a reference partner for the entire project. After being created in just 10 weeks, the application's launch at the German iTunes store saw the specific involvement of three Group companies: syskoplan AG, bitmama and Open Reply, which applied their own specialist skills and previous experience from similar projects in SaaS (Software as a Service), Digital Communication and Mobile Architecture Content Delivery.

- December 2010: Reply released the new version of TamTamy™ designed for corporate social network. The release of the new 1.10 version of Reply's proprietary platform designed for Social Media introduces innovative features which benefit both the 100,000 corporate users and community managers.
  Available as Software as a Service (SaaS), TamTamy (www.tamtamy.com) facilitates the creation of corporate, professional and consumer communities, instigating active participation of those involved, the sharing of individual knowledge, collaboration and new forms of communication.

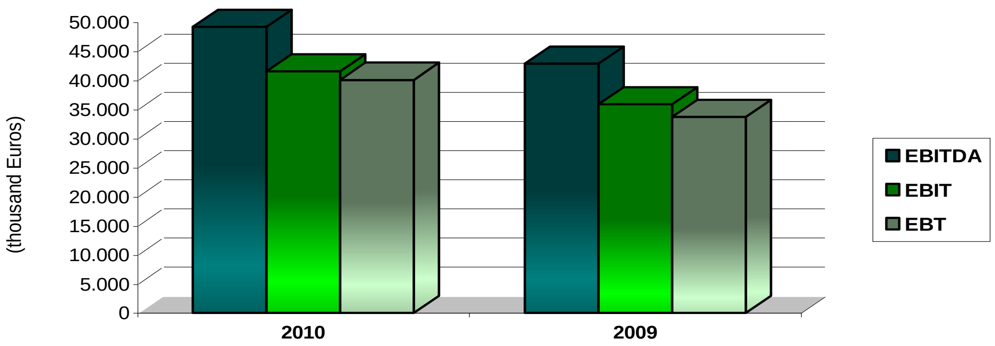
Revenues by geographical area



Revenues by business line



Trends in margins



Analysis of the financial structure

The table below details the Group's financial structure as at December 31, 2010 compared to December 31, 2009:

(thousand Euros)	31/12/2010	%	31/12/2009	%	Change
Current operating assets	210,891		183,677		27,214
Current operating liabilities	(118,475)		(94,332)		(24,143)
Net working capital (A)	**92,416**		**89,345**		**3,071**
Non current assets	99,727		91,428		8,299
Non current financial liabilities	(53,533)		(39,988)		(13,545)
Net fixed capital (B)	**46,194**		**51,440**		**(5,246)**
Net invested capital (A+B)	**138,610**	**100.0**	**140,785**	**100.0**	**(2,175)**
Shareholders' equity (C)	138,824	100.2	130,285	92.5	8,539
NET FINANCIAL POSITION (A+B-C)	**(214)**	**(0.2)**	**10,500**	**7.5**	**(10,714)**

Net invested capital as at December 31, 2010, amounted to 138,610 thousand Euros and was financed by Shareholders' equity for 138,824 thousand Euros, with a net financial position of 214 thousand Euros.

The following table provides a breakdown of net working capital:

(thousand Euros)	31/12/2010	31/12/2009	Change
Inventories	6,100	15,084	(8,984)
Trade receivables	189,145	153,725	35,420
Other operating assets	15,646	14,868	778
Current operating assets (A)	**210,891**	**183,677**	**27,214**
Trade payables	36,313	36,185	128
Other current liabilities	82,162	58,147	24,015
Current operating liabilities (B)	**118,475**	**94,332**	**24,143**
Net working capital (A-B)	**92,416**	**89,345**	**3,071**
% return on revenues	*24.1%*	*26.3%*	

Net financial position and cash flows statement

(thousand Euros)	31/12/2010	31/12/2009	Change
Cash and cash equivalents	26,332	29,263	(2,931)
Current financial assets	647	-	647
Due to banks	(16,854)	(17,137)	283
Other providers of finance	(347)	(600)	253
Short term financial position	**9,778**	**11,526**	**(1,748)**
Non financial assets	943	804	139
Due to banks	(10,323)	(22,223)	11,900
Other providers of finance	(184)	(607)	423
M/L term financial position	**(9,564)**	**(22,026)**	**12,462**
Total net financial position	**214**	**(10,500)**	**10,714**

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

(thousand Euros)	31/12/2010
Cash flows from operating activities (A)	25,301
Cash flows from investment activities (B)	(10,978)
Cash flows from financial activities (C)	(17,254)
Change in cash and cash equivalents (D) = (A+B+C)	**(2,931)**
Cash and cash equivalents at beginning of period	29,263
Cash and cash equivalents at year end	26,332
Total change in cash and cash equivalents (D)	**(2,931)**

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

SIGNIFICANT OPERATIONS IN 2010

Domination Agreement

In the month of April, Reply S.p.A took the necessary actions to enter into a Domination Agreement with syskoplan AG, a stock corporation incorporated under the laws of Germany and listed on the German stock exchange of which Reply holds 79.53% share capital.

The agreement, that on August 2, 2010 was registered at the competent Company's register of syskoplan, provides that Reply, the controlling company, can influence the controlled company and its management, which otherwise is not possible under German legislation with the current ownership structure. Under a legal stand point such influence can be translated as the right for Reply to directly give orders to syskoplan's administrative bodies in accordance to art. 308 AktG. At present Reply's influence is limited and indirect through its representatives in the Supervisory board.

Through the Domination Agreement Reply will strengthen integration with syskoplan within the Group by simplifying the implementation of development strategies and shared management as well as the use of potential synergies in order to respond to future market developments.

The agreement provides that Reply shall assume the following obligations:

(i) Reply is obliged to compensate syskoplan for each annual net loss that would otherwise arise during the term of the agreement, unless such loss is compensated for by withdrawing amounts from other profit reserves which have been allocated thereto during the agreement;

(ii) if and to the extent that the annual dividends actually paid by syskoplan per financial year falls short of the Guaranteed Dividend, Reply will pay to each Minority Shareholder of syskoplan the corresponding difference;

(iii) upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration (8.19 Euros), within the term of three months after the date on which the commercial register of syskoplan has been announced in accordance with Sec 10 of the German Commercial Code (HGB);

(iv) upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration (8.19 Euros), within the term of two months after the date on which the commercial register of syskoplan has been announced in accordance with Sec 10 of the German Commercial Code (HGB).

The aforesaid obligations could imply the following financial disbursements for Reply:

(i) annual dividend integration for a maximum amount of 441 thousand Euros (equal to a net dividend of 0.45 Euros under the current German legislation);

(ii) obligation to acquire the Minority Shareholders' shares for a maximum amount of 8.1 million Euros.

In addition to compensation for any annual net loss of the Minority Shareholders that would be summed to the loss related to Reply's direct holding.

The Agreement will be in effect for an indefinite term; it may be terminated in writing with a notice period of six months with the effect as of the end of a business year of syskoplan.

Acquisition Riverland Solutions GmbH

On August 4, 2010 Reply S.p.A. acquired 75.016% of the share capital of Riverland Solutions GmbH, a German company specializing in consulting and systems integration on Oracle Applications (Oracle CRM, Master Data Management, Fusion Middleware, Business Intelligence and Fusion Applications).

Munich-based Riverland recorded a turnover of 12.5 million Euros in 2010, with an EBIT of 15.6 %.

Riverland counts some of the leading German companies in the Transportation, Life Science, Retail and Automotive industries among its clients.

Reply already has a presence in Germany with syskoplan AG, listed in Frankfurt, and other business units operating in Finance and Media, with a total turnover of approximate 65.5 million Euros. The acquisition of Riverland fits into Reply's development strategy of creating a European network of highly specialized boutique companies.

Riverland has become a component of the Reply Oracle Technologies, an area where Reply today is regarded as one of the leading players in Europe.

The acquisition of Riverland will enable Reply to bring to the German market a comprehensive Oracle offering, providing coverage of the entire technology with application suites together with leading vertical solutions for different markets.

The acquisition of the share capital involved an investment of 4.5 million Euros, paid up entirely in cash through the use of the Stand By line of credit in which was undersigned with Intesa Sanpaolo S.p.A. A further variable compensation of 3.8 million Euros will be utilized for the acquisition of 75.016% of the company's share capital.

Acquisition Lem Consulting S.r.l.

On October 26, 2010 Reply acquired the 100% share capital of LeM Consulting S.r.l., a company based in Genoa, specialized in the logistic and mobility sector for the realization and improvement of innovative projects. The acquisition of Lem consulting S.r.l. amounted to an investment of 400 thousand Euros of which 200 thousand Euros was paid up entirely in cash and 10,698 Reply S.p.A ordinary shares were transferred.

REPLY ON THE STOCK MARKET

FINANCIAL COMMUNICATION

Reply maintains a constant dialogue with individual shareholders, institutional investors and financial analysts through its Investor Relations function, which actively provides information to the market to consolidate and enhance confidence and the level of understanding of the Group and its businesses.

Following the minor interest of the institutional investors in shares having a low capitalization, a general decrease in meetings with the financial community was witnessed. Investor activities were however carried out on a one-to-one basis and during the Star 2010 event Reply was one of the top 5 companies in which meetings were requested.

Shareholders that have exceeded the threshold of 2% are Kairos Partners, Highclere International Investors Limited and Anima SGR. Such mix of shareholders confirms the interest in the Reply share by Italian and foreign institutes.

Additional, updated information is available in the Investor Relations section of the Group's website www.reply.eu which provides historic financial data and highlights, official communications and real-time trading information on Reply shares.

TREND OF THE REPLY SHARE

If at a global level year ended 2010 witnessed a rebound of a global recovery of approximately 5%, following the 2009 crisis, in Italy the so called long wave of the crisis that has invested the western world has also impacted year ended 2010. In fact, if the Italian GDP increased by 1,1% in 2010, according to ISTAT sources, 2010 closed with a deficit record on a commercial scale, of 27.3 billion Euros.

In such a context, on the securities market 2010 witnessed a cyclical year. In Europe, the six markets closely interrelated to the market trends – auto, industry, luxury, raw material, air transport and chemical – have registered upward trends of even three or four times greater than the benchmark trends.
As far as our country is concerned, the market as a whole, represented by the FTSE Italia All Shares index, has registered a downturn of 12.61% compared to year ended 2009. Within the securities market the Pmi division and more specifically the STAR segment, had a positive performance. The FTSE Italia STAR index witnessed an increase of 3.24% on an annual basis (annual maximum of 11,787 on April 15, 2010; min 9,954 on May 25, 2010).

The Italian stock market stood out at a European level because of the liquidity of its shares, as emphasized by the record held in terms of turnover velocity, an indicator that – comparing the counter value of the telematic negotiations to the capitalizations – shows the annual turnover of the shares. The Italian turnover velocity was equal to 173.2%.

The Reply Share throughout the year showed particularly positive trends, +24.17% on an annual basis (passing from 15.93 Euros to 19.78 Euros per share). In fact, after a not so brilliant first quarter – even if the it was the best performance and a little higher than the STAR segment – and close to the approval of the 2009 financial statements the Reply share exceeded the psychological threshold of 16 Euros with an increase of over 11% in almost 15 days.

Since April, constantly higher than the market index, the Reply share maintained this trend until a new upward trend was registered in mid November, in correspondence of the publishing of the nine month results.

Moreover, expanding the performance analysis of the share since it was listed, compared to the entire Italian stock market, Reply has over performed in the last nine years *Piazza Affari* with a gap of nearly 80 percentage points. In addition, in the time frame considered, dividends have been distributed.

In the first months of 2011, the Reply share has recorded a +8.5% since the beginning of the year, confirming a better trend compared to the STAR index that remained at 2.3%.

THE PARENT COMPANY REPLY S.p.A.

Foreword

The following review is based on the 2010 financial statements prepared in accordance with the International Financial Reporting Principles (“IFRS”) issued by the International Accounting Standard Board (“IASB”) and adopted by the European union and with regulations implementing Article 9 do 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 services for the Group companies as well as the administration, finance and marketing activities.

As at December 31, 2010 the Parent Company had 91 employees (98 employees in 2009).

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. Such activities are reflected at the profit and loss item *Other revenues* in the table below.

The company’s income statement is summarized as follows:

(thousand Euros)	**2010**	**2009**	**Change**
Revenues from operating activities	29,981	25,637	4,344
Other revenue	183,143	139,863	43,280
Purchases, services and other costs	(201,958)	(159,157)	(42,801)
Other unusual operating income/(expenses)	(11,464)	(10,397)	(1,067)
Gross operating margin	**(298)**	**(4,054)**	**3,756**
Amortization, depreciation and write-downs	(817)	(903)	86
Operating income	**(1,114)**	**(4,957)**	**3,843**
Financial income, net	(422)	95	(517)
Income from equity investments	18,763	17,146	1,617
Loss on equity investments	(2,465)	(2,071)	(394)
Result before tax	**14,762**	**10,213**	**4,549**
Income tax	(718)	914	(1,633)
NET RESULT	**14,043**	**11,127**	**2,916**

Revenues from operational activities are mainly related to:

- Royalties on the Reply trademark for 9,234 thousand Euros (8,461 thousand Euros in 2009);
- Activities carried out centrally for the subsidiary companies for 16,419 thousand Euros (13,266 thousand Euros in 2009);
- Management services for 4,327 thousand Euros (3,909 thousand Euros in 2009).

Operating income 2010 marked a negative result of 1,114 thousand Euros after having deducted amortization expenses of 817 thousand Euros (487 thousand Euros referred to intangible assets and 330 thousand Euros to tangible assets).

The item Financial income net, amounting to negative 422 thousand Euros includes interest income for 1,176 thousand Euros and interest expenses for 1,571 thousand Euros connected to the utilization of the credit facility for M&A operations.

Income from equity investments are related to dividends distributed in 2010 by the subsidiary companies for a total of 18,763 thousand Euros.

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

Net income for year ended 2010, amounted to 14,043 thousand Euros after income taxes worth 718 thousand Euros.

Financial structure

The financial structure of Reply S.p.A. at December 31, 2010, with comparative figures at December 31, 2009, is provided below:

(thousand Euros)	**31/12/2010**	**31/12/2009**	**Change**
Tangible assets	303	541	(239)
Intangible assets	1,262	1,419	(157)
Equity investments	107,026	88,650	18,376
Other intangible assets	863	694	169
Non current liabilities	(13,706)	(849)	(12,857)
Non current assets	**95,748**	**90,454**	**5,294**
Net working capital	**1,109**	**4,359**	**(3,250)**
INVESTED CAPITAL	**96,857**	**94,813**	**2,044**
Total shareholders' equity	104,055	93,525	10,530
Net financial position	(7,198)	1,288	(8,486)
TOTAL	**96,857**	**94,813**	**2,044**

Net invested capital, totaling 96,857 thousand Euros was financed through medium/long term non-financial liabilities amounting to 13,706 thousand Euros, which includes liabilities to minority shareholders (12,895 thousand Euros) the reserve for employee termination indemnity (491 thousand Euros) and reserve for deferred tax liabilities (320 thousand Euros), and Shareholders' equity for 104,055 thousand Euros, with a positive net financial position of 7,198 thousand Euros.

Changes in balance sheet items are fully analyzed and detailed in the explanatory notes to the financial statements.

Financial position

The table below details the Parent company's net financial position as at December 31, 2010, compared to December 31, 2009; detail is as follows:

(thousand Euros)	31/12/2010	31/12/2009	Change
Cash and cash equivalents	896	6,883	(5,988)
Cash pooling accounts, net	23,991	18,180	5,810
Due to banks	(11,487)	(11,839)	352
Short-term financial position	**13,400**	**13,225**	**175**
Loans to subsidiaries	3,066	1,450	1,616
Due to banks	(9,267)	(15,963)	6,695
Non current financial position	**(6,201)**	**(14,513)**	**8,311**
Total net financial position	**7,198**	**(1,288)**	**8,486**

Change in the net financial position is analyzed and illustrated in the explanatory notes to the financial position.

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

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

	31/12/2010		31/12/2009	
(thousand Euros)	Net equity	Result	Net equity	Result
Reply S.p.A.'s separate financial statements	**104,055**	**14,043**	**93,525**	**11,128**
Results of the subsidiary companies	93,797	29,497	83,900	25,401
Carrying value of investments in consolidated companies	(56,444)	-	(44,411)	2,071
Elimination of dividends from subsidiary companies	-	(18,908)	-	(17,146)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(2,584)	(4,021)	(2,729)	(4,459)
Non controlling interests	(1,331)	(245)	(6,462)	(367)
Net Group consolidated financial statement	**137,493**	**20,367**	**123,823**	**16,628**

CORPORATE GOVERNANCE

Reply Group adopted and adheres to the Corporate Governance Code for Italian Listed Companies issued in March 2006, with additions and amendments related to the specific characteristics of the Group.

The Annual Report on Corporate Governance which provides a general description of the corporate governance system adopted by the company is annexed here within and is accessible on the company website www.reply.eu (Investors section) where the full document related to corporate governance adopted by the company is available.

OTHER INFORMATION

Research and development activities

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

Reply considers research and continuous innovation a fundamental asset in supporting clients with the adoption of new technology.

Reply dedicates resources to Research and Development activities and concentrates on two sectors:

- Development and evolution of its own platforms:
  - Click Reply™
  - Discovery Reply™
  - Gaia Reply™
  - TamTamy™
  - Sideup Reply™

- Distribution of new technologies and encouraging early adoption by the market:
  - Digital store
  - Widget factory
  - Internet of things (M2M)

Furthermore Reply has important business partnerships with main global vendors so as to offer solutions to different company needs. In particular Reply, both in Italy and Germany, has achieved the maximum level in certifications with the three technological leaders in the Enterprise sector: Microsoft (Gold Certified Partner), Oracle (Certified Advantage Partner) and SAP (Special Expertise Partner in SAP Netweaver sector).

Research and development activities are fully described in the Corporate information of “Reply Living Network”.

Human resources

Human resources constitute a primary asset for Reply which bases its strategy on the quality of products and services and places continuous attention on the growth of personnel and in-depth examination of professional necessities with consequent definitions of needs and training courses.

Reply Group is comprised of professionals coming from the best universities and polytechnics. The Group intends to continue investing on human resources by bonding special relations and collaboration with major universities with the scope of attracting highly qualified personnel.

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

The group intends to maintain these distinctive features by increasing investments in training and collaboration with universities.

At year ended 2010 the number of employees of the Group were 3,149 compared to 2,994 in 2009. During 2010, 477 were employed and approximately 379 left the Group, while change in consolidation counts for 57 employees.

Security Planning Document

As part of the requirements of Legislative Decree 196/03, the Italian 'Data Protection Act', several activities to evaluate the system of data protection for information held by Group companies subject to this law, including specific audits, were performed. These activities confirmed that legislative requirements relating to the protection of personal data processed by Group companies had been substantially complied with, including preparation of the Security Planning Document.

Transactions with related parties and group companies

During the period, there were no transactions with related parties, including intergroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered.

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

Treasury shares

At the balance sheet date, the Parent Company holds no. 178,526 treasury shares, amounting to 2,522,595 Euros, nominal value of 92,834 Euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same amount. During 2010 Reply S.p.A. acquired no. 123,674 treasury shares for a total out payment amounting to 1,981,592 Euros and disposed of no. 76,650 shares.

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 financial loans.
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)

Member of the Board	Office held in Reply S.p.A.	No. of shares held at 31/12/2009	No. of shares bought in 2010	No. of shares sold in 2010	No. of shares held at 31/12/2010	% of share capital
Mario Rizzante	Chairman	11,381	-	-	11,381	0.1234%
Tatiana Rizzante	Chief Executive Officer	15,734	-	-	15,734	0.1706%
Sergio Ingegnatti (*)	Chief Executive Officer	10,100	-	-	10,100	0.1095%
Oscar Pepino	Executive Director	13,710	-	-	13,710	0.1487%
Claudio Bombonato	Executive Director	27,500	-	-	27,500	0.2982%
Marco Mezzalama	Independent director	250	-	-	250	0.0027%
Key management		722,783	-	-	722,783	7.8369%

(*) passed away on January 22, 2011.

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 no. 4,936,204 Reply S.p.A. shares, equivalent to 53.5214% of the Company's share capital.

EVENTS SUBSEQUENT TO DECEMBER 31, 2010

On February 4, 2011 Reply S.p.A. has finalized the acquisition of 51% of the shares and 90% of the voting rights of avantage, an English company specialized in risk, treasury and capital management, and, financial performance management.

avantage, with offices in London, Amsterdam, Edinburgh, and Luxembourg, counts among its clients some of the world's most significant financial groups and It closed the last financial year (figures as of September 30th, 2010) with a turnover of £10.7 million and an EBT of £2.4 million.

On acquisition the company has no financial debt. The total value of the purchase price for 51% of the shares represents a Reply investment of £6.9 million, which is broken down into two tranches with an initial payment of £4.8 million paid in cash on signing the Sale & Purchase Agreement and a further £2.1 million paid in three years' time.

Reply also has the option to exercise a right to purchase the remaining 49% of the capital at the end of 2013.

avantage adds to Reply's product and service offering in the risk management and regulatory compliance segment; areas in which, thanks to synergies with other Group companies, Reply now boasts one of the leading practices specializing in risk, treasury and capital management, and, financial performance management in Europe.

OUTLOOK ON OPERATIONS

In 2010 Reply has conquered new areas and has laid solid basis for the Group's future: a unique and innovative Network, well known and considered in Europe.

In Germany, with the acquisition of Riverland, Reply has begun to expand its distinctive offer on Oracle in the German market.

In England the acquisition of avantage confirms Reply's interest in developing its European footprint, including further expansion in the UK market where it has been operating since 2008 with Glue Reply and, where, throughout the last year, it has launched a number of start-ups specializing in Telecommunications, Financial Services, Digital Communication, and Supply Chain Execution.

Having closed 2010 with good results and having started 2011 with a positive trend, allows the Group to look ahead into the future with optimism and serenity. In the next months, team spirit, which has always characterized Reply, will be fundamental.

MOTIN FOR THE APPROVAL OF THE FINANCIAL STATEMENTS AND ALLOCATION OF THE NET RESULT

The financial statements at year end 2010 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 14,043,415 Euros and shareholders' equity amounted to 104,055,431 Euros:

(in Euros)	**31/12/2010**
Share capital	4,795,886
Share premium reserve	20,622,992
Legal reserve	959,177
Reserve for treasury shares on hand	2,522,596
Other reserves	61,111,365
Total share capital and reserves	**90,012,016**
Net result	14,043,415
Total	**104,055,431**

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at December 31, 2010 showing a net result of 14,043,415.00 Euros, proposes that the shareholders resolve:

- To approve Reply S.p.A.'s separate statements recording a net result of 14,043,415.00 Euros;

- To approve the motion to allocate the net result of 14,043,415.00 Euros as follows:
  - Dividends to the shareholders', in the amount of 0.45 Euros per ordinary share having the right and that are in circulation as at May 30, 2011 with fixed payment date set on June 2, 2011, excluding treasury shares;
  - The residual amount, that is variable in relation to the treasury shares acquired and the floating shares at the time of dividend yield date, brought forward and stated at Extraordinary reserve as the Legal Reserve has already reached one fifth of the share capital limit in accordance with the Article 2430 of the Civil Code.

- To approve, in accordance with article 22 of the Company's by-laws, even explicitly, the motion to allocate to directors with operating functions a dividend in the profits of the parent amounting to 1,521,450.00, rounded down to 1,500,000.00, corresponding to 3.0% of the 2010 consolidated gross operating margin (prior to the distribution of dividends to Director's with operating functions), amounting 50,715 thousand Euros; that will be paid taking into account the provision made in accordance to IAS/IFRS.

Turin, March 15, 2011

/s/ Mario Rizzante

For the Board of Directors
The Chairman
Mario Rizzante

CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010

REPLY

CONSOLIDATED INCOME STATEMENT (*)

(thousand Euros)

	Note	2010	2009
Revenues	5	384,202	340,166
Other revenues		6,646	7,190
Purchases	6	(8,652)	(8,207)
Personnel	7	(194,122)	(176,652)
Services and other costs	8	(131,090)	(119,632)
Amortization, depreciation and write-downs	9	(7,645)	(6,978)
Other unusual operating income/(expenses)	10	(7,769)	(5)
Operating income		**41,570**	**35,882**
Financial income/(expenses)	11	(1,476)	(1,914)
Result before tax of continuing operations		**40,094**	**33,968**
Income tax	12	(19,482)	(17,098)
Net result of continuing operations		**20,612**	**16,870**
Result from discontinued operations	13	-	125
Non controlling interest		(245)	(367)
Group net result		**20,367**	**16,628**
Net result per share	14	*2.25*	*1.84*
Diluted net result per share	14	*2.20*	*1.81*

(*) Pursuant to Consob Regulation no.15519 of July 27, 2006, the effects of related-party transactions on the Consolidated statement of income are reported in the Annexed tables herein and fully described in Note 35.

REPLY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousand Euros)

	Note	2010	2009
Profit of the period (A)		**20,612**	**16,995**
Gain/(Losses) on cash flow hedges	25	308	(899)
Gain/(Losses) on exchange differences on translating foreign operations	25	154	57
Actuarial gains/(losses) from employee benefit plans	25	789	285
Total other comprehensive net of tax (B)		**1,251**	**(557)**
Total comprehensive income (A)+(B)		**21,863**	**16,438**
Total comprehensive income attributable to:			
Owners of the parent		21,596	16,103
Non-controlling interests		267	335

REPLY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*)

(thousand Euros)

	Nota	31/12/2010	31/12/2009
Tangible assets	15	8,437	9,823
Goodwill	16	72,794	66,047
Other intangible assets	17	6,244	6,644
Equity investments	18	92	8
Other financial assets	19	4,814	3,685
Deferred tax assets	20	8,855	6,024
Non Current assets		**101,236**	**92,231**
Inventories	21	6,100	15,084
Trade receivables	22	189,145	153,725
Other receivables and current assets	23	15,646	14,868
Financial assets	19	81	-
Cash and cash equivalents	24	50,125	33,163
Current assets		**261,097**	**216,840**
TOTAL ASSETS		**362,333**	**309,071**
Share capital		4,796	4,796
Other reserves		112,330	102,399
Group net result		20,367	16,628
Group shareholders' equity	**25**	**137,493**	**123,823**
Non controlling interest	25	1,331	6,462
SHAREHOLDERS' EQUITY		**138,824**	**130,285**
Payables to minority shareholders	26	15,798	4,768
Financial liabilities	27	10,507	22,830
Employee benefits	28	15,318	15,492
Deferred tax liabilities	29	7,663	8,584
Provisions	30	14,754	11,144
Non current liabilities		**64,040**	**62,818**
Financial liabilities	27	40,994	21,637
Trade payables	31	36,313	36,185
Other current liabilities	32	75,577	52,167
Provisions	30	6,585	5,979
Current liabilities		**159,469**	**115,968**
TOTAL LIABILITIES		**223,509**	**178,786**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**362,333**	**309,071**

(*) Pursuant to Consob Regulation no. 15519 of July 27, 2006, the effects of related-party transactions on the Consolidated statement of financial position are reported in the Annexed tables herein and fully described in Note 35.

REPLY
STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(thousand Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for cash flow hedges	Cumulative translation adjustment reserve	Reserve for actuarial gains/(losses)	Non-controlling interest	Total
Balance at January 1, 2009	**4,796**	**(3,691)**	**50,260**	**59,985**	**358**	**(62)**	**-**	**13,278**	**124,924**
Dividends distributed	-	-	-	(3,222)	-	-	-	(473)	**(3,695)**
Change in treasury shares	-	2,219	-	-	-	-	-	-	**2,219**
Total comprehensive income for the period	-	-	-	16,628	(903)	57	321	335	**16,438**
Other changes	-	-	(1,417)	(1,506)	-	-	-	(6,678)	**(9,601)**
Balance at December 31, 2009	**4,796**	**(1,472)**	**48,843**	**71,885**	**(545)**	**(5)**	**321**	**6,462**	**130,285**

(thousand Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for cash flow hedges	Cumulative translation adjustment reserve	Reserve for actuarial gains/(losses)	Non-controlling interest	Total
Balance at January 1, 2010	**4,796**	**(1,472)**	**48,843**	**71,885**	**(545)**	**(5)**	**321**	**6,462**	**130,285**
Dividends distributed	-	-	-	(3,170)	-	-	-	(150)	(3,320)
Change in treasury shares	-	(1,051)	-	-	-	-	-	-	(1,051)
Total comprehensive income for the period	-	-	-	20,367	308	154	767	267	21,863
Other changes	-	-	695	(4,400)	-	-	-	(5,248)	(8,953)
Balance at December 31, 2010	**4,796**	**(2,523)**	**49,538**	**84,682**	**(237)**	**149**	**1,088**	**1,331**	**138,824**

REPLY
CONSOLIDATED STATEMENT OF CASH FLOWS

(thousand Euros)	2010	2009
Net result for the year	20,367	16,995
Income tax	19,482	17,098
Depreciation and amortization	7,645	6,978
Impairment of intangible assets	759	780
Change in inventories	10,022	2,936
Change in trade receivables	(33,364)	(9,013)
Change in trade payables	(1,229)	3,532
Change in other assets and liabilities	16,572	95
Income tax paid	(13,498)	(11,601)
Interest paid	(1,663)	(2,204)
Interest collected	208	426
Net Cash flows from operating activities (A)	**25,301**	**26,022**
Payments for tangible and intangible assets	(5,768)	(7,528)
Payments for financial assets	(1,122)	(524)
Payments for the acquisition of subsidiaries net of cash acquired	(4,088)	(6,879)
Net cash flows from investment activities (B)	**(10,978)**	**(14,931)**
Dividends paid	(3,320)	(3,695)
Payments for acquisition of treasury shares	(1,051)	2,220
In payments from financial loans	4,500	4,911
Payment of installments	(16,559)	(16,444)
Other changes	(824)	(589)
Net Cash flows from financing activities (C)	**(17,254)**	**(13,597)**
Net cash flows (D) = (A+B+C)	**(2,931)**	**(2,506)**
Cash and cash equivalents at beginning of year	29,263	31,769
Cash and cash equivalents at year end	26,332	29,263
Total change in cash and cash equivalents (D)	**(2,931)**	**(2,506)**

Detail of net cash and cash equivalents **(thousand Euros)**	**2010**	**2009**
Cash and cash equivalents at the beginning of the year:	**29,263**	**31,769**
Cash and cash equivalents	33,163	39,356
Bank overdrafts	(3,900)	(7,587)
Cash and cash equivalents at the end of the year:	**26,332**	**29,263**
Cash and cash equivalents	50,125	33,163
Bank overdrafts	(23,793)	(3,900)

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.

The Group is headed by the Parent Company Reply S.p.A., company listed on the STAR segment of *Borsa Italiana* [REY.MI]. Its headquarter is based in Turin, Italy.

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 principles

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

The consolidated financial statements have been prepared on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Group's assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist about its ability to continue as a going concern.

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.

Financial statements

The consolidated financial statements include, statement of income, statement of comprehensive income, statement of financial position, 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 Statement of financial position 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 statement of financial position 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 December 31, 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.

Non controlling interest is stated separately with respect to the Group's net equity. Such Non controlling 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. According to IAS 27, overall loss (including the profit/(loss) for the year) is attributed to the owners of the Parent and minority interest also when net equity attributable to minority interests has a negative balance.

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.

Business combinations

Acquisition of subsidiary companies is recognized 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 recognized according to IFRS 3 are stated at their fair value at the date of acquisition with the exception of those non current assets (or groups in discontinued operations) that are held for sale in accordance to IFRS 5, which are recognized and measured at fair value less selling costs.

The positive difference between the acquisition costs and Group interest 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 recognized.

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, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealized losses provide evidence of an impairment of the asset transferred.

Transactions eliminated on consolidation

All significant intercompany balances and transactions and any unrealized gains and losses arising from intercompany transactions are eliminated in preparing the consolidated financial statements. Unrealized 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 recognized 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.

The following table summarizes the exchange rates used in translating the financial statements of the foreign companies included in consolidation:

	Average 2010	At December 31, 2010	Average 2009	At December 31, 2009
GBP	0.857844	0.86075	0.89094	0.8881
CHF	1.38034	1.2504	1.51002	1.4836

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, which provide the Group with substantially all the risks and rewards of ownership, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial statement as a debt. The assets are amortized over their estimated useful life or over the duration of the lease contract if lower.

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 recognized in income.

Goodwill

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognized 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 recognized all assets, liabilities and identifiable contingent liabilities attributable to both the Group and third parties at their fair value.

Goodwill is not amortized 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 recognized immediately as expenses that cannot be recovered in the future

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

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.

Other purchased and internally-generated intangible assets are recognized as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. straight-line basis over the lease terms.

Such assets are measured at purchase or manufacturing cost and amortized on a straight-line basis over their estimated useful lives, if these assets have finite useful lives.

Other intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if their fair value can be measured reliably.

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.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Development costs can be capitalized 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 recognized 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 amortized when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognized as construction in progress. Amortization 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 recognized to the statement of income in the period in which they are incurred.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are not systematically amortized when the asset is available for use over a period of their expected useful lives; the recoverable amount is tested in accordance to the criteria set out by IAS 36.

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 amortized, but are tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired.
Any impairment losses are not subject to subsequent reversals.

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.

An intangible asset with an indefinite useful life is tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.

The recoverable amount of an asset is the higher of fair value less disposal costs and its value in use. In assessing its value in use, the pre-tax 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. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets (Cash generating unit). With reference to goodwill, management assesses return on investment with reference to the smallest Cash generating unit including goodwill.

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.

Where the value of the Cash generating unit, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any exceeding difference is attributed on a pro-quota basis to the assets of the Cash generating unit.

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 recognized for the asset. A reversal of an impairment loss is recognized 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 recognized 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 fulfill its legal or implicit obligations towards the associated company or to cover its losses.

Current and non current financial assets

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

Investments are recognized 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 amortized at cost according to the prevailing market interest rate method, less any impairment loss recognized 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 recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized 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 recognized 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 recognized to the extent of contract costs that it is probable will be recoverable. Contract costs are recognized 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 recognized as an expense immediately.
Any advance payments are subtracted from the value of work in progress within the limits of the contract revenues accrued, the exceeding amounts are accounted as liabilities.

Inventories comprising software products are stated at the lower of cost and net realizable value. Cost comprises direct material and, where applicable, direct labor 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.

Receivables and payables denominated in non EMU currencies are stated at the exchange rate at period end provided by the Europsean 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 investments

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 amortized 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 amortization cost.

Derivative 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 used for hedging purposes, in order to reduce currency, interest rate and market price risks. In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and documentation of the hedging relationship, the hedge is expected to be highly effective, its effectiveness can be reliably measured and it is highly effective throughout the financial reporting periods for which the hedge is designated.

All derivative financial instruments are measured in accordance with IAS 39 at fair value.

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 recognized directly in equity, any ineffective amounts are recognized immediately to the income statement.

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 recognized, associated gains or losses on the derivative that had previously been recognized 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 recognized 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 recognized at the income statement. Gains and losses arising from the measurement of the derivative are also recognized at the income statement.

Changes in the fair value of derivative financial instruments that do not qualify as hedge accounting are recognized 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 recognized in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognized 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

The scheme underlying the employee severance indemnity of the Italian Group companies (the TFR) was classified as a defined benefit plan until December 31, 2006. The legislation regarding this scheme and leading to this classification was amended by Law no. 296 of December 27, 2006 (the "2007 Finance Law") and subsequent decrees and regulations issued in the first part of 2007. In view of these changes, and with specific reference to those regarding companies with at least 50 employees, this scheme only continues to be classified as a defined benefit plan in the Consolidated financial statements for those benefits accruing up to December 31, 2006 (and not yet settled by the balance sheet date), while after that date the scheme is classified as a defined contribution plan.

Employee termination indemnities was classified until December 31, 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 recognized as "personnel expenses" at the income statement and represent the amount of rights matured by employees at reporting date and the interest cost is recognized 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 recognized in Shareholders' equity without being ever included in the consolidated income statement.

Pension plans

According to local conditions and practices, some employees of the Group benefit from pension plans of defined benefits and/or a defined contribution.

In the presence of defined contribution plans, the annual cost is recorded at the income statement when the service cost is executed.

The Group's obligation to fund defined benefit pension plans and the annual cost recognized in the income statement is determined on an actuarial basis using the ongoing single premiums method. The portion of net cumulative actuarial gains and losses which exceeds the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets at the end of the previous year is amortized over the average remaining service lives of the employees.

The post-employment benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses, arising from the application of the corridor method and unrecognized past service cost, reduced by the fair value of plan assets.

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 recognized 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 recognized 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 recognized when the Group has a present commitment arising from a past event and it is probable that it will be required to fulfill 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 is recognized if it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.

Revenue from sales and services is recognized 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 recognized.

Government grants

Government grants are recognized in the financial statements when there is reasonable assurance that the company concerned will comply with the conditions for receiving such grants and that the grants themselves will be received. Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate.

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 recognized for all taxable temporary differences and tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 recognized 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 realized. 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 recognized 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 recognized immediately in income.

In this respect the situation caused by the present economic and financial crisis has led to the need to make assumptions regarding future performance which are characterized by significant uncertainty; as a consequence, therefore, it cannot be excluded that results may arise during the next year which differ from estimates, and which therefore might require adjustments, even significant, to be made to the carrying amount of the items in question, which at the present moment can clearly neither be estimated nor predicted.

Change in accounting principles

There have been no changes in the accounting principles

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.

As to clarify the comprehension of the financial statements, extraordinary gains and losses have been reclassified as *Other revenues* and as *Service costs* respectively from the item *Other non recurring revenues/(costs)*. The reclassification was also carried out in the financial statement of 2009 as to allow comparison.

Payables to minority shareholders has also been reclassified from the item Provision and reserve for risks.

Accounting principles, amendments and interpretations adopted from January 1, 2010

The Group has applied the following Standards, amendments and interpretations since January 1, 2010.

IFRS 3 (2008) – Business Combinations

In accordance with the transitional provision of the Standard the Group adopted IFRS 3 (revised in 2008) – *Business Combinations*, prospectively, to business combinations for which the acquisition date is on or after 1 January 2010. The main changes to IFRS 3 concern the accounting treatment of step acquisition, the possibility of measuring the non-controlling interests in a partial acquisition either at either fair value or the non-controlling interest's share of the fair value of the identifiable net assets of the acquiree, the recognition of acquisition-related costs as period expenses and the recognition at the acquisition date of any contingent consideration included in the arrangements.

Step acquisitions of a subsidiary

In the case of step acquisitions IFRS 3 (2008) states that a business combination occurs only in respect of the transaction that gives one entity control of another. At that time, the identifiable net assets of the acquiree are measured at fair value and any non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets (a method already permitted under the previous version of IFRS 3).

An equity interest previously held in the acquiree and accounted for under IAS 39 – *Financial Instruments: Recognition and Measurement,* or under IAS 28 – *Investments in Associates*, or under IAS 31 – *Interests in Joint Ventures* is treated as if it were disposed of and acquired at fair value at the acquisition date. Accordingly, it is remeasured to its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Moreover, any changes in the value of the equity interest that were previously recognized in Other comprehensive income are reclassified from equity to profit or loss as if they had been disposed of.

Goodwill, or the gain from a bargain purchase, arising from the acquisition of control in a subsidiary is measured as the consideration transferred to obtain control, plus the amount of non controlling interest (using either option), plus the fair value of previously held non-controlling equity interest, less the fair value of the identifiable net assets of the acquiree.

Under the previous version of the standard controlling interests achieved in stages were dealt with as a series of separate transactions with goodwill recognized as the sum of the goodwill arising on these transactions.

Acquisition-related costs

Under IFRS 3 (2008) acquisition-related costs are recognized as an expense in the periods in which the costs are incurred. Under the previous version of the Standard, these costs were included in the acquisition cost of the net assets of the acquired entity.

Recognition of contingent consideration

Under IFRS 3 (2008) contingent consideration is recognized as part of the consideration transferred in exchange for the acquiree's net assets, measured at its acquisition date fair value. Similarly, where the purchase agreement includes a right to the return of previously-transferred consideration if specified conditions are met, that right to return is classified as an asset by the acquirer. Subsequent changes in this fair value are recognized as adjustments to the original accounting for the acquisition if they from additional information obtained by the acquirer and occur within 12 months of the acquisition date. All other changes in the fair value of the contingent consideration are recognized in profit or loss.

Under the previous version of the Standard contingent consideration was recognized at the acquisition date only if payment was probable and it could be measured reliably. Any subsequent adjustments to contingent consideration were recognized against goodwill.

IAS 27 (2008) – Consolidated and Separate Financial Statements

The revisions to IAS 27 principally affect the accounting for transactions and events that result in a change in the Group's interest in its subsidiaries and the attribution of a subsidiary's losses to non-controlling interests.

IAS 27 (2008) specifies that once control has been obtained, further transactions whereby the parent entity acquires additional equity interests from non-controlling interests, or disposes of equity interests without losing control are transactions with owners and therefore shall be accounted for as equity transactions. It follows that the carrying amounts of the controlling and non-controlling interests must be adjusted to reflect the changes in their relative interests in the subsidiary and any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent. There is no consequential adjustment to the carrying amount of goodwill and no gain or loss is recognized in profit or loss. Costs associated with these transactions are recognized in equity in accordance with IAS 32 paragraph 35.

In prior years, in the absence of a specific principle or interpretation, if the Group purchased a non-controlling interest in a subsidiary that it already controlled it recognized any excess of the acquisition cost over the carrying value of the assets and liabilities acquired as goodwill (the "Parent entity extension method"). If it disposed of a non-controlling interest without losing control, however, the Group recognized any difference between the carrying amount of assets and liabilities of the subsidiary and the consideration received in profit or loss.

Amendments and interpretations effective from January 1, 2010 but not applicable to the Group

The following amendments, improvements and interpretations have also been issued and are effective from January 1, 2010: these relate to matters that were not applicable to the Group at the date of these financial statements but which may affect the accounting for future transactions or arrangements:

- Improvement 2008 to IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations.*
- Amendments to IAS 28 – Investments in Associates and to IAS 31 – Interests in Joint Ventures consequential to the amendment to IAS 27.
- Improvement to IAS/IFRS (2009).
- Amendments to IFRS 2 – Share based Payment: Group Cash-settled Share-based Payment Transactions.
- IFRIC 17 – Distributions of Non-cash Assets to Owners.
- IFRIC 18 – Transfers of Assets from Customers
- Amendment to IAS 39 – Financial Instruments: Recognition and Measurement: Eligible Hedged items

Accounting principles, amendments and interpretations not yet effective and not early adopted by the Group

On October 8, 2009, the IASB issued an amendment to IAS 32 – *Financial Instruments: presentation, classification of rights issues* in order to address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is applicable retrospectively from 1 January 2011; when applied this amendment is not expected to lead to significant effects on the Group's financial statements.

On November 4, 2009, the IASB issued a revised version of IAS 24 - *Related Party Disclosures* that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. The revised standard had not yet been endorsed by the European Union at the date of these consolidated financial statements.

On 12 November 2009, the IASB issued a new standard IFRS 9 – *Financial Instruments* on the classification and measurement of financial assets. The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The new disclosures, moreover, state that equity different from those of subsidiaries, controlled and associates must be evaluated at fair value and recognized in the income statement. If equity is not held for trading, change in fair value is recognized in comprehensive income.

On 28 October 2010 IASB issued new requirements for the classification and measurement of financial assets and financial liabilities. The most significant effect of the standard regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss. The new standard IFRS 9 has an effective date for mandatory adoption of 1 January 2013.

On November 26, 2009, the IASB issued a minor amendment to IFRIC 14 - *Prepayments of a Minimum Funding Requirement*. The amendment applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment has an effective date for mandatory adoption of 1 January 2011; the amendment had not yet been endorsed by the European Union at the date of these consolidated financial statements.

On November 26, 2009, the IFRIC issued the interpretation IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments* that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and are measured at their fair value. The difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the profit or loss for the period. The interpretation has an effective date for mandatory adoption of 1 January 2011; the interpretation had not yet been endorsed by the European Union at the date of these consolidated financial statements.

On May 6, 2010 the IASB issued a set of amendments to IFRSs ("Improvements to IFRSs") that are applicable from 1 January 2011; set out below are those that will lead to changes in the presentation, recognition or measurement of financial statement items, excluding those that only regard changes in terminology or editorial changes having a limited accounting effect and those that affect standards or interpretations that are not applicable to the Group.

- IFRS 3 (2008) -*Business combinations*: this amendment clarifies that the components of non-controlling interests that do not entitle their holders to a proportionate share of the entity's net assets must be measured at fair value or as required by the applicable accounting standards. For example, therefore, stock options granted to employees must be measured in accordance with the requirements of IFRS 2 in the case of a business combination, while the equity portion of a convertible debt instrument must be measure in accordance with IAS 32. In addition, the Board goes into further detail on the question of share-based payment plans that are replaced as part of a business combination by adding specific guidance to clarify the accounting treatment.

- IFRS 7 – *Financial instruments: disclosures:* this amendment emphasizes the interaction between the qualitative and quantitative disclosures required by the standard concerning the nature and extent of risks arising from financial instruments. This should assist users of financial statements to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial statements. In addition, the disclosure requirement concerning financial assets that are past due or impaired but whose terms have been renegotiated, and that relating to the fair value of collateral, have been eliminated.

- IAS 1 – *Presentation of financial statements*: the amendment requires the reconciliation in the changes of each component of equity to be presented in the notes or in the primary statements.

- IAS 34 – *Interim financial reporting:* by using a series of examples certain clarifications are provided concerning the additional disclosures that must be presented in interim financial reports.

On 7 October 2010, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures – Transfers of financial assets. The amendments will allow users of financial statements to improve their understanding of transfers of financial assets, including an understanding of the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of a transfer transaction is undertaken at the end of a reporting period. Entities are required to apply the amendments for annual periods beginning on or after 1 July 2011 (for the Group starting from 2012).

At present the Group is analyzing the principles and interpretations as to evaluate if the adoption will have a significant impact on the financial statements.

Accounting principles and interpretations issued by IASB/IFRIC and endorsed by the European Commission

On 19 July 2010 the European Commission with amendment no. 632/2010 issued a revised version of IAS 24 - Related Party Disclosures in which (i) clarifies the definition of related parties setting new circumstances; (ii) simplifies the disclosure requirements for government-related entities. The amendment is applicable retrospectively from 1 January 2011.

On 23 July 2010 the European Commission with amendment no. 662/2010 issued a revised version of IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (from herein called IFRIC 19) that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and are measured at their fair value. The difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the profit or loss for the period. The interpretation has an effective date for mandatory adoption of 1 January 2011 (for Reply from the financial statements of 2011).

On 18 February the European Commission with the amendment no. 149/2011 issued the document Improvement to IFRSs which contains the modifications, mainly technical and editorial related to the international accounting principles and existing interpretations. The amendments will be effective from the financial period 2011.

NOTE 3 – Financial risk management

Credit risk

For business purposes, specific policies are adopted in order to guarantee that clients honor 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 through Group Treasury. The aim of this centralized system is to optimize 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 credit committed).

The difficulties both in the markets in which the Group operates and in the financial markets need special attention to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing up to 2011, which promises to be a difficult year. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Currency risk and interest rate risk

As the Group operates mainly in a "Euros area" the exposure to currency risks is limited.

The exposure to interest rate risk arises from the need to fund industrial and financial operating activities and the necessity to deploy surplus funds. Changes in market interest rates may have the effect of either increasing or decreasing the Group's net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.
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 December 31, 2009 is as follows:

- Tender Reply S.r.l. constituted in the month of December 2009, in which Reply holds 80% of the share capital. The company operates in the transport sector;
- Bridge Reply S.r.l. constituted in the month of February 2010 in which Reply holds 60% of the share capital. The company provides services related to the elaboration and administration of personnel data;
- Riverland Solutions GmbH a German company specialized in consultancy and system integration on Oracle Applications, in which Reply acquired 75.016% of the share capital in the month of August 2010;
- Lem Reply S.r.l. was acquired at the end of October 2010 and Reply holds 100% of the share capital.

Change in consolidation in 2010 affects the Group's revenues and Net profit by 1.6% and 1.5% respectively.

NOTE 5 - Revenues

Revenues from sales and services, including change in work in progress, amounted to 384,202 thousand Euros (340,166 thousand Euros in 2009).

This item includes consulting services, fixed price projects, assistance and maintenance services and other minor revenues.

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

Country	**2010**	**2009**
Italy	80.3%	81.3%
Germany	17.0%	16.1%
UK	2.7%	2.6%
	100.0%	**100.0%**

Disclosure required by IFRS 8 (“Operating segment”) is provided in Note 33 herein.

NOTE 6 - Purchases

Detail is as follows:

(thousand Euros)	**2010**	**2009**	**Change**
Software licenses for resale	3,947	4,600	(653)
Hardware for resale	1,839	1,084	755
Other	2,866	2,523	343
Total	**8,652**	**8,207**	**445**

The items *Software licenses for resale* and *Hardware licenses for resale* include any change in inventory.

The item *Other* mainly includes the acquisition of fuel amounting to 1,930 thousand Euros and office material amounting to 377 thousand Euros.

NOTE 7 - Personnel

Detail is as follows:

(thousand Euros)	**2010**	**2009**	**Change**
Payroll employees	173,398	161,201	12,197
Executive Directors	17,342	12,292	5,050
Project collaborators	3,382	3,159	223
Total	**194,122**	**176,652**	**17,470**

The increase in personnel expenses amounting to 17,470 thousand Euros refers to the overall increase of the Group's business and to the number of employees.

Personnel expenses include the fair value of the stock options vested as at December 31, 2010 (10 thousand Euros).

The average number of personnel at year end 2010 amounted to 3,062 compared to 2,932 in 2009.

Detail of personnel by category is provided below:

(number)	**31/12/2010**	**31/12/2009**	**Change**
Directors	236	231	5
Managers	477	447	30
Staff	2,436	2,316	120
Total	**3,149**	**2,994**	**155**

At December 31, 2010 the number of employees of the Group were 3,149 compared to 2,994 at December 31, 2009.

The acquisition of Riverland Solutions GmbH and Lem Reply S.r.l. brought an increase of 57 employees.

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

NOTE 8 – Services and other costs

Service and other costs comprised the following:

(thousand Euros)	**2010**	**2009**	**Change**
Commercial and technical consulting	63,537	52,994	10,543
Travelling and professional training expenses	19,204	16,974	2,230
Other service costs	30,328	30,154	174
Office expenses	8,412	9,105	(693)
Lease and rentals	6,269	6,047	222
Other	3,340	4,358	(1,018)
Total	**131,090**	**119,632**	**11,458**

Change in *Services and other costs* amounted to 11,458 thousand Euros and owes to an overall increase in the Group's activities.

The item *Other service costs* mainly includes marketing services, legal and management services, telephone and canteen.

Office expenses include charges from related parties in connection to service contracts for the use of premises and centralized secretarial services amounting to 4,763 thousand Euros.

NOTE 9 – Amortization, depreciation and write downs

Depreciation of tangible assets, amounting to 4,789 thousand Euros at December 31, 2010, 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. This item also includes the government grant established by the Regional laws 34/2004 and 4/2006 in relation to the financed research projects amounting to 317 thousand Euros.

Amortization of intangible assets for the year ended 2010 amounted to 2,856 thousand Euros. The details are provided at the notes to intangible assets herein.

The *Impairment Test* in accordance to IAS 36 resulted in a total impairment of goodwill of Interactiv sysko GmbH & Co. KG.

NOTE 10 – Other unusual operating income/(expenses)

Other unusual operating income/(expenses) amounting to 7,769 thousand Euros is related to the accrual of the necessary future costs to carry out projects financed by Public Entities.

NOTE 11 – Financial income/(expenses)

Detail is as follows:

(thousand Euros)	2010	2009	Change
Financial gains	207	438	(231)
Interest expenses	(1,797)	(2,377)	580
Other	114	25	89
Total	**(1,476)**	**(1,914)**	**438**

The item *Financial gains* mainly includes interest on bank accounts for 207 thousand Euros.

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

NOTE 12 – Income taxes

Income taxes for financial year ended 2010 amounted to 19,482 thousand Euros and are detailed as follows:

(thousand Euros)	2010	2009	Change
IRES and other	17,258	11,613	5,645
IRAP	16,781	6,358	10,423
Current taxes	**34,039**	**17,971**	**16,068**
Deferred tax liabilities	(961)	2,840	(3,801)
Deferred tax assets	(2,821)	(3,713)	892
Deferred taxes	**(3,782)**	**(873)**	**(3,386)**
Total income taxes	**19,482**	**17,098**	**2,384**

The tax burden was equivalent to 48.6% (50.3% in 2009).

The reconciliation between the tax charges recorded in the consolidated financial statements and the theoretical tax charge, calculated on the basis of the theoretical tax rate in effect in Italy, is the following:

Profit/(loss) before taxes from continuing operations	**40,094**	
Theoretical income taxes	**11,026**	27.5%
Tax effect of permanent differences	2,028	
Effect of difference between foreign tax rates and the theoretical Italian tax rate	(502)	
Other differences	446	
Current and deferred income tax recognized in the financial statements, excluding IRAP	**12,998**	32.4%
IRAP (current and deferred)	6,483	
Current and deferred income tax recognized in the financial statements	**19,482**	48.6%

Since the IRAP tax has a taxable basis that is different from income before taxes, it generates distortions between one year and another. Accordingly, in order to render the reconciliation between income taxes recognized and theoretical income taxes more meaningful, IRAP tax is not taken into consideration; theoretical income taxes are determined by applying only the tax rate in effect in Italy (IRES equal to 27.5% in 2010 and 2009) to profit/(loss) before taxes from Continuing operations.

NOTE 13 – Profit/(loss) from discontinued operations

The amount is referred to a tax refund received at the end of 2009 with reference to discontinued operations of 2008.

NOTE 14 – Earnings per share

Basic earnings per share

Basic earnings per share at December 31, 2010 was calculated with reference to the profit for the period of the Group which amounted to 20,367 thousand Euros (16,628 thousand Euros at December 31, 2009) divided by the weighted average number of shares outstanding during the year which were 9,071,664 (9,041,267 at December 31, 2009).

(in Euros)	2010	2009
Net profit for the year	20,367,000	16,628,000
Weighted average number of shares	9,071,664	9,041,267
Basic earnings per share	2.25	1.84

Diluted earnings per share

Diluted earnings per share at December 31, 2010 was calculated with reference to the profit for the period of the Group which amounted to 20,367 thousand Euros divided by the weighted average number of shares outstanding at December 31, 2010 taking in consideration the diluting effect which could derive from hypothetical exercising of financial instruments potentially convertible in shares (stock options).

(in Euros)	2010	2009
Net profit for the year	20,367,000	16,628,000
Weighted average number of shares	9,071,664	9,041,267
Diluting effect	168,400	168,400
Weighted number of diluted shares	9,240,064	9,209,667
Diluted earnings per share	2.20	1.81

NOTE 15 – Tangible assets

Tangible assets as at December 31, 2010 amounted to 8,437 thousand Euros and are detailed as follows:

(thousand Euros)	31/12/2010	31/12/2009	Change
Buildings	2,616	2,758	(142)
Plant and machinery	1,347	1,942	(595)
Hardware	2,346	3,558	(1,212)
Other	2,128	1,565	563
Total	**8,437**	**9,823**	**(1,386)**

Change in tangible assets during 2010 is summarized in the table below:

(thousand Euros)	Buildings	Plant and machinery	Hardware	Other	Total
Historical cost	4,023	5,433	16,632	4,760	30,848
Accumulated depreciation	(1,265)	(3,491)	(13,074)	(3,195)	(21,025)
Balance at 31/12/2009	**2,758**	**1,942**	**3,558**	**1,565**	**9,823**
Historical cost					
Additions	-	373	1,439	1,336	3,148
Disposals	-	(149)	(1,416)	(338)	(1,903)
Other changes	-	3	84	124	211
Accumulated depreciation					
Depreciation	(142)	(917)	(2,548)	(709)	(4,316)
Utilization	-	97	1,267	211	1,575
Other changes	-	(2)	(38)	(61)	(101)
Historical cost	4,023	5,660	16,739	5,882	32,304
Accumulated depreciation	(1,407)	(4,313)	(14,393)	(3,754)	(23,867)
Balance at 31/12/2010	**2,616**	**1,347**	**2,346**	**2,128**	**8,437**

In 2010 the Group carried out investments amounting to 3,148 thousand Euros.

The item *Buildings* includes a building belonging to a syskoplan group company located in Gutersloh, with a net book value amounting to 2,610 thousand Euros.

The item *Plant and machinery* includes the lease of video conference equipment amounting to 5 thousand Euros.

Change in *Hardware* owes to investments made by the Italian subsidiaries for 1,114 thousand Euros and 493 thousand Euros to purchases made by the German companies. Furthermore this item includes financial leases for 338 thousand Euros (1,118 at December 31, 2009).

The item *Other* at December 31, 2010 includes improvements to third party assets (2,702 thousand Euros) and office furniture (443 thousand Euros).

The item Other changes refers to first time consolidation of Riverland Solutions GmbH and Lem Reply.

At December 31, 2010 73.9% of tangible assets have been depreciated compared to 68.2% in 2009.

NOTE 16 - Goodwill

This item includes goodwill arising from consolidation of subsidiaries and the value of business branches purchased against payment made by some Group companies.

Goodwill in 2010 developed as follows:

(thousand Euros)	
Balance at December 31, 2009	**66,047**
Increase	7,465
Change in consolidation	72
Decrease	(790)
Balance at December 31, 2010	**72,794**

Increase in 2010 refers to:

- Riverland Solutions GmbH
  On August 4, 2010 Reply S.p.A. acquired the 75.016% share capital of Riverland Solutions GmbH, a German company specializing in consulting and systems integration on Oracle Applications, for an investment amounting to 8,270 thousand Euros which is composed of a cash consideration of 4,500 thousand Euros and a variable compensation of 3,770 thousand Euros to be paid following a three-year period and subordinated to achieving established economic parameters.
- Lem Reply S.r.l.
  On October 26, 2010 Reply S.p.A acquired the 100% share capital of Lem Consulting S.r.l, a company based in Genoa, specialized in the logistic and mobility sector for the realization of innovative projects, for an investment totaling 400 thousand Euros.

Change in consolidation is referred to the business branches acquired against payment by Riverland Solutions GmbH and Lem Reply S.r.l.

The following table summarizes the calculation of final goodwill and the value of the net assets acquired at the acquisition date.

(thousand Euros)	Fair value (*)
Tangible and intangible goods	133
Goodwill	67
Financial assets	45
Trade receivables and other	3,086
Cash and cash equivalents	631
Financial liabilities	(123)
Trade payables and other	(2,634)
Net assets acquired	**1,205**
Compensation	8,670
Goodwill	**7,465**

(*) book value is equal to fair value.

Goodwill is allocated to the Group's cash-generating units, usually identified in a single company or in a company's business unit.

(thousand Euros)

Company originating goodwill	CGU/Legal entity	Company originating goodwill	% acquired	31/12/2010
@Logistics Reply S.r.l.	@Logistics Reply S.r.l.	2000	30.0%	459
Business Reply S.r.l.	Business Reply S.r.l.	2000	30.0%	160
Cluster Reply S.r.l.	Cluster Nord	2000	15.0%	155
Sytel Reply S.r.l.	Sytel Roma	2000	20.0%	223
Sysproject Reply S.r.l.	Cluster Nord	2002	100.0%	1,665
Aware Reply S.r.l.	Bitmama S.r.l.	2001 - 2003	100.0%	2,418
Blue Reply S.r.l.	Blue Reply S.r.l.	2004	12.0%	285
Planet Reply S.r.l.	Sytel Nord/Live	2004	20.0%	1,191
E*Finance Reply S.r.l.	E*Finance Reply S.r.l.	2001 - 2005	42.0%	2,561
Eos Reply S.r.l.	Eos Reply S.r.l.	2005	(*)	360
IrisCube Reply S.p.A.	IrisCube Reply S.p.A.	2003 - 2005	100.0%	1,563
IrisCube Reply S.p.A. (***)	Sytel Nord/Live	2003 - 2005	100.0%	5,100
Spike Reply S.r.l.	Security Reply S.r.l.	2005	10.0%	298
Discovery Reply S.r.l.	Discovery Reply S.r.l.	2005	(*)	210
syskoplan AG	syskoplan Group	2006	63.8%	9,611
Interactiv! (**)	syskoplan Group	2006	85.1%	-
Macros Innovation (**)	syskoplan Group	2006	100.0%	4,652
Discovery sysko Gmbh (**)	syskoplan Group	2006	20.0%	11
Santer Reply S.p.A.	Santer	2002 - 2006	100.00%	1,062
Xuccess Consulting GmbH (**)	syskoplan Group	2007	100.0%	5,195
Axcel Reply S.r.l.	Aktive Reply S.r.l.	2007	100.0%	558
Axcel Reply S.r.l.	Sytel Nord/Live	2007	100.0%	250
Communication Valley S.p.A.	Security Reply S.r.l.	2008	100.0%	11,868
glue Reply Ltd.	glue	2008	100.0%	10,772
Reply Consulting S.r.l.	Reply Consulting S.r.l.	2008	44.0%	4,306
Hermes Reply S.r.l.	Hermes Reply S.r.l.	2008	5.0%	116
Riverland Solutions GmbH	Riverland Solutions GmbH	2010	75.0%	7,134
Lem Consuting S.r.l.	Lem Reply S.r.l.	2010	100.0%	331
Altri (*)				279
Total				**72,794**

(*) business branch acquisitions
(**) syskoplan group companies
(***) goodwill related to the branch transferred in Sytel Reply S.r.l.

Reply has adopted a structured system of periodic planning and budgeting aimed at defining the objectives and business strategies in drafting the annual budget.

The impairment model adopted by the Group is based on future cash flows calculated through the *Discounted cash flow analysis*.

In applying this model, Management utilizes assumptions which are applied to the single CGU from the first year following the annual budget. The estimates are as follows:

- Increase in revenues,
- Increase in operating costs,
- Investments,
- Change in net capital.

The recovering value of the CGU, to which the single goodwill is referred, is determined as the highest between the fair value less any selling costs (net selling price) and the present value of the estimated future cash flows expected from the continuous use of the good (value in use). If the recovering value is higher than the carrying amount of the CGU, there is no impairment of the asset, on the contrary when the model indicates a difference between the carrying amount and the recovering value there is impairment.

The following assumptions were used in deterring the recoverable value of the *Cash Generating Units:*

- Terminal value growth rates: 1.0%
- Discount rate, net of taxes: 8.89%
- Discount rate, before taxes: 12.27%

As to all CGUs subject to impairment at December 31, 2010, no indications emerged that such businesses may have been subject to impairment apart from the subsidiary Interactiv! which has undergone a total impairment.

Reply has also developed a sensitivity analysis of the estimated recoverable value by using discounted cash flows. The Group considers that the discount rate is a key indicator in estimating the fair value and has therefore determined that an increase of 100 basis points in the discount rate would not, also considering the presumable value, lead to an excess of the carrying value of the CGU compared to its recoverable value, which tends to be significantly higher.

Finally, it is appropriate to note that the estimates and budget data to which the above mentioned parameters have been applied are those determined by management on the basis of past performance and expectations of developments in the markets in which the Group operates. Moreover, estimating the recoverable amount of cash generating units requires discretion and the use of estimates by management The Group cannot guarantee that there will be no goodwill impairment in future periods. Circumstances and events which could potentially cause further impairment losses are constantly monitored by the Group.

NOTE 17 – Other intangible assets

Intangible assets as at December 31, 2010 amounted to 6,244 thousand Euros (6,644 thousand Euros at December 31, 2009) and detail is as follows:

(thousand Euros)	Historical cost	Accumulated amortization	Net book value at 31/12/2010
Development costs	10,210	(6,780)	3,430
Software	11,747	(10,828)	919
Trademarks	532	-	532
Other intangible assets	2,950	(1,587)	1,363
Total	**25,439**	**(19,195)**	**6,244**

Change in intangible assets during 2010 is summarized in the table below:

(thousand Euros)	Net book value at 31/12/2009	Increases	Other changes	Accumulated amortization	Net book value at 31/12/2010
Development costs	2,680	2,000	34	(1,284)	3,430
Software	1,545	417	-	(1,043)	919
Trademarks	527	5	-	-	532
Other intangible assets	1,892	-	-	(529)	1,363
Total	**6,644**	**2,422**	**34**	**(2,856)**	**6,244**

Development costs are related to software 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 129 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 amortization.

Other intangible assets is mainly related to Know-how of the *Security Operation Center,* a specific activity which supplies *Managed Security Services* to avoid and individualize real or potential threats to which complex IT infrastructures are exposed, apart from proposing and carrying out adequate counter-measures to limit or void such dangers.

Other changes refers to first time consolidation of the company Lem Reply S.r.l.

NOTE 18 – Equity investments

The item equity investments amounting to 92 thousand Euros refers to investments stated at cost. This item is fully detailed in the annexed tables.

NOTE 19 - Financial assets

Other financial assets amounted to 4,895 thousand Euros compared to 3,685 thousand Euros at December 31, 2009.

Detail is as follows:

(thousand Euros)	31/12/2010	31/12/2009	Change
Receivables from insurance companies	2,733	2,413	320
Guarantee deposits	561	457	104
Loans to non consolidated companies	500	-	500
Long term securities	943	804	139
Other financial assets	77	11	66
Short term securities	81	-	81
Total	**4,895**	**3,685**	**1,210**

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 item *Long term securities* is related mainly to long term investments to hedge pension obligations of the syskoplan group.

NOTE 20 – Deferred tax assets

This item amounted to 8,855 thousand Euros at December 31, 2010 (6,024 thousand Euros at December 31, 2009), and includes the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.

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

(thousand Euros)	31/12/2009	Accruals 2010	Utilization 2010	31/12/2010
Prepaid tax on costs that will become deductible in future years	3,426	4,243	(2,358)	5,311
Prepaid tax on greater provision for doubtful accounts	644	34	(481)	197
Deferred fiscal deductibility of amortization	940	202	(43)	1,099
Consolidation adjustments and other items	1,014	3,352	(2,118)	2,248
Total	**6,024**	**7,831**	**(5,000)**	**8,855**

The decision to recognize deferred tax assets is taken by assessing critically whether the conditions exist for the future recoverability of such assets on the basis of expected future results.

There are no deferred tax assets on losses carried forward.

NOTE 21 - Inventories

The item inventories amounted to 6,100 thousand Euros and is detailed below:

(thousand Euros)	31/12/2010	31/12/2009	Change
Contract work in progress	35,979	57,633	(21,654)
Finished products and goods for resale	52	35	17
Advance payments from customers	(29,931)	(42,584)	12,653
Total	**6,100**	**15,084**	**(8,984)**

NOTE 22 - Trade receivables

Trade receivables at December 31, 2010 amounted to 189,145 thousand Euros with an increase of 35,420 thousand Euros.

Trade receivables are shown net of allowances for doubtful accounts amounting to 2,107 thousand Euros at December 31, 2010 (3,035 thousand Euros at December 31, 2009).

(thousand Euros)	31/12/2010	31/12/2009	Change
Domestic receivables	164,164	139,334	24,830
Foreign trade receivables	27,485	17,543	9,942
Credit notes to be issued	(397)	(117)	(280)
Total	**191,252**	**156,760**	**34,492**
Allowance for doubtful accounts	(2,107)	(3,035)	928
Total trade receivables	**189,145**	**153,725**	**35,420**

The *Allowance for doubtful accounts* in 2010 developed as follows:

(thousand Euros)	31/12/2009	Accrual	Utilized	31/12/2010
Allowance for doubtful accounts	3,035	444	(1,372)	2,107

Trade receivables are all collectible within one year.

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

Aging at December 31, 2010
(thousand Euros)

	Trade receivables	Current	1-90 days	91-180 days	181-360 days	over 360 days	Total overdue
Trade receivables	**191,252**	**164,795**	**15,571**	**2,632**	**874**	**1,668**	**20,745**
Allowance for doubtful accounts	(2,107)	-	(179)	(216)	(249)	(1,463)	(2,107)
Total trade receivables	**189,145**	**164,795**	**15,392**	**2,416**	**625**	**205**	**18,638**

Aging at December 31, 2009
(thousand Euros)

	Trade receivables	Current	1-90 days	91-180 days	181-360 days	over 360 days	Total overdue
Trade receivables	156,760	136,149	12,774	2,542	2,916	2,379	20,611
Allowance for doubtful accounts	(3,035)	-	(743)	(96)	(884)	(1,312)	(3,035)
Total trade receivables	**153,725**	**136,149**	**12,031**	**2,446**	**2,032**	**1,067**	**17,576**

The carrying amount of *Trade receivables* is in line with its fair value.

NOTE 23 - Other receivables and current assets

Detail is as follows:

(thousand Euros)	31/12/2010	31/12/2009	Change
Tax receivables	6,455	7,138	(683)
Advances to employees	102	186	(84)
Other receivables	6,226	4,595	1,631
Accrued income and prepaid expenses	2,863	2,949	(86)
Total	**15,646**	**14,868**	**778**

The item tax receivables mainly includes:

- Vat tax receivables (4,502 thousand Euros);
- Advance payment on income tax for some Italian companies (595 thousand Euros);
- Receivables for withholding tax (246 thousand Euros).

Other receivables include a capital contribution amounting to 5,012 thousand Euros (3,200 thousand Euros at December 31, 2009) Euros in accordance to the Regional laws 34/2004 and 4/2006 with reference to the research projects.

NOTE 24 - Cash and cash equivalents

This item amounted to 50,125 thousand Euros, with an increase of 16,962 thousand Euros compared to December 31, 2009, 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 25 – Shareholders' equity

Share capital

As at December 31, 2010 the fully subscribed paid-in share capital of the Parent Company Reply S.p.A. amounted to 4,795,885.64 Euros and is made up of 9,222,857 ordinary shares, par value 0.52 Euros per share.

Treasury shares

Treasury shares on hand amounting to 2,523 thousand Euros is related to shares held by the Parent company that as at December 31, 2010 were equal in number to 178,526. During 2010 Reply S.p.A. acquired no. 123,674 ordinary shares while 76,650 ordinary shares were disposed.

The disposals refer to:

- no. 46,046 ordinary shares related to the transfer of shares for the acquisition of the minority shares in subsidiaries;
- no. 30,604 ordinary shares were assigned to personnel as a form of remuneration for services provided.

The accounting effects of these operations were entirely recorded in equity.

Capital reserve

At December 31, 2010 Capital reserve amounted to 49,538 thousand Euros and is summarized as follows:

- *Share premium reserve* amounting to 20,165 thousand Euros.
- *Reserve for treasury shares on hand* amounting to 2,523 thousand Euros is related to shares held by Reply.
- *Reserve for purchase of treasury shares*, amounting to 27,477 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. on 29 April 2010 which authorized, 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.

Revenue reserves

Revenue reserves amounted to 84,682 thousand Euros and comprise the following:

- Legal reserve of Reply S.p.A. amounting to 959 thousand Euros;
- Retained earnings of 63,356 thousand Euros (retained earnings of 54,298 thousand Euros at December 31, 2009);
- Income attributable to owners of the parent of 20,367 thousand Euros (16,628 thousand Euros at December 31, 2009).

Other comprehensive income

Other comprehensive income can be analyzed as follows:

(thousand Euros)	31/12/2010	31/12/2009
Gains/(losses) on cash flow hedges arising during the period	308	(899)
Reclassification adjustment for gains/(losses) on cash flow hedges included in income statement	-	-
Gains/(Losses) on cash flow hedges	**308**	**(899)**
Exchange gains/(losses) on translating foreign operations arising during the year	154	57
Exchange gains/(losses) on translating foreign operations reclassified to profit or loss	-	-
Exchange gains/(losses) on translating foreign operations	**154**	**57**
Other comprehensive income generated during the period	789	285
Other comprehensive income generated during the period reclassified to profit or loss	-	-
Share of other comprehensive income	**789**	**285**
Income tax relating to components of Other comprehensive income	**-**	**-**
Total Other comprehensive income, net of tax	**1,251**	**(557)**

Non-controlling interest

The non-controlling interest of 1,331 thousand Euros at December 31, 2010 (6,462 thousand Euros at December 31, 2009), refers mainly to the following companies consolidated on a line-by line basis:

(thousand Euros)	31/12/2010	31/12/2009
Italian companies		
4Cust Reply S.r.l.	-	(4)
Bitmama S.r.l.	201	94
Bridge Reply	34	-
Open Reply S.r.l.	37	2
Power Reply S.r.l.	-	190
Tender Reply	(16)	-
Twice Reply S.r.l.	122	94
Foreign companies		
Syskoplan AG	443	5,968
is4 GmbH & Co. KG	25	118
Riverland Solutions GmbH	485	-
Total	**1,331**	**6,462**

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 in 2010 amounted to 10 thousand Euros (50 thousand Euros in 2009).

Stock option plans linked to Reply Group ordinary shares

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 employees and directors of the group companies.

As at December 31, 2010 the number of stock options were 168,400 and can be summarized 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 2010 no stock options were exercised nor assigned in reference to the existing plans.

Under an accounting perspective stock option plans represent an *Equity settled share based payment transaction* pursuant to paragraph 10 of IFRS 2 that requires the assessment of the fair value of the services received with reference to the fair value of the instruments representative of equity at the assignment date.

The fair value of the services received must be recorded when the option vests with a corresponding increase in equity.

Stock option plans linked to Syskoplan AG ordinary shares

The Shareholders' Meeting of syskoplan AG on September, 2000 resolved the increase of the share capital with the emission of no. 300,000 new syskoplan AG ordinary shares in favor of employees and directors of the company.

As at December 31, 2010 the main characteristics of the stock option plan resolved by the Shareholders' Meeting is as follows:

Plan	Resolution of the General Shareholders' meeting	No. beneficiaries	Exercise price	Vesting period	No. options
2004	07/04/2004	329	7.63	07/04/2006 – 07/04/2011	71,407

During 2010 no. 14,991 ordinary shares were exercised; at December 31, 2010 no. 23,481 ordinary shares can still be exercised while no. 13,791 ordinary shares expired.

NOTE 26 – Payables to minority shareholders

Payables to minority shareholders at December 31, 2010 amounted to 15,798 thousand Euros (4,768 thousand Euros at December 31, 2009).

This item is detailed as follows:

- Payables to minority shareholders of syskoplan AG for 7,957 thousand Euros. This payable refers to Reply's obligation, in accordance to the Domination Agreement, to acquire shares upon the request of minority shareholders. The amount represents the fair value of the liability at the balance sheet date.
- Payables to minority shareholders of Riverland Solutions GmbH for 3,770 thousand Euros which refers to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of 75.016% of the share capital.
- Payables to the minority shareholders of is4 GmbH & Co. KG for 2,664 thousand Euros (2,889 thousand Euros in 2009) and represents the fair value of 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.
- Payables referred to the Earn-out component for the acquisition of a syskoplan subsidiary and reflects the best estimate of the financial commitment (239 thousand Euros).
- Payables to some minority shareholders with reference to options held (1,168 thousand Euros) which will be exercised in the first months of 2011.

NOTE 27 - Financial liabilities

Detail is as follows:

	31/12/2010			31/12/2009		
(thousand Euros)	**Current**	**Non current**	**Total**	**Current**	**Non current**	**Total**
Advances on receivables and bank overdrafts	23,793	-	23,793	3,900	-	3,900
Financial borrowings	16,600	10,467	27,067	16,547	22,459	39,006
Total due to banks	**40,393**	**10,467**	**50,860**	**20,447**	**22,459**	**42,906**
Other financial borrowings	347	184	531	600	607	1,207
Fair Value IRS and other	254	(144)	110	590	(236)	354
Total financial liabilities	**40,994**	**10,507**	**51,501**	**21,637**	**22,830**	**44,467**

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

(thousand Euros)	31/12/2010				31/12/2009			
	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	23,793	-	-	**23,793**	3,900	-	-	**3,900**
Syndicated loan	16,443	-	-	**16,443**	16,443	16,444	-	**32,887**
Stand-by credit line	-	9,411	-	**9,411**	-	4,093	818	**4,911**
Carispe Bank	30	78	-	**108**	-	-	-	**-**
Credito Bergamasco	12	-	-	**12**	-	-	-	**-**
Commerzbank	115	581	397	**1,093**	104	581	523	**1,208**
Other financial borrowings	347	184	-	**531**	600	607	-	**1,207**
Fair Value IRS and other	254	(144)	-	**110**	590	(236)	-	**354**
Total	**40,994**	**10,110**	**397**	**51,501**	**21,637**	**21,489**	**1,341**	**44,467**

The *Syndicated loan* is referred to the contract 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 loan (the maximum total amount of 66 million Euros utilized by December 31, 2008) was finalized for M&A operations.

The total amount utilized amounted to 61,330 thousand Euros and has been divided as follows:

- Tranche A, was used as an overdraft for a total of 12,000,000 Euros with the purpose of entirely reimbursing the previous loan. Installments were paid on a half year basis (Euribor 6 months + 0.75%).
- Tranche B, was utilized for 49,330 thousand Euros with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalized at the acquisition of companies, strategic investments or shares. The residual amount totals 16,443 thousand Euros and the installments are paid on a half-year basis (Euribor 6 months + 0.75%) and expires December 31, 2011.

Reply has pledged shares and/or quotas of the companies acquired in guarantee of all obligations connected to the loan.

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 December 31, 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 stand-by financial loan is referred to a loan undersigned on March 31, 2009 by Reply S.p.A with Intesa SanPaolo, for a line of credit amounting to 50,000,000 Euros. The loan will be reimbursed on a half-year basis (Euribor 6 months + 2.5%) commencing June 30, 2012 and expires on December 31, 2014.

The credit line amounting has been drawn by 9,411 thousand Euros. This loan is subordinated to the parameters mentioned herein and at December 31, 2010 have been respected.

The financial loan with Carispe Bank was stipulated in September 2008 by Lem Reply S.r.l. for an initial line of credit amounting to 150 thousand Euros. The loan will be reimbursed on a half-year basis at a floating rate (Euribor 6 months +1.2%) and expires January 31, 2014.

The financial loan stipulated with Credito Bergamasco also refers to a loan undersigned by Lem Reply S.r.l. in May 2010 for a line of credit amounting to 20 thousand Euros. The loan will be reimbursed on a monthly basis at a floating rate (Euribor 3 months +3.5%) and expires June 30, 2011.

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. Installments are paid on a half year basis (at a rate of 4.28%) and expire on September 30, 2019.

Other financial borrowings are related to financial leases determined according to IAS 17.

Fair value IRS and other is mainly related to the fair value of the cash flow hedge, the amount being hedged amounts to 17,536 thousand Euros.

The carrying amount of *Financial liabilities* is deemed to be in line with its fair value.

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 December 31, 2010 was as follows:

(thousand Euros)	**31/12/2010**	**31/12/2009**	**Change**
Cash and cash equivalents	50,125	33,163	16,962
Current financial assets	647	-	647
Non-current financial assets	943	804	139
Total financial assets	**51,715**	**33,967**	**17,748**
Current financial liabilities	(40,994)	(21,637)	(19,357)
Non current financial liabilities	(10,507)	(22,830)	12,323
Total financial liabilities	**(51,501)**	**(44,467)**	**(7,034)**
Total net financial position	**214**	**(10,500)**	**10,714**

For further details with regards to the above table see Notes 19 and 24 as well as Note 27.

NOTE 28 – Employee benefits

(thousand Euros)	31/12/2010	31/12/2009	Change
Employee severance indemnities	11,794	12,138	(344)
Employee pension funds	2,487	2,396	91
Directors severance indemnities	994	915	79
Other	43	43	-
Total	**15,318**	**15,492**	**(174)**

Employee severance indemnities
The Employee severance indemnity represents the obligation to employees under Italian law (amended by Law 296/06) that has accrued up to December 31, 2006 and that will be settled when the employee leaves the company. In certain circumstances, a portion of the accrued liability may be given to an employee during his working life as an advance. This is an unfunded defined benefit plan, under which the benefits are almost fully accrued, with the sole exception of future revaluations.

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 fulfill its obligations. In accordance to Law 296/06 re-proportioning has been applied to those companies in which there are less than 50 employees and do not pay contributions to a separate fund.

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 summarized as follows:

Demographic assumptions

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfillment 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 2010: 2.50% Frequency of turnover % 2010: 10%

Economic and financial assumptions

Annual inflation rate	Constant average annual rate equal to 2.0%
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 2010 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 and a half 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, net of inflation, from 1.0% to 1.50%

In accordance to IAS 19, Employment severance indemnities at December 31, 2010 is summarized in the table below:

(thousand Euros)	
Balance at 31/12/2009	**12,138**
Service cost	1,473
Actuarial gain/loss	(789)
Interest cost	460
Indemnities paid during the year	(1,528)
Other changes/Business combinations	39
Balance at 31/12/2010	**11,793**

Pension funds

The item Pension funds is related to the liability for defined benefit plans for some syskoplan Group companies and is as follows:

(thousand Euros)	31/12/2010	31/12/2009
Present value of liabilities	**3.783**	**3.362**
Fair value of plan assets	924	872
Net value	**2.859**	**2.490**
Actuarial gain/loss	(372)	(94)
Liability for defined benefit	**2.487**	**2.396**

The present value of obligation to employees is as follows:

(thousand Euros)	31/12/2010	31/12/2009
Present value at the beginning of period	3,362	2,577
Service cost	25	49
Interest cost	170	166
Actuarial gain/loss	274	609
Indemnities paid during the year	**(48)**	**(39)**
Present value at end of period	**3,783**	**3,362**

NOTE 29 – Deferred tax liabilities

Deferred tax liabilities at December 31, 2010 amounted to 7,663 thousand Euros and are referred mainly to the fiscal effects arising from temporary differences of statutory income and taxable income related to deferred deductibility.

(thousand Euros)	31/12/2010	31/12/2009
Costs deducted off the books	1,007	920
Other items	6,656	7,664
Balance at 31/12/2010	**7,663**	**8,584**

Deferred tax liabilities mainly include the measurement of contract work in progress, employee benefits, capitalization of development costs and reversal of amortization of intangible assets.

Deferred tax liabilities have not been recognized on retained earnings of the subsidiary companies as the Group is able to control the timing of distribution of said earnings and in the near future does not seem likely.

NOTE 30 – Provisions

Provisions amounted to 21,339 thousand Euros (of which 14,754 thousand Euros non current).

Change in 2010 is summarized in the table below:

(thousand Euros)	Balance at 31/12/2009	Accruals	Utilization	Write-offs	Balance at 31/12/2010
Fidelity provisions	3,424	3,379	(2,050)	(178)	4,575
Other provisions	2,285	2,409	(1,347)	(52)	3,295
Provision for Motorola research center	11,414	7,200	(5,145)	-	13,469
Total	**17,123**	**12,988**	**(8,542)**	**(230)**	**21,339**

Fidelity provisions are referred mainly to provisions made for some syskoplan group companies in relation to anniversary bonuses. The liability is determined through actuarial calculations applying a 5.5% rate.

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

The *Provision for Motorola Research center* originates from the acquisition of the business branch Motorola Electronics S.p.A. in 2009.

The acquisition of the Motorola Research Center was carried out as a consequence of agreements reached with Motorola Electronics S.p.A, Trade Unions and the region of Piedmont.

Change in provisions can be summarized as follows:

- implementation of the research and development projects agreed upon and funded by the Region of Piedmont and the Ministry for economic development (utilized at December 31 for 5,145 thousand Euros);
- provision of 7,200 thousand Euros reflecting the best estimate of the necessary future costs to complete the projects.

The residual provision will be written off to profit and loss on the basis of the progression of the research activities, in part financed by the public administrations, for which the Group has committed to carry out to several parties in view of the undersigning of the aforesaid agreements.

NOTE 31 - Trade payables

Trade payables at year end amounted to 36,313 thousand Euros with a change of 128 thousand Euros compared to the previous year.

Detail is as follows:

(thousand Euros)	31/12/2010	31/12/2009	Change
Domestic suppliers	34,799	35,628	(829)
Foreign suppliers	4,089	1,998	2,091
Due to subsidiary companies	1	-	1
Advances to suppliers	(2,576)	(1,441)	(1,135)
Total	**36,313**	**36,185**	**128**

NOTE 32 - Other current liabilities

Other current liabilities at December 31, 2010 amounted to 75,577 thousand Euros with an increase of 23,410 thousand Euros compared to the previous year.

Details are provided below:

(thousand Euros)	31/12/2010	31/12/2009	Change
Income tax payable	12,195	2,220	9,975
VAT payable	2,633	3,818	(1,185)
Withholding tax and other	3,963	3,913	50
Total due to tax authorities	**18,791**	**9,951**	**8,840**
INPS	11,441	9,444	1,997
Other	1,063	1,054	9
Total due to social security authorities	**12,504**	**10,498**	**2,006**
Employee accruals	19,427	16,556	2,871
Other payables	18,861	12,847	6,014
Accrued expenses and deferred income	5,994	2,315	3,679
Total other dues	**44,282**	**31,718**	**12,564**
Total trade payables and other liabilities	**75,577**	**52,167**	**23,410**

Due to tax authorities amounting to 18,791 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 12,504 thousand Euros and refer to amounts payable for employee and employer contributions.

Other payables at December 31, 2010 amounted to 44,282 thousand Euros and included:

- Amounts due to employees that at the balance sheet date had not yet been paid;
- Amounts due to directors.

NOTA 33 – Segment reporting

Segment reporting has been prepared in accordance to IFRS 8, determined as the area in which the services are executed.

Economic figures (thousand Euros)	Italy	%	Germany	%	UK	%	Intrasegment	Total 2010	%
Revenues	**310,229**	**100.0**	**65,457**	**100.0**	**10,599**	**100.0**	**(2,083)**	**384,202**	**100.0**
Operating costs	(267,013)	(86.1)	(58,580)	(89.5)	(11,477)	(108.3)	2,083	(334,987)	(87.2)
Gross operating income	**43,216**	**13.9**	**6,877**	**10.5**	**(878)**	**(8.3)**	**-**	**49,215**	**12.8**
Amortization, depreciation and write-downs	(5,136)	(1.7)	(2,480)	(3.8)	(29)	(0.3)	-	(7,645)	(2.0)
Operating income	**38,080**	**12.3**	**4,397**	**6.7**	**(907)**	**(8.6)**	**-**	**41,570**	**10.8**

Economic figures (thousand Euros)	Italy	%	Germany	%	UK	%	Intrasegment	Total 2009	%
Revenues	**276,808**	**100.0**	**55,050**	**100.0**	**9,036**	**100.0**	**(728)**	**340,166**	**100.0**
Operating costs	(239,036)	86.4	(51,103)	(92.8)	(7,895)	(87.4)	728	(297,306)	(87.4)
Gross operating income	**37,772**	**13.6**	**3,947**	**7.2**	**1,141**	**12.6**	**-**	**42,860**	**12.6**
Amortization, depreciation and write-downs	(4,592)	(1.6)	(2,362)	(4.3)	(24)	(0.3)	-	(6,978)	(2.1)
Operating income	**33,180**	**12.0**	**1,585**	**2.9**	**1,117**	**12.3**	**-**	**35,882**	**10.5**

Financial figures (thousand Euros)	31/12/2010					31/12/2009				
	Italy	**Germany**	**UK**	**Intraseg.**	**Total**	**Italy**	**Germany**	**UK**	**Intraseg.**	**Total**
Current operating assets	190,664	17,833	4,112	(1,718)	210,891	170,416	11,639	2,562	(940)	183,677
Current operating liabilities	(100,405)	(17,687)	(3,592)	3,209	(118,475)	(81,456)	(12,312)	(1,618)	1,054	(94,332)
Net working capital (A)	**90,259**	**145**	**521**	**1,491**	**92,416**	**88,960**	**(673)**	**944**	**114**	**89,345**
Non current assets	84,999	16,099	120	(1,491)	99,727	73,278	18,185	79	(114)	91,428
Non current liabilities	(47,395)	(6,138)	-	-	(53,533)	(33,531)	(6,457)	-	-	(39,988)
Net fixed assets (B)	**37,604**	**9,961**	**120**	**(1,491)**	**46,194**	**39,747**	**11,728**	**79**	**(114)**	**51,440**
Net invested capital (A+B)	**127,863**	**10,106**	**641**	**-**	**138,610**	**128,707**	**11,055**	**1,023**	**-**	**140,785**

NOTE 34 – Additional disclosures to financial instruments and risk management policies

Types of financial risks and corresponding hedging activities

Reply S.p.A. has determined the guide lines in managing financial risks. In order to maximize costs and the resources Reply S.p.A. has centralized 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”, Reply S.p.A. 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 company.

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 company is theoretically exposed at December 31, 2010 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.

Refer to the note on trade receivables for a quantative analysis.

Liquidity risk

Reply S.p.A. 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 company’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, Reply S.p.A has adopted a series of policies and procedures whose purpose is to optimize the management of funds and to reduce the liquidity risk, as follows:

- centralizing 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 company 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 fulfill its obligations to repay its debts at their natural due date.

Currency risk

Reply S.p.A. has a limited exposure to exchange rate risk, therefore the company does not deem necessary hedging exchange rates.

Interest rate risk

Reply S.p.A. 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 company.

In order to manage these risks, the Reply S.p.A 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 company 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, unfavorable and instantaneous change of 50 basis points in short-term interest rates at December 31, 2010 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 11 thousand Euros (63 thousand Euros at December 31, 2009).

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.

To determine the effect of interest rate derivate financial instruments Reply refers to evaluation deriving from third parties (banks and financial institutes) who base their estimates on direct (interest rates) or indirect observation of the market: consequently the fair value used by the Group in accordance to the IFRS 7 for derivative hedge contracts is classified as a hierarchy of Level 2 (prices not available on active markets for the assets or liabilities being measured but can be directly or indirectly observed).

The market value of the Interest Rate Swaps represents the present value of the difference between fixed interest rates to pay and or to receive and the interests evaluated on the market having the same expiry date as the derivative contracts.

The Interest Rate Swap leads are can lead to the exchange of interest flows calculated on the nominal value of the derivative at a fixed or floating rate at the fixed expiry date agreed by the parties. The nominal value does not represent the amount exchanged by the parties and therefore does not constitute the credit risk exposure, that is limited to the difference between the interest that has to be exchanged at expiry.

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 considered ordinary business and are carried out at normal market conditions.

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

Reply Group Main economic and financial transactions

(thousand Euros)

FINANCIAL TRANSACTIONS	31/12/2010	31/12/2009	NATURE OF TRANSACTION
Trade receivables and other	620	844	Receivables from professional services
Trade payables and other	1,771	2,077	Payables for professional services and office rental

ECONOMIC TRANSACTIONS	2010	2009	NATURE OF TRANSACTION
Services from Parent company and related parties	4,763	5,303	Services related to office rental and office of the secretary
Services from Parent company and related parties	491	322	Receivables from professional services

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 n. 58 of February 24, 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)	2010	2009
Directors	4.014	2.445
Statutory Auditors	98	98
Total	**4.112**	**2.543**

Emoluments to Key management amounted to approximately 2,712 thousand Euros (3,039 thousand Euros at December 31, 2009).

NOTE 37 – Guarantees, commitments and contingent liabilities

Guarantees

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

Commitments

As described at the paragraph “Significant events” on April 14, 2010 the Board of Directors of Reply S.p.A. and the Management Board and Supervisory Board of Syskoplan AG resolved the finalization of a Domination Agreement between Syskoplan AG, dominated company and Reply S.p.A., dominating company, by which Reply S.p.A. can exercise the operational control of the company through the Management Board that will respond to Reply S.p.A.’s Board of Directors.

The agreement provides that Reply shall assume the following obligations upon registration of the agreement with the commercial register of Syskoplan AG that took place in August 2010:

(i) Reply is obliged to compensate syskoplan for each annual net loss that would otherwise arise during the term of the agreement, unless such loss is compensated for by withdrawing amounts from other profit reserves which have been allocated thereto during the agreement;

(ii) if and to the extent that the annual dividends actually paid by syskoplan per financial year falls short of the Guaranteed Dividend, Reply will pay to each Minority Shareholder of syskoplan the corresponding difference;

(iii) upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration (8,19 Euros), within the term of three months after the date on which the commercial register of syskoplan has been announced in accordance with Sec 10 of the German Commercial Code (HGB);

(iv) upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration, within the term of two months after the date on which the agreement has expired and notice has been given to the commercial register in accordance with Sec 10 of the German Commercial Code (HGB).

The aforesaid obligations could imply the following financial disbursements for Reply:
(i) annual dividend integration for a maximum amount of 441 thousand Euros (equivalent to a net dividend of 0.45 Euros at the current German legislation conditions);

(ii) obligation to acquire the Minority Shareholders' shares for a maximum amount of 8.1 million Euros;

In addition to compensation for any annual net loss of the Minority Shareholders that would be summed to the loss related to Reply's direct holding.

Such obligations, under an accounting stand point, have implied a financial liability against non controlling interest measured at fair value.

The Agreement will be in effect for an indefinite term; it may be terminated in writing with a notice period of six months with the effect as of the end of a business year of syskoplan.

Contingent liabilities

As an international company , the Group is exposed to numerous legal risks, particularly in the area of product liability, environmental risks and tax matters. The outcome of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could affect the Group financial position and results.
Instead, when it is probable that an overflow of resources embodying economic benefits will be required to settle obligations and this amount can be reliably estimated, the Group recognizes specific provision for this purpose.

NOTE 38 – Events subsequent to December 31, 2010

On February 4, 2011 Reply S.p.A. has finalized the acquisition of 51% of the shares and 90% of the voting rights of avantage, an English company specialized in risk, treasury and capital management, and, financial performance management

avantage, with offices in London, Amsterdam, Edinburgh, and Luxembourg, counts among its clients some of the world's most significant financial groups and It closed the last financial year (figures as of September 30th, 2010) with a turnover of £10.7 million and an EBT of £2.4 million, 24% of revenue.

The total value of the purchase price for 51% of the shares represents a Reply investment of £6.9 million, which is broken down into two tranches with an initial payment of £4.8 million paid in cash on signing the Sale & Purchase Agreement and a further £2.1 million paid in three years' time.

Reply also has the option to exercise a right to purchase the remaining 49% of the capital at the end of 2013.

avantage adds to Reply's product and service offering in the risk management and regulatory compliance segment; areas in which, thanks to synergies with other Group companies, Reply now boasts one of the leading practices in Europe.

ANNEXED TABLES

Consolidated Income Statement pursuant to Consob Resolution No. 15519 of July 27, 2006

(thousand Euros)	2010	Of which related parties	%	2009	Of which related parties	%
Revenues	384,202	491	0.1%	340,166	322	0.1%
Other revenues	6,646		0.0%	7,190		0.0%
Purchases	(8,652)		0.0%	(8,207)		0.0%
Personnel expenses	(194,122)		0.0%	(176,652)		0.0%
Services and other costs	(131,090)	(4,763)	3.6%	(119,632)	(5,303)	4.4%
Amortization and write-offs	(7,645)		0.0%	(6,978)		0.0%
Other unusual operating income/(expenses)	(7,769)		0.0%	(5)		0.0%
Operating income	**41,570**			**35,882**		
Financial income/(expenses)	(1,476)		0.0%	(1,914)		0.0%
Result before tax of continuing operations	**40,094**			**33,968**		
Income taxes	(19,482)		0.0%	(17,098)		0.0%
Net result of continuing operations	**20,612**			**16,870**		
Minority interest	(245)		0.0%	(367)		0.0%
GROUP NET RESULT	**20,367**			**16,628**		
Earnings per share	*2.25*			*1.84*		
Diluted earnings per share	*2.20*			*1.81*		

Consolidated Statement of financial position pursuant to Consob Resolution No. 15519 of July 27, 2006

	31/12/2010	Of which related parties	%	31/12/2009	Of which related parties	%
Tangible fixed assets	8,437		0.0%	9,823		0.0%
Goodwill	72,794		0.0%	66,047		0.0%
Other intangible assets	6,244		0.0%	6,644		0.0%
Equity investments	92		0.0%	8		0.0%
Other financial assets	4,814		0.0%	3,685		0.0%
Deferred tax assets	8,855		0.0%	6,024		0.0%
Non current assets	**101,236**			**92,231**		
Inventories	6,100		0.0%	15,084		0.0%
Trade receivables	189,145	620	0.3%	153,725	844	0.5%
Other receivables and current assets	15,646		0.0%	14,868		0.0%
Financial assets	81		0.0%	0		0.0%
Cash and cash equivalents	50,125		0.0%	33,163		0.0%
Current assets	**261,097**			**216,840**		
TOTAL ASSETS	**362,333**			**309,071**		
Share capital	4,796		0.0%	4,796		0.0%
Other reserves	112,330		0.0%	102,399		0.0%
Net result	20,367		0.0%	16,628		0.0%
Group Shareholders’ equity	**137,493**			**123,823**		
Non-controlling interest	1,331		0.0%	6,462		0.0%
TOTAL SHAREHOLDERS’ EQUITY	**138,824**			**130,285**		
Payables to minority shareholders	15,798		0.0%	4,768		0.0%
Financial liabilities	10,507		0.0%	22,830		0.0%
Employee benefits	15,318		0.0%	15,492		0.0%
Deferred tax liabilities	7,663		0.0%	8,584		0.0%
Other provisions	14,754			11,144		
Non current liabilities	**64,040**			**62,818**		
Financial liabilities	40,994		0.0%	21,637		0.0%
Trade payables	36,313	1,771	4.9%	36,185	2,077	5.7%
Other payables and current liabilities	75,577		0.0%	52,167		0.0%
Other provisions	6,585			5,979		
Current liabilities	**159,469**			**115,968**		
Total liabilities	**223,509**			**178,786**		
TOTAL SHAREHOLDERS’ EQUITY AND LIABILITIES	**362,333**			**309,071**		

REPLY
COMPANIES INCLUDED IN CONSOLIDATION AT DECEMBER 31, 2010

Company name	Registered office		Share capital	Group interest
PARENT COMPANY				
Reply S.p.A.	Turin - Corso Francia, 110	€	4.795.886	-
SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS				
4Cust Reply S.r.l.(*)	Turin - Corso Francia, 110	€	10,000	80.00%
@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%
Bitmama S.r.l.	Turin - Corso Francia, 110	€	29,407	51.00%
Blue Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Bridge Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	60.00%
Business Reply S.r.l.	Turin - Corso Francia, 110	€	78,000	100.00%
Consorzio Whitehall Reply	Turin - Corso Francia, 110	€	47,000	100.00%
Cluster Reply S.r.l.	Turin - Corso Francia, 110	€	139,116	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 Reply S.r.l.	Turin - Corso Francia, 110	€	10,400	100.00%
EOS Reply S.r.l.	Turin - Corso Francia, 110	€	14,000	100.00%
Reply Ltd. (ex Glue Reply Ltd.)	London – Old Baily, 16	GBP	54,175	100.00%
Hermes Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
IrisCube Reply S.p.A.	Turin - Corso Francia, 110	€	651,735	100.00%
Iriscube Reply SA	Savosa – Switzerland	CHF	100,000	100.00%
Lem Reply S.r.l.	Turin - Corso Francia, 110	€	47,370	100.00%
Open Reply S.r.l.(*)	Turin - Corso Francia, 110	€	10,000	85.00%
Plus Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Power Reply S.r.l. (*)	Turin - Corso Francia, 110	€	10,000	85.00%
Reply Consulting S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Reply Services S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Riverland Solutions GmbH (*)	Munich – Germany	€	25,000	75.02%
Security 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 Durando, 38	€	2,209,500	100.00%
Syskoplan AG and subsidiaries	Gutersloh, Germany	€	4,745,669	79.53%
Syskoplan Reply S.r.l.	Turin - Corso Francia, 110	€	32,942	100.00%
Live Reply GmbH (ex Sytel Reply GmbH)	Düsseldorf, Germany	€	25,000	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	100.00%

SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Company name	Registered office		Share capital	Group interest
Technology Reply S.r.l.	Turin - Corso Francia, 110	€	79,743	100.00%
Tender Reply S.r.l. (*)	Turin - Corso Francia, 110	€	10,000	80.00%
Twice Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	94.00%
Whitehall Reply S.r.l.	Turin - Corso Francia, 110	€	21,224	100.00%

SUBSIDIARIES VALUED AT COST

Company name	Registered office		Share capital	Group interest
Hermes Reply Polska zo.o.	Katowice - Polond	Zlt	40,000	100.00%
NextNext S.r.l.	Turin - Corso Sommellier, 23	€	10,000	24.00%
Reply GmbH	Munich - Germany	€	25,000	100.00%
Reply Services Ltd.	London – Old Baily, 16	GBP	1	100.00%
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte - Braszil	R$	50,000	100.00%
Sytel Reply Roma S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%

(*) 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. The accounting of such options reflects management's best estimate at the closing date.

Information requested by Art. 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-duodecies of the *Regolamento Emittenti* issued by Consob, reports the amount of fees charged in 2010 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**	**2010 fees**
Audit	Reconta Ernst & Young S.p.A.	Parent Company- Reply S.p.A.	27
	Reconta Ernst & Young S.p.A.	Subsidiaries	135
	Ernst & Young GmbH	Subsidiaries	171
	Ernst & Young LLP	Subsidiaries	15
Audit related services	Deloitte & Touche S.p.A.	Parent Company- Reply S.p.A. (1)	5
	Deloitte & Touche S.p.A.	Subsidiaries (1)	23
Total			**376**

(1) Attestation of tax forms (Modello Unico, IRAP and Form770)

Attestation in respect of the Consolidated Financial Statements under Article 154-bis of Legislative Decree 58/98

1. The undersigned, Mario Rizzante, in his capacity as Chairman and Chief Executive Officer and, Giuseppe Veneziano, Director responsible of drawing up the Company's financial statements pursuant to the provisions of article 154-bis, paragraph 3 and 4 of legislative decree no. 58 of 24 February 1998, hereby attest:

- the adequacy with respect to the Company's structure and

- the effective application,

of the administration and accounting procedures applied in the preparation of the Consolidated financial statements for the year ended 2010.

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the consolidated financial statements at December 31, 2010 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:

3.1 the consolidated financial statements at December 31, 2010

- have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the Eurospean Parliament and Counsel, dated 19 July 2002 as implemented in Italy by Article 9 of Legislative Decree no. 38 of 2005;
- correspond to the amounts shown in the Company's accounts, books and records; and
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries as of December 31, 2010 and for the year then ended.

3.2 the report on operations includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks and uncertainties to which they are exposed.

Torino, March 15, 2011

/s/ Mario Rizzante
(Chairman and Chief executive officer)

Mario Rizzante

/s/ Giuseppe Veneziano
(Director in responsible of drawing up the accounting documents)

Giuseppe Veneziano

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2010

To the Shareholders,

The consolidated financial statements as at December 31, 2010 comply with the International Financial Reporting Standards as issued by the International Accounting Standars and includes statement of income, statement of comprehensive income, statement of financial position, statement of changes in shareholders' equity, statement of cash flows and explanatory notes.
The consolidated financial statements as at December 31, 2010 shows Group net equity amounting to 137.493 million Euros including net income of 20.367 million Euros.

The Report on Operations fairly presents the economic, financial and earnings position, even at a consolidated level, of Reply S.p.A and its subsidiaries, of operations in 2010 and the events that have occurred since the end of the fiscal year, as well as revenues by business line and consolidated results.

As at December 31, 2010 consolidation includes, a part from the Parent Company, thirty-six companies and a consortium consolidated on a line-by-line basis.

The audit carried out by Reconta Ernst & Young S.p.A. has led to certify that the amounts included in the 2010 consolidated financial statements are consistent with the accounting records of the Parent Company and its Subsidiaries and consistent with the financial statements provided by said subsidiaries.

These financial statements, duly drafted by the Subsidiaries, were transmitted to the Parent Company in order to draw up the consolidated financial statements. They were examined by the external auditors during their audit for the consolidated financial statements or other competent body.

These financial statements were not subject to controls by the Board of Statutroy Auditors.

Reconta Ernst & Young S.p.A., the Independent Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of December 31, 2010 issued its report in which it asserts that Reply S.p.A.'s financial statement as of December 31, 2010 comply with the International Financial Reporting Standards adopted by the European Union as well with the art. 9 of the Legislative Decree no. 38 of 2005 and provide a fair and correct representation of the financial conditions, results of operations and cash flows at December 31, 2010. Furthermore the Report on Operations and the information in paragraph 2 letters c), d), f), l), m) and paragraph 2 letter b) of Article 123-bis of the Legislative Decree 58 of 1998 disclosed in the Corporate Governance are in compliance to the Financial Statements.

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

- the consolidation scope was determined correctly;
- the consolidation procedures adopted are in accordance with the disciplining laws and applied correctly;
- the Report on operations is consistent with the consolidated financial statements;
- all the information used for consolidation is referred to the entire accounting period of 2010;
- the accounting principles applied are the same used in the previous accounting year;

- change in consolidation compared to December 31, 2009 owes to the inclusion of the following companies:

- Tender Reply S.r.l.;
- Bridge Reply S.r.l.;
- Riverland Solutions GmbH;
- Lem Reply S.r.l.

March 28, 2011

STATUTORY AUDITORS

(Prof. Cristiano Antonelli)
(Mrs. Ada Alessandra Garzino Demo)
(Mr. Paolo Claretta Assandri)

Reconta Ernst & Young S.p.A.
Corso Vittorio Emanuele II, 83
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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

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, 2010, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Reply S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to the report issued by another auditor dated April 8, 2010.

3. In our opinion, the consolidated financial statements of the Reply Group at December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Reply Group for the year then ended.

4. The management of Reply S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and the Company's Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance, are consistent with the consolidated financial statements of the Reply Group as of December 31, 2010.

Turin, March 28, 2011

Reconta Ernst & Young S.p.A.

Signed by: Luigi Conti, Partner

Reply
Living network

FINANCIAL STATEMENTS AT DECEMBER 31, 2010

REPLY S.p.A.
INCOME STATEMENT (*)

(in Euros)	Note	2010	2009
Revenues	5	207,418,143	162,353,799
Other revenue	6	6,211,592	3,977,751
Purchases	7	(2,033,976)	(756,608)
Personnel expenses	8	(11,464,167)	(10,396,698)
Services and other costs	9	(199,923,938)	(159,233,591)
Amortization, depreciation and write-downs	10	(816,711)	(902,766)
Other unusual operating income/(expenses)	11	(505,189)	730
Operating income		**(1,114,246)**	**(4,957,383)**
Profit/(loss) on equity investment	12	16,297,943	15,075,146
Financial income/(expenses)	13	(421,933)	95,483
Result before tax		**14,761,764**	**10,213,246**
Income taxes	14	(718,349)	914,329
Net result		**14,043,415**	**11,127,575**
Earnings per share		*1.55*	*1.23*
Diluted earnings per share		*1.52*	*1.21*

REPLY S.p.A.
STATEMENT OF COMPREHENSIVE INCOME

(in Euros)	Note	2010	2009
Profit of the period (A)		**14,043,415**	**11,127,575**
Gain/(losses) on cash flow hedges	26	346,886	(918,103)
Actuarial gains/(losses) from employees benefit plans	26	31,913	23,881
Total other comprehensive net of tax (B)		**378,799**	**(894,222)**
Total comprehensive income (A)+(B)		**14,422,214**	**10,233,353**

(*) Pursuant to Consob Regulation no. 15519 of 27 July 2006, the effects of related-party transactions on the statement of income are reported in the Annexed tables herein and fully described in Note 34.

REPLY S.p.A.
STATEMENT OF FINANCIAL POSITION (*)

(in Euros)	Note	31/12/2010	31/12/2009
Tangible fixed assets	16	302,688	541,437
Goodwill	17	86,765	86,765
Other intangible assets	18	1,174,776	1,331,854
Equity investments	19	107,025,969	88,649,751
Other financial assets	20	3,157,059	1,535,573
Deferred tax assets	21	771,725	608,105
Non current assets		**112,518,982**	**92,753,485**
Trade receivables	22	118,780,312	116,098,489
Other receivables and current assets	23	31,011,598	14,414,491
Financial assets	24	36,182,079	37,699,565
Cash and cash equivalents	25	24,687,731	10,758,268
Current assets		**210,661,720**	**178,970,813**
TOTAL ASSETS		**323,180,702**	**271,724,298**
Share capital		4,795,886	4,795,886
Other reserves		85,216,130	77,601,610
Net result		14,043,415	11,127,575
TOTAL SHAREHOLDERS' EQUITY	**26**	**104,055,431**	**93,525,071**
Payables to minority shareholders	27	12,895,016	-
Financial liabilities	28	9,267,486	15,962,667
Employee benefits	29	490,741	562,424
Deferred tax liabilities	30	319,879	286,908
Non current liabilities		**22,973,122**	**16,811,999**
Financial liabilities	28	47,469,873	35,233,097
Trade payables	31	127,560,467	117,864,555
Other payables and current liabilities	32	20,621,809	8,289,576
Provisions	33	500,000	-
Current liabilities		**196,152,149**	**161,387,228**
TOTAL LIABILITIES		**219,125,271**	**178,199,227**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**323,180,702**	**271,724,298**

(*) Pursuant to Consob Regulation no. 15519 of 27 July 2006, the effects of related-party transactions on the Statement of financial position are reported in the Annexed tables herein and fully described in Note 34.

REPLY S.p.A.
STATEMENT OF CHANGES IN EQUITY

(in Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for cash flow hedges	Reserve for actuarial gains/(losses)	Total
Balance at January 1, 2009	**4,795,886**	**(3,691,300)**	**50,155,932**	**33,386,825**	**372,768**	**-**	**85,020,111**
Capital increase	-	-	-	-	-	-	**-**
Dividends distributed	-	-	-	(3,221,665)	-	-	**(3,221,665)**
Change in treasury shares	-	2,219,642	-	-	-	-	**2,219,642**
Total comprehensive income for the period	-	-	-	11,127,575	(918,103)	23,881	**10,233,353**
Other changes	-	-	(776,436)	50,066	-	-	**(726,370)**
Balance at December 31, 2009	**4,795,886**	**(1,471,658)**	**49,379,496**	**41,342,801**	**(545,335)**	**23,881**	**93,525,071**

(in Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for cash flow hedges	Reserve for actuarial gains/(losses)	Total
Balance at January 1, 2010	**4,795,886**	**(1,471,658)**	**49,379,496**	**41,342,801**	**(545,335)**	**23,881**	**93,525,071**
Capital increase	-	-	-	-	-	-	**-**
Dividends distributed	-	-	-	(3,169,838)	-	-	**(3,169,838)**
Change in treasury shares	-	(1,050,938)	-	-	-	-	**(1,050,938)**
Total comprehensive income for the period	-	-	-	14,043,415	346,886	31,913	**14,422,214**
Other changes	-	-	328,922		-	-	**328,922**
Balance at December 31, 2010	**4,795,886**	**(2,522,596)**	**49,708,418**	**52,216,378**	**(198,449)**	**55,794**	**104,055,431**

REPLY S.p.A.
STATEMENT OF CASH FLOWS

(in Euros)	2010	2009
Net result for the year	14,043,415	11,127,575
Income tax	718,349	(914,329)
Depreciation and amortization	816,711	902,766
Change in trade receivables	(2,681,823)	(37,176,311)
Change in trade payables	9,695,912	21,009,789
Change in other assets and liabilities	6,416,096	9,217,879
Income tax paid	(7,005,725)	(471,865)
Interest paid	(325,938)	(2,231,459)
Other non-monetary income and expenses, net	2,917,555	1,348,033
Net Cash flows from operating activities (A)	**24,594,552**	**2,812,078**
Payments for tangible and intangible assets	(420,884)	(327,451)
Payments for the investments in subsidiaries	(13,337,676)	(9,623,810)
Net cash flows from investment activities (B)	**(13,758,560)**	**(9,951,261)**
Dividends paid	(3,169,838)	(3,221,665)
Loans	4,500,000	4,911,390
Payment of installments	(11,276,752)	(11,276,752)
Payments for purchase of treasury shares	(1,050,938)	2,219,642
Other changes	(16,828)	(933,811)
Net Cash flows from financing activities (C)	**(11,014,356)**	**(8,301,196)**
Net cash flows (D) = (A+B+C)	**(178,364)**	**(15,440,379)**
Cash and equivalents at beginning of year	25,064,765	40,505,144
Cash and cash equivalents at year end	24,886,401	25,064,765
Total change in cash and cash equivalents (D)	**(178,364)**	**(15,440,379)**

Detail of net cash and cash equivalents

(in Euros)	2010	2009
Cash and cash equivalents at the beginning of the year:	**25,064,765**	**40,505,144**
Cash and cash equivalents	10,758,268	10,635,013
Transaction accounts - surplus	37,699,565	45,234,802
Transaction accounts - overdraft	(19,519,133)	(7,778,186)
Bank overdrafts	(3,873,935)	(7,586,485)
Cash and cash equivalents at the end of the year:	**24,886,401**	**25,064,765**
Cash and cash equivalents	24,687,731	10,758,268
Transaction accounts - surplus	36,182,079	37,699,565
Transaction accounts - overdraft	(12,191,362)	(19,519,133)
Bank overdrafts	(23,792,047)	(3,873,935)

NOTES TO THE FINANCIAL STATEMENTS

Other information

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 2009 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 and with the provisions implementing Article 9 of legislative Decree 38/2005.
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 financial statements. On the basis of national law implementing that Regulation, starting from January 1, 2006, Reply S.p.A is presenting its financial statements in accordance with IFRS.

General principles

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

The financial statements have been prepared on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Group’s assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist about its ability to continue as a going concern. 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 been drawn up under the general principles of continuity, accrual based accounting, coherent presentation, relevancy and aggregation, prohibition of compensation and comparability of information.

The fiscal year consists of a twelve (12) month period and closes December 31, each year.

Format of the financial statements

The financial statements include, statement of income, statement of comprehensive income, statement of financial position, 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 and 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 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.

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 recognized in income.

Goodwill

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognized 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 recognized all assets, liabilities and identifiable contingent liabilities attributable to both the Company and third parties at their fair value.

Goodwill is not amortized, 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 recognized immediately as expenses that cannot be recovered in the future.

Goodwill deriving from acquisitions made prior to the transition date to IFRS are maintained at amounts recognized under Italian GAAP at the time of application of such standards and are 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.

Other purchased and internally-generated intangible assets are recognized as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably.

Such assets are measured at purchase or manufacturing cost and amortized on a straight-line basis over their estimated useful lives, if these assets have finite useful lives.
Other intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if their fair value can be measured reliably.

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.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Development costs can be capitalized 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 recognized 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 amortized when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognized as construction in progress. Amortization 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 recognized to the statement of income in the period in which they are incurred.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are not systematically amortized when the asset is available for use over a period of their expected useful lives; the recoverable amount is tested in accordance to the criteria set out by IAS 36.

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 amortized, but are tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired.
Any impairment losses are not subject to subsequent reversals.

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.

An intangible asset with an indefinite useful life is tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.

The recoverable amount of an asset is the higher of fair value less disposal costs and its value in use. In assessing its value in use, the pre-tax 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.

In assessing its value in use, the pre-tax 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. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets (Cash generating unit). With reference to goodwill, management assesses return on investment with reference to the smallest Cash generating unit including goodwill.

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 recognized as an expense immediately.

Where the value of the Cash generating unit, inclusive of goodwill, is higher than the recoverable value, the difference is subject to impairment and attributable firstly to goodwill; any exceeding difference is attributed on a pro-quota basis to the assets of the Cash generating unit.

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 recognized for the asset. A reversal of an impairment loss is recognized 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 recognized 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 recognized directly in equity until the investment is sold or impaired; the total recognized in equity up to that date are recognized 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 recognized 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.

Current and non current financial assets

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

Investments are recognized 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 securities) are measured and amortized at cost according to the prevailing market interest rate method, less any impairment loss recognized 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 recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.
This item is stated in the 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

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 investments

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 amortized 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 amortization 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 such instruments is disciplined by written procedures in line with the Company risk strategies that do not contemplate derivative financial instruments for trading purposes.

Derivative financial instruments are used for hedging purposes, in order to reduce currency, interest rate and market price risks. In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and documentation of the hedging relationship, the hedge is expected to be highly effective, its effectiveness can be reliably measured and it is highly effective throughout the financial reporting periods for which the hedge is designated.

All derivative financial instruments are measured in accordance with IAS 39 at fair value.

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 recognized 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 recognized, associated gains or losses on the derivative that had previously been recognized 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 recognized 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 recognized at the income statement. Gains and losses arising from the measurement of the derivative are also recognized at the income statement.

Changes in the fair value of derivative financial instruments that do not qualify as hedge accounting are recognized 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 recognized in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognized 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

The scheme underlying the employee severance indemnity of the Italian Group companies (the TFR) was classified as a defined benefit plan until December 31, 2006. The legislation regarding this scheme and leading to this classification was amended by Law no. 296 of December 27, 2006 (the "2007 Finance Law") and subsequent decrees and regulations issued in the first part of 2007. In view of these changes, and with specific reference to those regarding companies with at least 50 employees, this scheme only continues to be classified as a defined benefit plan in the financial statements for those benefits accruing up to December 31, 2006 (and not yet settled by the balance sheet date), while after that date the scheme is classified as a defined contribution plan.

Employee termination indemnities was classified until December 31, 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.

Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognized 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 recognized 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 recognized 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 recognized when the Company has a present commitment arising from a past event and it is probable that it will be required to fulfill 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 recognized 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 to quality standards. These activities are also executed by incurring expenses by other group companies and such expenses are recognized in the income statement as “*Other service costs*”.

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 recognized.

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 recognized when the shareholders' rights to receive payment has been established.

Financial income and expenses

Financial income and expenses are recognized 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 recognized for all taxable temporary differences and tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 recognized 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 realized. 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 recognized 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 recognized immediately in income.

Changes in accounting estimates and reclassifications

As to clarify the comprehension of the financial statements, extraordinary gains and losses have been reclassified as *Other revenues* and as *Service costs* respectively from the item *Other non recurring revenues/(costs)*. The reclassification was also carried out in the financial statement of 2009 as to allow comparison.

No changes have occurred in the accounting principles.

Accounting principles, amendments and interpretations adopted from January 1, 2010

The Company has applied the following Standards, amendments and interpretations since January 1, 2010.

IFRS 3 (2008) – Business Combinations

In accordance with the transitional provision of the Standard the Group adopted IFRS 3 (revised in 2008) – *Business Combinations*, prospectively, to business combinations for which the acquisition date is on or after 1 January 2010. The main changes to IFRS 3 concern the accounting treatment of step acquisition, the possibility of measuring the non-controlling interests in a partial acquisition either at either fair value or the non-controlling interest's share of the fair value of the identifiable net assets of the acquiree, the recognition of acquisition-related costs as period expenses and the recognition at the acquisition date of any contingent consideration included in the arrangements.

Step acquisitions of a subsidiary
In the case of step acquisitions IFRS 3 (2008) states that a business combination occurs only in respect of the transaction that gives one entity control of another. At that time, the identifiable net assets of the acquiree are measured at fair value and any non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets (a method already permitted under the previous version of IFRS 3).
An equity interest previously held in the acquiree and accounted for under IAS 39 – *Financial Instruments: Recognition and Measurement,* or under IAS 28 – *Investments in Associates*, or under IAS 31 – *Interests in Joint Ventures* is treated as if it were disposed of and acquired at fair value at the acquisition date. Accordingly, it is remeasured to its acquisition date fair value and any resulting gain

or loss is recognized in profit or loss.
Moreover, any changes in the value of the equity interest that were previously recognized in Other comprehensive income are reclassified from equity to profit or loss as if they had been disposed of. Goodwill, or the gain from a bargain purchase, arising from the acquisition of control in a subsidiary is measured as the consideration transferred to obtain control, plus the amount of non controlling interest (using either option), plus the fair value of previously held non-controlling equity interest, less the fair value of the identifiable net assets of the acquiree.

Under the previous version of the standard controlling interests achieved in stages were dealt with as a series of separate transactions with goodwill recognized as the sum of the goodwill arising on these transactions.

Acquisition-related costs

Under IFRS 3 (2008) acquisition-related costs are recognised as an expense in the periods in which the costs are incurred. Under the previous version of the Standard, these costs were included in the acquisition cost of the net assets of the acquired entity.

Recognition of contingent consideration

Under IFRS 3 (2008) contingent consideration is recognized as part of the consideration transferred in exchange for the acquiree's net assets, measured at its acquisition date fair value. Similarly, where the purchase agreement includes a right to the return of previously-transferred consideration if specified conditions are met, that right to return is classified as an asset by the acquirer. Subsequent changes in this fair value are recognized as adjustments to the original accounting for the acquisition if they from additional information obtained by the acquirer and occur within 12 months of the acquisition date. All other changes in the fair value of the contingent consideration are recognized in profit or loss.
Under the previous version of the Standard contingent consideration was recognized at the acquisition date only if payment was probable and it could be measured reliably. Any subsequent adjustments to contingent consideration were recognized against goodwill.

IAS 27 (2008) – Consolidated and Separate Financial Statements

The revisions to IAS 27 principally affect the accounting for transactions and events that result in a change in the Company's interest in its subsidiaries and the attribution of a subsidiary's losses to non-controlling interests.
IAS 27 (2008) specifies that once control has been obtained, further transactions whereby the parent entity acquires additional equity interests from non-controlling interests, or disposes of equity interests without losing control are transactions with owners and therefore shall be accounted for as equity transactions. It follows that the carrying amounts of the controlling and non-controlling interests must be adjusted to reflect the changes in their relative interests in the subsidiary and any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent. There is no consequential adjustment to the carrying amount of goodwill and no gain or loss is recognized in profit or loss. Costs associated with these transactions are recognized in equity in accordance with IAS 32 paragraph 35.
In prior years, in the absence of a specific principle or interpretation, if the Reply Group purchased a non-controlling interest in a subsidiary that it already controlled it recognized any excess of the acquisition cost over the carrying value of the assets and liabilities acquired as goodwill (the "Parent entity extension method"). If it disposed of a non-controlling interest without losing control, however, the Company recognized any difference between the carrying amount of assets and liabilities of the subsidiary and the consideration received in profit or loss.

Amendments and interpretations effective from January 1, 2010 but not applicable to the Company

The following amendments, improvements and interpretations have also been issued and are effective from January 1, 2010: these relate to matters that were not applicable to the Company at the date of these financial statements but which may affect the accounting for future transactions or arrangements:

- Improvement 2008 to IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations.*
- Amendments to IAS 28 – Investments in Associates and to IAS 31 – Interests in Joint Ventures consequential to the amendment to IAS 27.
- Improvement to IAS/IFRS (2009).
- Amendments to IFRS 2 – Share based Payment: Group Cash-settled Share-based Payment Transactions.
- IFRIC 17 – Distributions of Non-cash Assets to Owners.
- IFRIC 18 – Transfers of Assets from Customers
- Amendment to IAS 39 – Financial Instruments: Recognition and Measurement: Eligible Hedged items

Accounting principles, amendments and interpretations not yet effective and not early adopted by the Company

On October 8, 2009, the IASB issued an amendment to IAS 32 – *Financial Instruments: presentation, classification of rights issues* in order to address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is applicable retrospectively from 1 January 2011; when applied this amendment is not expected to lead to significant effects on the Company's financial statements.

On November 4, 2009, the IASB issued a revised version of IAS 24 - *Related Party Disclosures* that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. The revised standard had not yet been endorsed by the European Union at the date of these financial statements.

On 12 November 2009, the IASB issued a new standard IFRS 9 – *Financial Instruments* on the classification and measurement of financial assets. The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The new disclosures, moreover, state that equity different from those of subsidiaries, controlled and associates must be evaluated at fair value and recognized in the income statement. If equity is not held for trading, change in fair value is recognized in comprehensive income.

On 28 October 2010 IASB issued new requirements for the classification and measurement of financial assets and financial liabilities. The most significant effect of the standard regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss. The new standard IFRS 9 has an effective date for mandatory adoption of 1 January 2013.

On November 26, 2009, the IASB issued a minor amendment to IFRIC 14 - *Prepayments of a Minimum Funding Requirement*. The amendment applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment has an effective date for mandatory adoption of 1 January 2011; the amendment had not yet been endorsed by the European Union at the date of these financial statements.

On November 26, 2009, the IFRIC issued the interpretation IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments* that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and are measured at their fair value. The difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the profit or loss for the period. The interpretation has an effective date for mandatory adoption of 1 January 2011; the interpretation had not yet been endorsed by the European Union at the date of these financial statements.

On May 6, 2010 the IASB issued a set of amendments to IFRSs ("Improvements to IFRSs") that are applicable from 1 January 2011; set out below are those that will lead to changes in the presentation, recognition or measurement of financial statement items, excluding those that only regard changes in terminology or editorial changes having a limited accounting effect and those that affect standards or interpretations that are not applicable to the Company.

- IFRS 3 (2008) -*Business combinations*: this amendment clarifies that the components of non-controlling interests that do not entitle their holders to a proportionate share of the entity's net assets must be measured at fair value or as required by the applicable accounting standards. For example, therefore, stock options granted to employees must be measured in accordance with the requirements of IFRS 2 in the case of a business combination, while the equity portion of a convertible debt instrument must be measure in accordance with IAS 32. In addition, the Board goes into further detail on the question of share-based payment plans that are replaced as part of a business combination by adding specific guidance to clarify the accounting treatment.

- IFRS 7 – *Financial instruments: disclosures:* this amendment emphasizes the interaction between the qualitative and quantitative disclosures required by the standard concerning the nature and extent of risks arising from financial instruments. This should assist users of financial statements to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial statements. In addition, the disclosure requirement concerning financial assets that are past due or impaired but whose terms have been renegotiated, and that relating to the fair value of collateral, have been eliminated.

- IAS 1 – *Presentation of financial statements*: the amendment requires the reconciliation in the changes of each component of equity to be presented in the notes or in the primary statements.

- IAS 34 – *Interim financial reporting:* by using a series of examples certain clarifications are provided concerning the additional disclosures that must be presented in interim financial reports.

On 7 October 2010, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures – Transfers of financial assets. The amendments will allow users of financial statements to improve their understanding of transfers of financial assets, including an understanding of the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of a transfer transaction is undertaken at the end of a reporting period. Entities are required to apply the amendments for annual periods beginning on or after 1 July 2011 (for the Company starting from 2012).

At present the Company is analyzing the principles and interpretations as to evaluate if the adoption will have a significant impact on the financial balance.

Accounting principles and interpretations issued by IASB/IFRIC and endorsed by the European Commission

On 19 July 2010 the European Commission with amendment no. 632/2010 issued a revised version of IAS 24- Related Party Disclosures in which (i) clarifies the definition of related parties setting new circumstances; (ii) simplifies the disclosure requirements for government-related entities. The amendment is applicable retrospectively from 1 January 2011.

On 23 July 2010 the European Commission with amendment no. 662/2010 issued a revised version of IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (from herein called IFRIC 19) that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and are measured at their fair value. The difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the profit or loss for the period. The interpretation has an effective date for mandatory adoption of 1 January 2011 (for Reply from the financial statements of 2011).

On 18 February the European Commission with the amendment no. 149/2011 issued the document Improvement to IFRSs which contains the modifications, mainly technical and editorial related to the international accounting principles and existing interpretations. The amendments will be effective from the financial period 2011.

NOTE 3 – Financial risk management

Reply S.p.A. operates at a world level and for this reason its activities are exposed to various types of risks: market risk (in exchange risk, interest rate risk on financial flow and on fair value, price risk) credit risk and liquidity risk.

To minimize risks Reply utilizes derivative financial instruments. At a central level it manages the hedging of principle operations. Reply S.p.A. does not detain derivate financial instruments for negotiating purposes.

Credit risk

For business purposes, specific policies are adopted in order to guarantee that clients honor payments.
With regards to financial counterparty risk, the Group 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 through the Group Treasury. The aim of this centralized system is to optimize 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).

The difficulties both in the markets in which the Group operates and in the financial markets require special attention to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing up to 2011, which promises to be a difficult year. The Company therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Currency risk and interest rate risk

As the company operates mainly in a "Euros area" the exposure to currency risks is limited.

The company's exposure to interest rate risk is mainly associated to the need to fund operational activities and to deploy liquidity. Changes in market interest rates may have the effect of either increasing or decreasing the Group's net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.

Information related to the fair value of the derivative financial instrument is disclosed in Note 28.

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

The Company has decided to enter into the National Fiscal Consolidation pursuant to articles 117/129 of the TUIR.
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 207,418,143 Euros and are detailed as follows:

(in Euros)	2010	2009	Change
Revenues from services	181,845,906	139,710,578	42,135,328
Royalties on "Reply" trademark	9,234,291	8,460,761	773,530
Intercompany services	11,814,736	10,075,958	1,738,778
Other intercompany revenues	4,523,210	4,106,502	416,708
Total	**207,418,143**	**162,353,799**	**45,064,344**

Reply has developed fronting activities concerning relations with primary clients also in capacity of sole manager of procedures compliant to ISO 9001 quality standards. Such activities were recorded in the item *Revenues from services* and in 2010 amounted to 42,135,328 Euros.

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

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 December 31, 2010 amounted to 6,211,592 Euros (3,977,751 Euros at December 31, 2009) and mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies. They include expenses for social events, telephone and training courses.

NOTE 7 - Purchases

Detail is as follows:

(in Euros)	2010	2009	Change
Software licenses	1,612,651	410,539	1,202,112
Other	421,325	346,069	75,256
Total	**2,033,976**	**756,608**	**1,277,368**

The item *Software licenses* refers to the costs incurred for software licenses for resale carried out for the Group companies.

The item *Other* mainly includes office equipment material (218 thousand Euros) and fuel (108 thousand Euros).

NOTE 8 - Personnel

Personnel costs amounted to 11,464,167 Euros, with an increase of 1,067,469 Euros and are detailed in the table below:

(in Euros)	2010	2009	Change
Payroll employees	8,338,581	8,846,913	(508,332)
Executive Directors	3,068,846	1,417,922	1,650,924
Project collaborators	56,740	131,863	(75,123)
Total	**11,464,167**	**10,396,698**	**1,067,469**

Personnel expenses include the fair value of the stock options for 10 thousand Euros.

Detail of personnel by category is provided below:

(number)	31/12/2010	31/12/2009	Change
Directors	34	29	5
Managers	9	9	-
Staff	48	60	(12)
Total	**91**	**98**	**(7)**

The average number of employees in 2010 was 93 (no. 105 in 2009).

NOTE 9 – Services and other costs

Service and other costs comprised the following:

(in Euros)	2010	2009	Change
Commercial and technical consulting	3,753,156	3,921,034	(167,878)
Professional services from group companies	181,660,081	141,571,877	40,088,204
Travelling and training expenses	1,070,291	1,247,351	(177,060)
Marketing expenses	1,245,319	1,012,897	232,422
Administrative and legal services	1,420,212	1,526,874	(106,662)
Statutory auditors and independent auditors	133,867	160,288	(26,421)
Lease and rentals	517,348	399,187	118,161
Office expenses	2,320,642	2,528,727	(208,085)
Services to be recharged to group companies	4,434,309	3,550,921	883,388
Other	3,368,713	3,314,435	54,278
Total	**199,923,938**	**159,233,591**	**40,690,347**

Change in *Services from Group companies* amounting to 40,088,204 Euros are co-related to revenues from services to third parties.

Reply S.p.A. carries out *fronting* activities in capacity of sole manager of procedures compliant to ISO 9001 quality standards whereas the delivery is carried out in the operational companies.

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

NOTE 10 – Amortization, depreciation and write-downs

In 2010 depreciation of tangible assets, amounting to 329,662 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 2010 amounted to 487,049 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 505,189 Euros refers mainly to costs accrued in relation to the investment in Plus Reply S.r.l. in liquidation.

NOTE 12 – Gain/(losses) on equity investments

Detail is as follows:

(in Euros)	2010	2009	Change
Dividends	18,762,943	17,146,146	1,616,797
Loss on equity investments	(2,465,000)	(2,071,000)	(394,000)
Total	**16,297,943**	**15,075,146**	**1,222,797**

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

Detail is as follows:

(in Euros)	31/12/2010
@Logistics Reply S.r.l.	700,000
Aktive Reply S.r.l.	800,000
Atlas Reply S.r.l.	1,500,000
Blue Reply S.r.l.	1,600,000
Business Reply S.r.l.	400,000
Cluster Reply S.r.l.	2,100,000
Hermes Reply S.r.l.	100,000
Santer Reply S.p.A.	600,000
syskoplan AG	562,943
Sytel Reply S.r.l	9,000,000
Technology Reply S.r.l.	1,400,000
Total	**18,762,943**

Loss on equity investments is related to write-downs and the year end losses of several subsidiary companies that were deemed as non recoverable and posted to the income statement.
For further details see Note 19 herein.

NOTE 13 –Financial income/(expenses)

Detail is as follows:

(in Euros)	2010	2009	Change
Interest income from subsidiaries	1,036,831	2,001,312	(964,481)
Interest income on bank accounts	59,278	154,454	(95,176)
Interest expenses	(1,490,398)	(2,055,073)	564,675
Other	(27,644)	(5,210)	(22,434)
Total	**(421,933)**	**95,483**	**(517,416)**

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

Interest expenses are mainly related to the interest expenses on the use of the credit facility with Intesa Sanpaolo.

NOTE 14 – Income taxes

(in Euros)	2010	2009	Change
IRES	412,000	(71,699)	483,699
IRAP	437,000	235,000	202,000
Current taxes	**849,000**	**163,301**	**685,699**
Deferred tax liabilities	32,970	32,891	79
Deferred tax assets	(163,621)	(1,110,521)	946,900
Deferred taxes	**(130,651)**	**(1,077,630)**	**946,979**
Total income taxes	**718,349**	**(914,329)**	**1,632,678**

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	**14,761,764**	
Theoretical tax rate	**27.5%**	**4,059,485**
Temporary differences, net	(13,263,582)	
Taxable income	**1,498,182**	
Total IRES		**412,000**

Temporary differences, net refer to:

- deductible differences amounting to 18,897 thousand Euros owing mainly to dividends collected in the financial year under review (17,825 thousand Euros);
- non deductible differences amounting to 5,633 thousand Euros and refers to depreciation of equity investments (2,465 thousand Euros) and directors' salaries (1,500 thousand Euros).

Calculation of taxable IRAP

(in Euros)	Amount	Tax
Difference between value and cost of production	(1,109,054)	
Temporary differences, net	11,255,555	
Taxable IRAP	**10,146,501**	**437,000**
Total IRAP		**437,000**

Net changes refer to:

- non deductible differences amounting to 14,217 thousand Euros mainly due to personnel expenses;
- deductible differences amounting to 1,318 thousand Euros mainly due to service costs and amortization;
- deductions amounting to 1,644 thousand Euros related mainly to tax rates.

NOTE 15 – Earnings per share

Basic earnings per share

Basic earnings per share at December 31, 2010 was calculated with reference to the profit for the period which amounted to 14,043,415 Euros (11,127,575 Euros at December 31, 2009) divided by the weighted average number of shares outstanding during the year which were 9,071,664 (9,041,267 at December 31, 2009).

(in Euros)	2010	2009
Net profit for the year	14,043,415	11,127,575
Weighted average number of shares	9,071,664	9,041,267
Basic earnings per share	1.55	1.23

Diluted earnings per share

Diluted earnings per share at December 31, 2010 was calculated with reference to the profit for the period which amounted to 14,043,415 575 Euros divided by the weighted average number of shares outstanding during the year taking in consideration the diluting effect which could derive from hypothetical exercising of financial instruments potentially convertible in shares (stock options).

(in Euros)	2010	2009
Net profit for the year	14,043,415	11,127,575
Weighted average number of shares	9,071,664	9,041,267
Diluting effect	168,400	168,400
Weighted number of diluted shares	9,240,064	9,209,667
Diluted earnings per share	1.52	1.21

NOTE 16 – Tangible assets

Tangible assets as at December 31, 2010 totaled to 302,688 Euros. Detail is as follows:

(in Euros)	31/12/2010	31/12/2009	Change
Plant and machinery	41,631	121,229	(79,598)
Hardware	45,682	89,785	(44,103)
Other	215,375	330,423	(115,048)
Total	**302,688**	**541,437**	**(238,749)**

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

Change in tangible assets during 2010 is summarized in the table below:

(in Euros)	Plant and machinery	Hardware	Other	Total
Historical cost	1,153,828	1,205,120	1,963,859	4,322,807
Accumulated depreciation	(1,032,599)	(1,115,335)	(1,633,436)	(3,781,370)
Balance at 31/12/2009	**121,229**	**89,785**	**330,423**	**541,437**
Historical cost				
Additions	10,821	37,062	184,565	232,448
Disposals	(3,900)	(17,276)	(173,374)	(194,550)
Other	-	-	-	-
Accumulated depreciation				
Depreciation	(89,819)	(78,842)	(161,001)	(329,662)
Utilization	3,300	14,953	34,762	53,015
Other	-	-	-	-
Historical cost	1,160,749	1,224,906	1,975,050	4,360,705
Accumulated depreciation	(1,119,118)	(1,179,224)	(1,759,675)	(4,058,017)
Balance at 31/12/2010	**41,631**	**45,682**	**215,375**	**302,688**

In 2010 the Company's additions totaled 232,448 Euros and mainly refer to computers and network equipment, generic equipment and furniture and fittings and plants for new office locations.

The item *Other* also includes the lease of video conference equipment amounting to 5 thousand Euros.

NOTE 17 - Goodwill

Goodwill at December 31, 2010 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 is deemed adequately supported in terms of expected financial results and related cash flows.

NOTE 18 – Other intangible assets

Intangible assets as at December 31, 2010 amounted to 1,174,776 Euros (1,331,854 Euros at December 31, 2009) Detail is as follows:

(in Euros)	Historical cost	Accumulated amortization	Net book value at 31/12/2010
Software	2,792,293	(2,149,231)	643,062
Trademarks	531,714	-	531,714
Total	**3,324,007**	**(2,149,231)**	**1,174,776**

Change in Intangible assets in 2010 was as follows:

(in Euros)	Net book value at 31/12/2009	Increases	Accumulated amortization	Net book value at 31/12/2010
Software	804,670	325,441	(487,049)	643,062
Trademarks	527,184	4,530	-	531,714
Total	**1,331,854**	**329,971**	**(487,049)**	**1,174,776**

The item *Software* is related mainly to software licenses purchased and used internally by the company. The increase of 281 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 amortization.

Increase refers to the trademark “Side up Reply” and the new software application for an efficient warehouse management.

NOTE 19 – Equity investments

The item *Equity investments* at December 31, 2010 amounted to 107,025,969 Euros, with an increase of 18,376,218 Euros compared to December 31, 2009.

(in Euros)	Balance at 31/12/2009	Acquisitions and subscriptions	Disposals	Write-downs	Other	Balance at 31/12/2010	Interest
@Logistics Reply S.r.l.	1,049,167	-	-	-	-	1,049,167	100.0%
4Cust Reply S.r.l. (*)	288,000	-	-	-	300,000	588,000	80.0%
Aktive Reply S.r.l.	512,696	-	-	-	-	512,696	100.0%
Atlas Reply S.r.l.	356,575	-	-	-	-	356,575	100.0%
Bitmama S.r.l.	2,897,019	-	120,000	-	-	3,017,019	51.0%
Blue Reply S.r.l.	527,892	-	-	-	-	527,892	100.0%
Bridge Reply S.r.l.	-	6,000	-	-	-	6,000	60.0%
Business Reply S.r.l.	268,602	-	-	-	-	268,602	100.0%
Cluster Reply S.r.l.	2,610,032	-	-	-	-	2,610,032	100.0%
Consorzio Whitehall Reply	8,000	14,000	-	-	-	22,000	80.0%
Discovery Reply S.r.l.	1,311,669	-	15,000	(15,000)	-	1,311,669	100.0%
e*finance Consulting Reply S.r.l.	3,076,385	-	-	-	-	3,076,385	100.0%
Ekip Reply S.r.l.	30,000	-	-	-	-	30,000	100.0%
EOS Reply S.r.l.	98,000	57,369	-	-	-	155,369	80.17%
Reply Ltd. (ex glue Reply Ltd.)	11,656,556	-	-	-	-	11,656,556	100.0%
Hermes Reply S.r.l.	199,500	-	-	-	-	199,500	100.0%
Hermes Reply Polska zo.o.	-	10,217	-	-	-	10,217	100.0%
IrisCube Reply S.p.A.	6,724,952	-	-	-	-	6,724,952	100.0%
Lem Reply S.r.l.	-	400,012	-	-	-	400,012	100.0%
Open Reply S.r.l. (*)	217,750	-	-	-	-	217,750	85.0%
Plus Reply S.r.l.	15,000	-	-	-	-	15,000	100.0%
Power Reply S.r.l. (*)	1,645,500	-	-	-	868,000	2,513,500	85.0%
Reply Consulting S.r.l.	5,168,434	-	-	-	-	5,168,434	100.0%
Reply do Brasil Sistemas de Informatica Ltda	-	17,542	-	-	-	17,542	80.0%
Reply GmbH	-	25,000	-	-	-	25,000	100.0%
Reply Services Ltd.	-	1,211	-	-	-	1,211	100.0%
Reply Services S.r.l.	10,000	-	-	-	-	10,000	100.0%
Riverland Solutions GmbH (*)	-	4,500,000	-	-	3,769,989	8,269,989	75.02%
Santer Reply S.p.A.	11,386,966	-	-	-	-	11,386,966	100.0%
Security Reply S.r.l.	392,866	-	1,150,000	(1,150,000)	-	392,866	100.0%
Square Reply S.r.l.	100,000	-	-	-	-	100,000	100.0%
Syskoplan A.G.	29,658,488	335,851	-	-	7,957,028	37,951,367	79.53%
Syskoplan Reply S.r.l.	949,571	-	-	-	-	949,571	100.0%
Sytel Reply S.r.l.	5,876,760	-	-	-	-	5,876,760	100.0%
Live Reply GmbH (ex Sytel Reply GmbH)	27,500	-	-	-	-	27,500	100.0%
Sytel Reply Roma S.r.l.	-	10,000	-	-	-	10,000	100.0%

Target Reply S.r.l.	794,000	-	-	-	(16,000)	778,000	100.0%
Technology Reply S.r.l.	216,658	-	-	-	-	216,658	100.0%
Tender Reply S.r.l (*).	8,000	-	100,000	(100,000)	-	8,000	80.0%
Twice Reply S.r.l.	407,000	-	-	-	-	407,000	94.0%
Whitehall Reply S.r.l.	160,211	-	1,200,000	(1,200,000)	-	160,211	100.0%
Total	**88,649,750**	**5,377,202**	**2,585,000**	**(2,465,000)**	**12,879,017**	**107,025,969**	

(*)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. The accounting of such options reflect management's best estimate at the closing date.

Acquisitions and subscriptions

Bridge Reply S.r.l.

In February 2010 Bridge Reply S.r.l. was constituted in which Reply S.p.A. holds 60% of the share capital. The company provides services related to the elaboration and administration of personnel data.

Consorzio Whitehall Reply

The increase refers to the annual subscription in the consortium.

Eos Reply S.r.l.

In March 2010 Reply undersigned the increase of share capital of the subsidiary company Eos Reply S.r.l and transferred the business branch carrying out administrative activities.

Hermes Reply Polska zo.o.

In August 2010 Hermes Reply Polska zo.o. was constituted in which Reply S.p.A. holds 100% of the share capital. The company carries out services specialized in production management systems in factories and data related to quality based in Poland.

Lem Reply S.r.l.

In the month of October Reply acquired the 100% share capital of LeM Consulting S.r.l., based in Genoa and it is specialized in the logistic and mobility sector for the realization and improvement of innovative project. Following the acquisition Lem Consulting has changed its company name to Lem Reply S.r.l.

Reply do Brasil Sistemas de Informatica Ltda

In December 2010 Reply do Brasil Sistemas de Informatica Ltda was constituted in which, Reply S.p.A. holds 80% of the share capital. The company carries out services specialized in the field of Supply Chain Execution and it is based in Belo Horizonte, Brazil.

Reply GmbH

In the month of December 2010 Reply GmbH was constituted in which Reply S.p.A. holds 100% of the share capital. It is based in Munich.

Reply Services Ltd

In the month of August 2010 Reply Services Ltd was constituted in which Reply S.p.A. holds 100% of the share capital and it is based in London.

Riverland Solutions GmbH

In the month of August 2010 Reply acquired the 75.016% share capital of Riverland Solutions GmbH, a German company which is based in Munich, specializing in consulting and systems integration on Oracle Applications.

syskoplan AG

This amount refers to acquisitions of the syskoplan AG shares made on the German stock market corresponding to 0.41% of the share capital of the company.

Sytel Reply Roma S.r.l.

In the month of October 2010 Sytel Reply Roma S.r.l. was constituted from the demerger of the business unit Sytel Roma from the company Sytel Reply S.r.l.

Financial loan Remission

The amounts are referred to the waiver of financial loan receivables from some subsidiaries in order to increase their equity position.

Write-downs

The amounts recorded reflect losses on some equity investments that are deemed not to be recoverable.

Other changes

4Cust Reply S.r.l.

In execution of the agreements signed upon constitution of the subsidiary company 4Cust Reply S.r.l., whereby a "put" agreement was put in place, in the first months of 2011 such "put" option will be exercised by the minority shareholders of the company (correspondingly the "call" option for Reply).
In accordance with IAS 32, at December 31, 2010 a liability to minority shareholders of 4Cust Reply S.p.A was booked in relation to the exercising of the aforementioned option against equity investments.

Power Reply S.r.l.

In execution of the agreements signed upon constitution of the subsidiary company Power Reply S.r.l., whereby a "put" agreement was put in place, in the first months of 2011 such "put" option will be exercised by the minority shareholders of the company (correspondingly the "call" option for Reply).
In accordance with IAS 32, at December 31, 2010 a liability to minority shareholders of Power Reply S.r.l. was booked in relation to the exercising of the aforementioned option against equity investments.

syskoplan AG

The amount reflects the accounting of Reply's obligation, under the Domination Agreement, to purchase the minority shares upon request of the minority shareholders.

Riverland Solutions GmbH

The amount reflects the best estimate of the variable compensation to be paid in three years for the acquisition of 75.016% of the share capital of the company.

Target Reply S.r.l.

The amount refers to the adjustment of the liability accounted for in accordance to IAS 32 in relation to the "put" option for the acquisition of Target Reply S.r.l.'s minority shares (16,000 Euros).

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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)	31/12/2010	31/12/2009	Change
Guarantee deposits	91,059	85,573	5,486
Financial receivables from subsidiaries	3,000,000	1,450,000	1,550,000
Loans to third parties	66,000	-	66,000
Total	**3,157,059**	**1,535,573**	**1,621,486**

Guarantee deposits are mainly related to deposits on lease contracts.

Financial receivables from subsidiaries is referred to loans granted to the following companies:

Company	Amount
Open Reply S.r.l.	250,000
4Cust Reply S.r.l.	300,000
Tender Reply S.r.l.	300,000
Reply Ltd (ex Glue Reply Ltd.)	950,000
Live Reply GmbH (ex Sytel Reply GmbH)	250,000
Reply Services Ltd.	500,000
Lem Reply S.r.l.	450,000
Total	**3,000,000**

NOTE 21 – Deferred tax assets

This item amounted to 771,725 Euros at December 31, 2010 (608,105 Euros at December 31, 2009), and included the fiscal charge corresponding to the temporary differences on statutory income and taxable income related to deferred deductibility items.

(in Euros)

Temporary deductible differences	Tax
Total deferred tax assets at 31/12/2009	608,105
- accrued	499,159
- utilization	(335,537)
Total deferred tax assets at 31/12/2010	**771,725**
Of which:	
- maintenance, licenses and other deductible costs	621,697
- directors fees and employee bonuses accrued but not paid at year end	145,315
- other	4,713
Total	**771,725**

The decision to recognize deferred tax assets is taken by assessing critically whether the conditions exist for the future recoverability of such assets on the basis of expected future results.

There are no deferred tax assets on losses carried forward.

NOTE 22 – Trade receivables

Trade receivables at December 31, 2010 amounted to 118,780,312 Euros and are all paid within 12 months.

Detail is as follows:

(in Euros)	31/12/2010	31/12/2009	Change
Third party trade receivables	96,595,318	83,130,612	13,464,706
Credit notes to be issued	(295,904)	(4,130)	(291,774)
Allowance for doubtful accounts	(373,356)	(140,522)	(232,834)
Third party trade receivables	**95,926,058**	**82,985,960**	**12,940,098**
Receivables from subsidiaries	22,448,068	32,628,863	(10,180,795)
Receivables from Parent Company	406,186	483,666	(77,480)
Trade receivables from subsidiaries and Parent Company	**22,854,254**	**33,112,529**	**(10,258,275)**
Total trade receivables	**118,780,312**	**116,098,489**	**2,681,823**

Reply carries out fronting activities with primary clients in capacity of sole manager of the ISO 9001 procedures. This activity is reflected in *Third Party Receivables* which had an increase of 12,940,098 Euros.

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

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

In 2010 a specific provision was made for doubtful accounts and amounted to 232,834 Euros.

The carrying amount of *Trade receivables* is in line with its fair value.

NOTE 23 – Other receivables and current assets

Detail is as follows:

(in Euros)	31/12/2010	31/12/2009	Change
Tax receivables	1,725,297	2,406,834	(681,537)
Other receivables from subsidiary companies	25,676,000	10,460,000	15,216,000
Other receivables	56,935	30,552	26,383
Accrued income and prepaid expenses	3,553,366	1,517,105	2,036,261
Total	**31,011,598**	**14,414,491**	**16,597,107**

Tax receivables mainly refer to advance payment on IRES (1,547,851 Euros advance payments on IRAP and VAT receivables and withholding tax receivables.

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 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.

The carrying value of *Other receivables and current assets* is deemed to be in line with its fair value.

NOTE 24 – Current financial assets

This item amounted to 36,182,079 Euros (Euros 37.699.565 Euros at December 31, 2009) and is related to the cash pooling accounts of the subsidiary companies involved in the centralized 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 24,687,731 Euros, with an increase of 13,929,463 Euros compared to December 31, 2009 and is referred to cash at banks and on hand at year-end.

The carrying value of *Cash and cash equivalents* is deemed to be in line with its fair value.

NOTE 26 – Shareholders' equity

Share capital

As at December 31, 2010 il the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,795,886 Euros and is made up of no 9,222,857 ordinary shares, par value 0.52 Euros per share.

Treasury shares

Treasury shares on hand amounting to 2.522.596 Euros is related to shares held by Reply S.p.A., that as at December 31, 2010 were equal in number to 178,526. During 2010 Reply S.p.A. acquired no. 123,674 ordinary share while 76,650 ordinary share were disposed.

The disposals refer to:

- no . 46.046 ordinary shares related to the transfer of shares for the acquisition of the minority shares in subsidiaries
- no. 30.604 ordinary shares were assigned to personnel as a form of remuneration for services provided.

The accounting effects of these operations were entirely recorded in equity.

Capital reserve

At December 31, 2010 capital reserve amounted to 49,708,418 Euros and is summarized as follows:

- *Share premium reserve* amounted to 20,165,019 Euros.
- *Reserve for treasury shares on hand* amounting to 2,522,596 Euros is related to shares held by Reply, which at December 31, 2010 amounted to no. 178,526.
- *Reserve for purchase of treasury shares*, amounting to 27,477,404 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. on 29 April 2009 which authorized, 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.

Earning reserves

Earning reserves amounted to 52,216,378 Euros and is as follows:

- Legal reserve amounting to 959,177 Euros (959,177 Euros at December 31, 2009);
- Extraordinary reserve amounting to 34,215,432 Euros (26,257,695 Euros at December 31, 2009);
- Retained earnings amounting to 2,894,354 Euros (2,894,354 Euros at December 31, 2009);
- Net result totaling 14,043,415 Euros (11,127,575 Euros at December 31, 2009).

Other comprehensive income

Other comprehensive income can be analyzed as follows:

(in Euros)	**31/12/2010**	**31/12/2009**
Gains/(losses) on cash flow hedges arising during the period	346,886	(918,103)
Reclassification adjustment for gains/(losses) on cash flow hedges included in income statement	-	-
Gains/(Losses) on cash flow hedges	**346,886**	**(918,103)**
Other comprehensive income generated during the period	31,913	23,881
Other comprehensive income reclassified during the period	-	-
Share of other comprehensive income	**31,913**	**23,881**
Income tax relating to components of Other comprehensive income	-	**-**
Total Other comprehensive income, net of tax	**378,799**	**(894,222)**

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 in 2010 amounted to 10 thousand Euros (50 thousand Euros in 2009).

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 employees and directors of the group companies.

As December 31, 2010 the number of stock options were no. 168,400 and can be summarized 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 2010 no stock options were exercised nor assigned in reference to the existing plans.

Under an accounting perspective stock option plans represent an *Equity settled share based payment transaction* pursuant to paragraph 10 of IFRS 2 that requires the assessment of the fair value of the services received with reference to the fair value of the instruments representative of equity at the assignment date.

The fair value of the services received must be recorded when the option vests with a corresponding increase in equity.

NOTE 27 – Payables to minority shareholders

Payables to minority shareholders at December 31, 2010 amounted to 12,895,016 Euros. This item is detailed as follows:

- Payables to minority shareholders of syskoplan AG for 7,957,027 Euros. This payable refers to Reply's obligation, in accordance to the Domination Agreement, to acquire shares upon the request of minority shareholders. The amount represents the fair value of the liability at the balance sheet date.
- Payables to minority shareholders of Riverland Solutions GmbH for 3,769,989 Euros which refers to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of 75.016% of the share capital.
- Payables to some minority shareholders of 4Cust Reply S.r.l. and Power Reply S.r.l. with reference to options held which will be exercised in the first months of 2011.

The amount represents the fair value at the date of the financial statement.

NOTE 28 – Financial liabilities

Detail is as follows:

	31/12/2010			31/12/2009		
(in Euros)	**Current**	**Non current**	**Total**	**Current**	**Non current**	**Total**
Bank overdrafts	23,792,047	-	23,792,047	3,873,937	-	3,873,937
Bank loans	11,475,116	9,267,486	20,742,602	11,822,002	15,952,516	27,774,518
Financial borrowings	11,348	-	11,348	18,025	10,151	28,176
Transaction accounts	12,191,362	-	12,191,362	19,519,133	-	19,519,133
Total due to banks	**47,469,873**	**9,267,486**	**56,737,359**	**35,233,097**	**15,962,667**	**51,195,764**

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

(in Euros)	31/12/2010			31/12/2009		
	Due in 12 months	From 1 to 5 years	**Total**	Due in 12 months	From 1 to 5 years	**Total**
Bank overdrafts	23,792,047	-	**23,792,047**	3,873,937	-	**3,873,937**
Bank loans	11,276,752	-	**11,276,752**	11,276,752	16,188,142	**27,464,894**
Stand-by credit line	-	9,411,390	**9,411,390**	-	-	**-**
Transaction accounts	12,191,362	-	**12,191,362**	19,519,133	-	**19,519,133**
Other financial borrowings	11,348	-	**11,348**	18,025	10,151	**28,176**
Fair Value IRS and other	198,364	(143,904)	**54,460**	545,250	(235,626)	**309,624**
Total	**47,469,873**	**9,267,486**	**56,737,359**	**35,233,097**	**15,962,667**	**51,195,764**

Bank loans includes the *Syndicated loan* referred to the partial utilization of the credit facility 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 finalized for M&A operations.

The maximum total amount of 61,330 thousand Euros has been divided in two tranches:

- Tranche A was used as an overdraft for a total of 12,000,000 Euros with the purpose of entirely reimbursing the previous loan. Installments are paid on a half year basis (Euribor 6 months + 0.75%)
- Tranche B used as an overdraft for a maximum of 49,330 thousand Euros with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalized at the acquisition of companies, strategic investments or shares. The residual amount totaling 32,887 thousand Euros and installments are paid a half year basis (Euribor 6 months + 0.75%) and expires on December 31, 2011.

Reply has pledged shares and/or quotas of the companies acquired in guarantee of all obligations connected to the loan.

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 December 31, 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.

Bank loans also include a stand- by financial loan, and is referred to a loan undersigned on 31 March 2009 by Reply S.p.A with Intesa SanPaolo, for a line of 50.000.000 Euros. The loan will be reimbursed on a half-year basis (Euribor 6 months + 2.5%) commencing 30 June 2012 and expires on December 31, 2014.

The aforementioned line of credit was utilized for 9,411 thousand Euros. This loan is subordinated to the parameters herein mentioned and at December 31, 2010 have been respected.

Other financial borrowings are related to financial leases determined according to IAS 17.

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

The carrying amount of *Financial liabilities* is deemed to be in line with its fair value.

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 December 31, 2010 was as follows:

(in Euros)	31/12/2010	31/12/2009	Change
Cash and cash equivalents	24,687,731	10,758,268	13,929,463
Transaction accounts	36,182,079	37,699,565	(1,517,486)
Current financial assets	**60,869,810**	**48,457,833**	**12,411,977**
Loans to third parties	66,000	-	66,000
Loans issued to subsidiaries	3,000,000	1,450,000	1,550,000
Total non current financial assets	**3,066,000**	**1,450,000**	**1,616,000**
Total financial assets	**63,935,810**	**49,907,833**	**14,027,977**
Due to banks	(35,278,511)	(15,713,964)	(19,564,547)
Transaction accounts	(12,191,362)	(19,519,133)	7,327,771
Total current financial liabilities	**(47,469,873)**	**(35,233,097)**	**(12,236,776)**
Due to banks	(9,267,486)	(15,962,667)	6,695,181
Total non current financial liabilities	**(9,267,486)**	**(15,962,667)**	**6,695,181**
Total financial liabilities	**(56,737,359)**	**(51,195,764)**	**(5,541,595)**
NET FINANCIAL LIABILITIES	**7,198,451**	**(1,287,931)**	**8,486,382**
Of which related parties	*26,990,717*	*19,630,432*	*7,360,285*

For further details with regards to the above table see Notes 20, 24 and 25 as well as Note 28.

NOTE 29 - Employee benefits

The Employee severance indemnity represents the obligation to employees under Italian law (amended by Law 296/06) that has accrued up to December 31, 2006 and that will be settled when the employee leaves the company. In certain circumstances, a portion of the accrued liability may be given to an employee during his working life as an advance. This is an unfunded defined benefit plan, under which the benefits are almost fully accrued, with the sole exception of future revaluations.

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 fulfill 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 summarized as follows:

Demographic assumptions

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfillment 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 2010: 2.50% - Frequency of turnover % 2010: 10%

Economic and financial assumptions

Annual discount rate	Constant average annual rate equal to 2.00%
Annual growth rate of the Employee severance indemnities	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 2010 was 4.6%
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

In accordance to IAS 19, Employment severance indemnities at December 31, 2010 is summarized in the table below:

(in Euros)	
Balance at 31/12/2009	**562,424**
Actuarial gains/losses	(31,913)
Interest cost	20,815
Indemnities paid during the year	(32,915)
Other changes	(27,670)
Balance at 31/12/2010	**490,741**

NOTE 30 – Deferred tax liabilities

Deferred tax liabilities at December 31, 2010 amounted to 319,879 Euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

(in Euros)	
Balance at 31/12/2009	**286,908**
- accruals	32,971
- utilized	-
Total at 31/12/2010	**319,879**
- On deductible items off the books	197,671
- Different goodwill measurements	112,475
- Other	9,733
Total al 31/12/2010	**319,879**

NOTE 31 - Trade payables

Trade payables at year end amounted to 127,560,467 Euros with an increase of di 9,695,912 Euros compared to December 31, 2009. Detail is as follows:

(in Euros)	31/12/2010	31/12/2009	Change
Due to suppliers	4,679,172	7,064,028	(2,384,856)
Due to subsidiary companies	110,063,247	88,056,567	22,006,680
Advance payments	12,818,048	22,743,960	(9,925,912)
Total	**127,560,467**	**117,864,555**	**9,695,912**

Due to suppliers mainly refers to services from domestic suppliers (4,574 thousand Euros).

Due to subsidiary companies recorded a change of 22,006,680 Euros and refers to professional services in connection to third party agreements with Reply S.p.A. Reply S.p.A. also carries out *fronting* activities with key clients in capacity of sole manager of the ISO 9001 procedures where the delivery is carried out by the operational subsidiaries.

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

The carrying amount of *Trade payables* is deemed to be in line with its fair value.

NOTE 32 - Other current liabilities

Details are provided below:

(in Euros)	31/12/2010	31/12/2009	Change
Current tax payables	7,785,774	3,800	7,781,974
Withholding tax and other	350,651	349,815	836
Total due to tax authorities	**8,136,425**	**353,615**	**7,782,810**
INPS	577,827	400,352	177,475
Other	165,963	174,204	(8,241)
Total due to social security authorities	**743,790**	**574,556**	**169,234**
Employee accruals	785,951	665,189	120,762
Due to subsidiary companies	5,515,267	3,142,612	2,372,655
Other payables	2,386,832	2,657,606	(270,774)
Accrued expenses and deferred income	3,053,544	895,998	2,157,546
Total other dues	**11,741,594**	**7,361,405**	**4,380,189**
Total trade payables and other liabilities	**20,621,809**	**8,289,576**	**12,332,233**

Due to tax authorities mainly refers to payables due for withholding tax on employees and free lancers' 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 liability on tax losses recorded by subsidiaries under national tax consolidation for 2009 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.

The carrying amount of *Other current liabilities* is deemed to be in line with its *fair value*.

NOTE 33 – Provisions

The item Provisions is related to an accrual amounting to 500,000 Euros recorded in 2010 and reflects the best estimate of the future cash flows in relation to the liquidation of a subsidiary company.

NOTE 34 - Transactions with Related parties

In relation to CONSOB communication no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of February 27, 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2010 financial statements related to such transactions are summarized below.

Transactions carried out by Reply S.p.A. with related parties 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.

Reply S.p.A. Main economic and financial transactions

(thousand Euros)	With subsidiary and associate companies	With related parties	With subsidiary and associate companies	With related parties	
Financial transactions	**31/12/2010**		**31/12/2009**		
Financial receivables	3,000	-	1,450	-	Financial loans yielding interest
Transaction accounts	23,991	-	18,180	-	Transaction accounts held by the Parent Company and introduced with the Group cash pooling system
Trade receivables and other	48,124	406	43,080	483	Royalties, administration services, marketing and quality management, management services and office rental
Trade payables and other	125,767	318	112,257	762	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Economic transactions	**2010**		**2009**		
Revenues from royalties	9,234	-	8,461	-	Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	16,769	139	13,184	214	Administration services, marketing and quality management and office rental
Revenues from management services	4,092	-	3,909	-	Strategic management services
Costs for professional services	183,552	17	142,392	24	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	-	1,115	-	1,217	Services related to office rental and office of the secretary
Interest income on loans, net	1,037	-	2,001	-	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 n. 58 of February 24, 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 35 – Additional disclosures to financial instruments and risk management policies

Types of financial risks and corresponding hedging activities

Reply S.p.A. has determined the guide lines in managing financial risks. In order to maximize costs and the resources Reply S.p.A. has centralized 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”, Reply S.p.A. 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 company.

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 company is theoretically exposed at December 31, 2010 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.

Refer to the note on trade receivables for a quantative analysis.

Liquidity risk

Reply S.p.A. 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 company'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, Reply S.p.A has adopted a series of policies and procedures whose purpose is to optimize the management of funds and to reduce the liquidity risk, as follows:

- centralizing 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 company 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 fulfill its obligations to repay its debts at their natural due date.

Currency risk

Reply S.p.A. has a limited exposure to exchange rate risk, therefore the company does not deem necessary hedging exchange rates.

Interest rate risk

Reply S.p.A. 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 company.

In order to manage these risks, the Reply S.p.A 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 company 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, unfavorable and instantaneous change of 50 basis points in short-term interest rates at December 31, 2010 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 13 thousand Euros (18 thousand Euros at December 31, 2009).

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.

To determine the effect of interest rate derivate financial instruments Reply refers to evaluation deriving from third parties (banks and financial institutes) who base their estimates on direct (interest rates) or indirect observation of the market: consequently the fair value used by the Group in accordance to the IFRS 7 for derivative hedge contracts is classified as a hierarchy of Level 2 (prices not available on active markets for the assets or liabilities being measured but can be directly or indirectly observed).

The market value of the Interest Rate Swaps represents the present value of the difference between fixed interest rates to pay and or to receive and the interests evaluated on the market having the same expiry date as the derivative contracts.

The Interest Rate Swap leads are can lead to the exchange of interest flows calculated on the nominal value of the derivative at a fixed or floating rate at the fixed expiry date agreed by the parties. The nominal value does not represent the amount exchanged by the parties and therefore does not constitute the credit risk exposure, that is limited to the difference between the interest that has to be exchanged at expiry.

NOTE 36 - 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 2010.

NOTE 37 - Transactions resulting from unusual and/or abnormal operations

Pursuant to the Consob communication no. 6064293 of July 28, 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 38 – Guarantees, commitments and contingent liabilities

Guarantees

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

Commitments

As described at the paragraph “Significant events” on April 14, 2010 he Board of Directors of Reply S.p.A. and the Management Board and Supervisory Board of Syskoplan AG resolved the finalization of a Domination Agreement between Syskoplan AG, dominated company and Reply S.p.A., dominating company, by which Reply S.p.A. can exercise the operational control of the company through the Management Board that will respond to Reply S.p.A.’s Board of Directors.

The agreement provides that Reply shall assume the following obligations upon registration of the agreement with the commercial register of Syskoplan AG foreseen by the end of August 2010:

(i) Reply is obliged to compensate syskoplan for each annual net loss that would otherwise arise during the term of the agreement, unless such loss is compensated for by withdrawing amounts from other profit reserves which have been allocated thereto during the agreement;

(ii) if and to the extent that the annual dividends actually paid by syskoplan per financial year falls short of the Guaranteed Dividend, Reply will pay to each Minority Shareholder of syskoplan the corresponding difference;

(iii) upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration (8,19 Euros), within the term of three months after the date on which the commercial register of syskoplan has been announced in accordance with Sec 10 of the German Commercial Code (HGB);

(iv) upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration, within the term of two months after the date on which the agreement has expired and notice has been given to the commercial register in accordance with Sec 10 of the German Commercial Code (HGB).

The aforesaid obligations could imply the following financial disbursements for Reply:
(i) annual dividend integration for a maximum amount of 441 thousand Euros (equal to a net dividend of 0.45 Euros at the current German legislation conditions);
(ii) obligation to acquire the Minority Shareholders’ shares for a maximum amount of 8.1 million Euros;

In addition to compensation for any annual net loss of the Minority Shareholders that would be summed to the loss related to Reply’s direct holding.

Such obligations, under an accounting stand point, implied a financial liability against non controlling interest measured at fair value.

The Agreement will be in effect for an indefinite term; it may be terminated in writing with a notice period of six months with the effect as of the end of a business year of syskoplan.

Contingent liabilities

As an international company, Reply is exposed to numerous legal risks, particularly in the area of product liability, environmental risks and tax matters. The outcome of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurers’ compensation payments and could affect the Company financial position and results.
Instead, when it is probable that an overflow of resources embodying economic benefits will be required to settle obligations and this amount can be reliably estimated, the Company recognizes specific provision for this purpose.

NOTE 39 – Emoluments to Directors, statutory Auditors and Key Management

In compliance to art. 78 of *Regolamento Consob* 11971 dated May 14, 1999 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:

(in Euros)

Name	Office held	Period of office	Term of office	Emoluments in Reply S.p.A.	Other compensation	Non-monetary benefits
Mario Rizzante	Chiarman	01/01/10 – 31/12/10	31/12/11	800,000 (1)	120,000 (2)	-
Sergio Ingegnatti	Chief Executive Officer	01/01/10 – 31/12/10 (**)	22/01/11	440,000 (3)	240,000 (4)	-
Tatiana Rizzante	Chief Executive Officer	01/01/10 – 31/12/10	31/12/11	370,000 (5)	460,000 (6)	-
Oscar Pepino	Executive director	01/01/10 – 31/12/10	31/12/11	440,000 (7)	200,000 (8)	-
Claudio Bombonato	Executive director	01/01/10 – 31/12/10	31/12/11	880,000 (9)	-	-
C. A. Carnevale Maffé	Independent director	01/01/10 – 31/12/10	31/12/11	20,000	-	-
Marco Mezzalama	Independent director	01/01/10 – 31/12/10	31/12/11	20,000	-	-
Fausto Forti	Independent director *Lead Independent Director*	01/01/10 – 31/12/10	31/12/11	20,000	4,000 (10)	-
Cristiano Antonelli	President of the Board of Statutory Auditors	01/01/10 – 31/12/10	31/12/11	41,730	-	-
Ada A. Garzino Demo	Statutory auditor	01/01/10 – 31/12/10	31/12/11	28,095	-	-
Paolo Claretta Assandri	Statutory auditor	01/01/10 – 31/12/10	31/12/11	28,095	-	-
Directors with Key responsibilities		01/01/10 – 31/12/10	-	-	2,650,775	61,000

(*) Board of Directors will hold office until the Shareholders' meeting that will approve the December 31, 2011 financial statements..
(**) Passed away on January 22, 2011.

Following a brief description of the emoluments of the individual operating Director:
(1) Gross emolument for the office of Chairman and Chief executive officer of the Board of Directors amounting to 400,000 Euros; the residual amount is referred to 2010 dividends in accordance to the Remuneration Committee indications.
(2) Gross salary as employee of a non listed subsidiary company.
(3) Gross emolument for the office of Chief executive officer of the Board of Directors amounting to 240,000 Euros; the residual amount is referred to 2010 dividends in accordance to the Remuneration Committee indications.
(4) Gross salary as employee of a non listed subsidiary company amounting to 40,000 Euros, the residual amount is referred to 2010 dividends in the non listed subsidiary company.
(5) Gross emolument for the office of Chief executive officer of the Board of Directors amounting to 150,000 Euros; the residual amount is referred to 2010 dividends in accordance to the Remuneration Committee indications.
(6) Gross salary as employee of a non listed subsidiary company amounting to 280,000 Euros, the residual amount is referred to 2010 dividends in the non listed subsidiary company.
(7) Gross emolument for the office of Executive Director to 240,000 Euros; the residual amount is referred to 2010 dividends in accordance to the Remuneration Committee indications.
(8) Emolument referred to 2010 dividends in a non listed subsidiary company.
(9) Gross emolument for the office of Executive Director to 400,000 Euros; the residual amount is referred to 2010 dividends in accordance to the Remuneration Committee indications.
(10) Attendance tokens in 2010 for the participation in the Compliance Committees meetings.

Stock Options granted to Members of the Board of Directors and Key Management

During the financial year under review no stock options have been assigned and/or exercised to Members of the Board of Directors and Key Management.

Detail is as follows:

		Options at 31/12/09			Options at 31/12/10
Name	**Office held**	**Number of options**	**Average exercise price (Euros)**	**Exercise period**	**Number of options**
Tatiana Rizzante	Chief Exec. Officer	15,000	21.339	12-05-09 to 12-05-14	15,000
Directors with Key responsibilities		75,000	21.339	12-05-09 to 12-05-14	75,000

NOTE 40 – Events subsequent to December 31, 2010

On February 4, 2011 Reply S.p.A. has finalized the acquisition of 51% of the shares and 90% of the voting rights of avantage, an English company specialized in risk, treasury and capital management, and, financial performance management

avantage, with offices in London, Amsterdam, Edinburgh, and Luxembourg, counts among its clients some of the world's most significant financial groups and It closed the last financial year (figures as of September 30th, 2010) with a turnover of £10.7 million and an EBT of £2.4 million, 24% of revenue.

The total value of the purchase price for 51% of the shares represents a Reply investment of GBP£6.9 million, which is broken down into two tranches with an initial payment of £4.8 million paid in cash on signing the Sale & Purchase Agreement and a further £2.1 million paid in three years' time.

Reply also has the option to exercise a right to purchase the remaining 49% of the capital at the end of 2013.

The acquisition of advantage confirms Reply's interest in developing in Europe and on the English market where it is present with Glue Reply since 2008 and where in the last year new start-ups have been developed in the fields of Telecommunication, Financial Services, Digital Communication and Supply Chain Execution.

avantage adds to Reply's product and service offering in the risk management and regulatory compliance segment; areas in which, thanks to synergies with other Group companies, Reply now boasts one of the leading practices in Europe.

ANNEXED TABLES

REPLY S.p.A.

Income statement pursuant to Consob Resolution no. 15519 of July 27, 2006

(in Euros)	2010	Of which related parties	%	2009	Of which related parties	%
Revenues	207,418,143	25,699,494	12.4%	162,353,799	22,646,383	13.9%
Other revenues	6,211,592	4,534,491	73.0%	3,977,751	3,120,836	78.5%
Purchases	(2,033,976)	(1,166,940)	57.4%	(756,608)	(143,556)	19.0%
Personnel expenses	(11,464,167)	-	-	(10,396,698)	-	-
Services and other costs	(199,923,938)	(183,517,168)	91.8%	(159,233,591)	(143,489,440)	90.1%
Amortization and write-offs	(816,711)	-	-	(902,766)	-	-
Other unusual operating income/(expenses)	(505,189)	-	-	730	-	-
Operating margin	**(1,114,246)**	**-**	**-**	**(4,957,383)**	**-**	
Income/(loss) on equity investment	16,297,943	-	-	15,075,146		-
Financial income/(expenses)	(421,933)	1,036,831	-245.7%	95,483	2,001,312	2096.0%
Result before tax	**14,761,764**	**-**	**-**	**10,213,246**	**-**	
Income taxes	(718,349)	-	-	914,329	-	-
Net result	**14,043,415**	**-**	**-**	**11,127,575**	**-**	**-**
Net result per share	*1.55*			*1.23*		
Net result per diluted share	*1.52*			*1.21*		

REPLY S.p.A.

Statement of financial position pursuant to Consob Resolution no. 15519 of July 27, 2006

(in Euros)	31/12/2010	Of which related parties	%	31/12/2009	Of which related parties	%
Tangible fixed assets	302,688	-	-	541,437	-	-
Goodwill	86,765	-	-	86,765	-	-
Other intangible assets	1,174,776	-	-	1,331,854	-	-
Equity investments	107,025,969	-	-	88,649,751	-	-
Financial assets	3,157,059	3,000,000	95.0%	1,535,573	1,450,000	94.4%
Deferred tax assets	771,725		-	608,105	-	-
Non current assets	**112,518,982**	**-**	**-**	**92,753,485**		
Trade receivables	118,780,312	22,854,254	19.2%	116,098,489	33,103,303	28.5%
Other receivables and current assets	31,011,598	25,676,000	82.8%	14,414,491	10,460,000	72.6%
Financial assets	36,182,079	36,182,079	100.0%	37,699,565	37,699,565	100.0%
Cash and cash equivalents	24,687,731	-	-	10,758,268	-	-
Current assets	**210,661,720**	**-**	**-**	**178,970,813**	**-**	**-**
TOTAL ASSETS	**323,180,702**	**-**	**-**	**271,724,298**	**-**	**-**
Share capital	4,795,886	-	-	4,795,886	-	-
Other reserves	85,216,130	-	-	77,601,610	-	-
Net result	14,043,415	-	-	11,127,575	-	-
PATRIMONIO NETTO	**104,055,431**	**-**	**-**	**93,525,071**	**-**	
Payables to minority shareholders	12,895,016	-	-	-	-	-
Financial liabilities	9,267,486	-	-	15,962,667	-	-
Employee benefits	490,741	-	-	562,424	-	-
Deferred tax liabilities	319,879	-	-	286,908	-	-
Non current liabilities	**22,973,122**	**-**	**-**	**16,811,999**	**-**	
Financial liabilities	47,469,873	12,191,362	25.7%	35,233,097	19,519,133	55.4%
Trade payables	127,560,467	123,199,445	96.6%	117,864,555	111,610,777	94.7%
Other payables and current liabilities	20,621,809	2,885,718	14.0%	8,289,576	1,408,225	17.0%
Provisions	500,000		-	-	-	-
Current liabilities	**196,152,149**	**-**	**-**	**161,387,228**	**-**	**-**
TOTAL LIABILITIES	**219,125,271**	**-**	**-**	**178,199,227**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**323,180,702**	**-**	**-**	**271,724,298**	**-**	**-**

REPLY S.p.A.

Equity investments in subsidiaries with additional information required by Consob.

(communication no. 6064293 of 28 July 2006)

Company	Registered office	Currency	Share capital	Shareholders' equity	Result 2010	% owned	Carrying value at 31/12/2010
@Logistics Reply S.r.l.	Turin	€	78,000	2,428,712	1,886,101	100.00%	1,049,167
4Cust Reply S.r.l.	Turin	€	10,000	511,115	313,587	80.00%	588,000
Aktive Reply S.r.l.	Turin	€	10,000	1,907,972	1,185,538	100.00%	512,696
Atlas Reply S.r.l.	Turin	€	10,000	1,927,828	1,235,203	100.00%	356,575
Bitmama S.r.l.	Turin	€	29,407	119,010	(30,842)	51.00%	3,017,019
Blue Reply S.r.l.	Turin	€	10,000	3,738,699	2,634,119	100.00%	527,892
Bridge Reply S.r.l.	Turin	€	10,000	83,183	73,182	60.00%	6,000
Business Reply S.r.l.	Turin	€	78,000	2,079,797	1,530,236	100.00%	268,602
Cluster Reply S.r.l.	Turin	€	139,116	6,102,798	5,035,624	100.00%	2,610,032
Consorzio Whitehall Reply	Turin	€	47,000	14,124	(23,090)	47.10%	22,000
Discovery Reply S.r.l.	Turin	€	10,000	11,453	(123,929)	100.00%	1,311,669
e*finance consulting Reply S.r.l.	Turin	€	34,000	1,444,346	687,131	100.00%	3,076,385
Ekip Reply S.r.l.	Turin	€	10,400	62,549	42,937	100.00%	30,000
Eos Reply S.r.l.	Turin	€	14,000	559,784	191,213	80.17%	155,369
Reply Ltd. (ex glue Reply Ltd.)	London	GBP	54,175	1,130,803	(563,802)	100.00%	11,656,556
Hermes Reply S.r.l.	Turin	€	10,000	1,408,638	694,733	100.00%	199,500
Hermes Reply Polska (*)	Katowice-Poland	ZLT	40,000	-	-	100.00%	10,217
IrisCube Reply S.p.A.	Turin	€	651,735	1,647,450	749,718	100.00%	6,724,952
Lem Reply S.r.l.	Turin	€	47,370	87,222	239	100.00%	400,012
Open Reply S.r.l.	Turin	€	10,000	259,054	238,130	85.00%	217,750
Plus Reply S.r.l.	Turin	€	10,000	(111,701)	(128,693)	100.00%	15,000
Power Reply S.r.l.	Turin	€	10,000	2,803,144	1,484,445	85.00%	2,513,500
Reply Consulting S.r.l.	Turin	€	10,000	1,072,963	(182,789)	100.00%	5,168,434
Reply do Brasil Sitemas de Informatica Ltda (*)	Belo Horizonte - Brazil	R$	50,000	-	-	80.00%	17,542
Reply GmbH (*)	Munich	€	25,000	-	-	100.00%	25,000
Reply Services Ltd.	London	GBP	1	-	-	100.00%	1,211
Reply Services S.r.l.	Turin	€	10,000	36,322	(40,953)	100.00%	10,000
Riverland Solutions GmbH	Munich	€	25,000	1,943,389	424,692	75.02%	8,269,989
Santer Reply S.p.A.	Milan	€	2,209,500	10,579,102	(552,173)	100.00%	11,386,966
Security Reply S.r.l.	Turin	€	50,000	94,358	(1,727,285)	100.00%	392,866
Square Reply S.r.l.	Turin	€	10,000	65,862	(207,458)	100.00%	100,000
Syskoplan AG and subsidiaries	Gutersloh	€	4,745,669	30,430,842	2,167,429	79.53%	37,951,367
Syskoplan Reply S.r.l.	Turin	€	32,942	467,731	403,370	100.00%	949,571
Live Reply GmbH (ex Sytel Reply GmbH)	Düsseldorf	€	25,000	252,704	495,333	100.00%	27,500
Sytel Reply S.r.l.	Turin	€	115,046	11,814,568	7,728,470	100.00%	5,876,760
Sytel Reply Roma S.r.l.	Turin	€	10,000	-	-	100.00%	10,000
Target Reply S.r.l.	Turin	€	10,000	1,667,245	884,217	100.00%	778,000
Technology Reply S.r.l.	Turin	€	79,743	4,187,210	3,390,517	100.00%	216,658
Tender	Turin	€	10,000	15,982	(94,017)	80.00%	8,000
Twice Reply S.r.l.	Turin	€	10,000	2,030,415	461,727	94.00%	407,000
Whitehall Reply S.r.l.	Turin	€	21,224	73,285	(1,156,698)	100.00%	160,211

(*) Fisrt fiscal year ending at December 31,2011.

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.

(in Euros)				Summary of the amounts used in the prior three fiscal years	
Nature/description	**Amount**	**Possibility of utilization**	**Available amount**	**For coverage of losses**	**Other**
Capital	**4,795,886**				
Capital reserves					
Reserve for treasury shares	2,522,596				
Share premium reserve	20,622,992	A, B, C	20,622,992		
Reserve for purchase of treasury shares	27,477,404	A, B, C	27,477,404		
Income reserves					
Legal reserve	959,177	B			
Extraordinary reserve	34,215,432	A, B, C	34,215,432		
Reserve for shares to be issued (art. 2349 C.C.)	104,000	A, B	104,000		
Retained earnings	570,731	A, B, C	570,731		
Total			**82,990,559**		
Non available amount			104,000		
Residual available amount			**82,886,559**		
Reserves from transition to IAS/IFRS					
FTA reserve	303,393				
Retained earnings	2,323,614				
Reserve for cash flow hedge	(198,449)				
Treasury share	(2,522,596)				
IAS reserve	(391,716)				
Accounting of expenses according to IAS 32	(770,448)				
	90,012,016				

Legend

A: for share capital increase

B: for coverage of losses

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 2010 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 2010
Audit	Reconta Ernst & Young S.p.A.	27
Audit related services	Deloitte & Touche S.p.A. (1)	5
Total		**32**

(1) Attestation of tax forms (tax return, IRAP and Form 770).

Attestation in respect of the Statutory Financial Statements under Article 154-bis of Legislative Decree 58/98

1. The undersigned, Mario Rizzante, in his capacity of Chairman and Chief Executive Officer and Giuseppe Veneziano, as director responsible for drawing up the Company's financial statements pursuant to the provisions of article 154-bis, paragraph 3 and 4 of legislative decree no. 58 of 24 February 1998, hereby attest:

- the adequacy with respect to the company structure and

- the effective application,

of the administration and accounting procedures applied in the preparation of in Reply S.p.A's 2010 financial statements:

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the statutory financial statements at December 31, 2010 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 moreover attest that:

3.1 the statutory financial statements at December 31, 2010

- have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002 as implemented in Italy by Article 9 of Legislative Decree no. 38 of 2005;
- correspond to the amounts shown in the accounts, books and records; and;
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of Reply S.p.A at December 31, 2010 and for the year then ended.

3.2 the report on operations includes a reliable operating and financial review of the Company as well as a description of the main risks and uncertainties to which they are exposed.

Turin, March 15, 2011

/s/ Mario Rizzante	/s/ Giuseppe Veneziano
(Chairman and Chief Executive Officer)	(Director responsible for drawing up the accounting documents)
Mario Rizzante	**Giuseppe Veneziano**

STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS PURSUANT TO ART. 153 OF ITALIAN LEGISLATIVE DECREE NO. 58/1998 AND ART. 2429, PARAGRAPH 2 OF THE ITALIAN CIVIL CODE IN RELATION TO THE SEPARATE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2010

To the Shareholders,
before performing our duties we would like to commemorate Mr. Sergio Ingegnatti and express our condolences for his premature death on January 22, 2011.

* * *

The members of the Board of Statutory Auditors have respected and timely notified the cumulative limits imposed by art. 144-terdecies of Regolamento Emittenti Consobno. 11971 with regards to other positions held as statutory auditors.
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 2010 and in accordance with the Independent Auditors, we have performed supervision activities pursuant to article 149 of Legislative Decree no. 58/1998 and in compliance with current CONSOB communications in relation to Regulations of issuers, we refer the following:

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

We have received adequate and detailed information from the Board of Directors' with regards to the Company's business and with reference to the major 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 we attest the following:

- In the month of June 2010 a contract denominated "Domination Agreement" was undersigned with syskoplan Ag, a German company listed on the German stock exchange of which Reply holds 79.53% share capital (at December 31, 2010).

  The agreement, that on August 2, 2010 was registered at the competent company register of syskoplan, provides that Reply, the controlling company, can influence the controlled company and its management, which otherwise is not possible under German legislation with the current ownership structure. The Agreement will be in effect for an indefinite term; it may be terminated in writing with a notice period of six months with the effect as of the end of a business year of syskoplan.

  The agreement provides that Reply shall assume the following obligations:

  - Reply is obliged to compensate syskoplan for each annual net loss that would otherwise arise during the term of the agreement, unless such loss is compensated for by withdrawing amounts from other profit reserves which have been allocated thereto during the agreement;
  - if and to the extent that the annual dividends actually paid by syskoplan per financial year falls short of the Guaranteed Dividend, Reply will pay to each Minority Shareholder of syskoplan the corresponding difference which is equivalent to 0.53 Euros per share;
  - upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration (8.19 Euros), within the term of three months after the date on which the commercial register of syskoplan has been announced in accordance with Sec 10 of the German Commercial Code (HGB);
  - upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration (8.19 Euros), within the term of two months after the date on which the commercial register of syskoplan has been announced in accordance with Sec 10 of the German Commercial Code (HGB);

- In August 2010 Reply S.p.A. acquired 75.016% of the share capital of Riverland Solutions GmbH, a German company specializing in consulting and systems integration on Oracle Applications (Oracle CRM, Master Data Management, Fusion Middleware, Business Intelligence and Fusion Applications). The acquisition of the share capital involved a fixed compensation of 4.5 million Euros, and a variable compensation estimated to be worth 3.8 million Euros to be paid in three years time.

- In October 2010 Reply acquired the 100% share capital of Lem Consulting S.r.l., a company specialized in the logistic and mobility sector.
  The acquisition of Lem consulting S.r.L amounted to an investment totaling 400 thousand Euros in which 200 thousand Euros was paid up entirely in cash and 10,698 Reply S.p.A ordinary shares were transferred.

- In February 2011 Reply S.p.A. finalized the acquisition of 51% of the shares and 90% of the voting rights of avantage, an English company specialized in risk, treasury and capital management, and, financial performance management.
  The acquisition represents an investment of £6.9 million of which £ 2.1 million to be paid in three years time.

We can reasonably attest that such activities have been executed in compliance with the Law and with the Company by-laws.

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 intercompany operations the following is noted:

- Reply S.p.A. has undersigned with syskoplan AG a contract denominated "Domination Agreement" previously illustrated and explained at point 1. For the calculation of the amounts agreed to the minority shareholders of syskoplan AG, Reply S.p.A. and syskoplan AG engaged an independent expert company, KPMG AG. In accordance to German legislation, the Domination Agreement and the expert results were subjected to review by an expert nominated by the regional court of Dortmund. Pursuant to criteria 9.C.1 of the Corporate Governance Code of listed companies and to which Reply adheres, the agreement was submitted to the Internal Control Committees' opinion and approved by Reply S.p.A.'s Board of Directors on April 14, 2010.
- REPLY S.p.A. has received professional services from group companies in relation to third party revenues;
- REPLY S.p.A. has provided guarantees in favor of some subsidiaries;
- REPLY S.p.A. has granted to its subsidiaries non-interest bearing loans for the carrying out of their activities:
  - 4Cust Reply S.r.l., Open Reply S.r.l. and Tender Reply S.r.l. – non-interest bearing loans
  - Sytel Reply GmbH, Glue Reply Ltd., Reply Services Ltd. and Lem Reply S.r.l. - interest bearing loans;
- 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.
- REPLY S.p.A. manages a cash pooling system and has 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 third parties are referred to general services and consulting services provided by Alika S.r.l. current Parent Company of REPLY S.p.A.
These operations are ongoing at present.

Furthermore, on November 11, 2010 Reply's Board of Directors, having obtained a positive opinion by the Internal Control Committee – to which the functions, outlined at paragraph 3 of art. 4 of *Regolamento Consob* no. 17221 of March 12, 2010, have been attributed – has approved and adopted the document titled "Procedures for transactions with related parties" pursuant to art. 4 of *Regolamento Consob* no. 17221 of March 12, 2010 and subsequent amendments.

With reference to the above mentioned transactions, the Board of Statutory Auditors deems that the procedures adopted by the company are in compliance to Regolamento Consob of March 12, 2010 and subsequent Consob communication DEM/10078683 of September 24, 2010 and effective as of January 1, 2011.

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

The Directors' Report on Operations related to the year ended 2010 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

Reconta Ernst & Young S.p.A., the Independent Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of December 31, issued its report in which it asserts that Reply S.p.A.'s financial statement as of December 31, 2010 comply with the International Financial Reporting Standards adopted by the European Union as well with the art. 9 of the Legislative Decree no. 38 of 2005 and provide a fair and correct representation of the financial conditions, results of operations and cash flows at December 31, 2010. Furthermore the Report on Operations and the information in paragraph 2 letters c), d), f), l), m) and paragraph 2 letter b) of Article 123-bis of the Legislative Decree 58 of 1998 disclosed in the Corperate Goverance Report and ownership structure are coherent to the Financial Statements.

5. Complaints pursuant to art. 2408 Italian Civil Code

During the period from April 14, 2010 and March 28, 2011 The Board of Statutory Auditors did not receive any complaints under art. 2408 of the Italian Civil Code.
It should be noted, however that as already reported in relation to the December 31, 2009 financial statements, by registered letter dated 2 April 2010 a shareholder based a complaint pursuant of non compliance to art. 84 paragraph 2 of the *Regolamento Emittenti Consob* no. 11971 with regards to the announcement of the Shareholders'' meeting called for April 29, 2010.
The company took the proper actions and provided the publication of an announcement in the *Gazzetta Ufficale della Repubblica Italiana* and the newspaper MF *Milano Finanza* in the section "Notices", that for a typing error was not published at the time of the announcement of the meeting.

6. Petitions

The Directors of the Company have informed us that they did not receive any petitions during the fiscal 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.:– the outgoing audit firm whose engagement expired with the audit of the 31 December 2009 financial statements:

- Assistance in filing of tax return of the Parent Company. Fee for execution of this service amounted to 5,000 Euros.
- Assistance in filing of tax return of the subsidiary companies. Fee for execution of this service amounted to 23,355 Euros.

In 2010 no additional engagements were conferred to Reconta Ernst & Young S.p.A- company which carried out the auditing of the 2010 financial statements.

8. Assignments to parties connected to 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 Reconta Ernst & Young S.p.A.

9. Existence of opinions issued during the year

During 2010, 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 2010 the Board of Directors met. 6 times, and the Statutory Auditors held 8 meetings.
The Internal Control committee met 4 times and the Remuneration Committee met 1 time.
The Board of Statutory Auditors participated in all the Board of Directors meetings and through its President in the Internal Control Committee 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, until January 22, 2010 covered 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 and Director in the English subsidiary company Glue Reply Ltd.

12. Significant matters arising from the meetings held with the auditors pursuant to art. 150, paragraph 3, Italian Legislative Decree 58/1998

During the meetings held with the Auditing firm's representatives, no significant matters worthy of mention arose.

13. Compliance with the conduct code set out by the Corporate Governance Committee of listed companies

Since 2000 the Company complies to the Corporate Governance set out by Borsa Italiana S.p.A.
On March 15, 2011 the Board of Directors approved the annual report concerning the Corporate Governance System currently adopted by the Company, covering information on the organizational 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 the following:

- Necessary measures to monitor compliance with the law and by-laws;
- Participation in Board meetings;
- Acquired information regarding the auditing controls carried out by the external auditors and reported periodically and independency risk factors;
- Acquired information during meetings held with members of the Statutory Board of the subsidiary companies in order to exchange information concerning the Group's activities and to coordinate the control and supervision activities;
- Gathered further information through meetings with the Chairman, Director in charge of drawing up the accounting documents, the Internal control committee and the Compliance Committee;
- Participation at Internal Control Committee meetings;
- Analysis of new Consob adoptions or communications.

The Board of Statutory Auditors has verified the existence of the organizational strcture for the proper running and respect of the company by-laws and 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”;
- We have verified the compatibility requisites, as set out by the law, concerning other services, aside from the statutory audit of the consolidated financial statements and those of the subsidiaries of the Independent audit firm;
- We have verified, for the members of the Statutory Board the existence of the same independency conditions as for the “independent directors”;
- We have not received any indications of violation of the Organizational, Management and Control Model in compliance to Legislative Decree 231/2001;
- We have verified that in relation to “Internal Dealing” obligations related to “Market abuse” and “Protection of savings” were carried out.

On the basis of the already mentioned principles and of the information gathered during our 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, having participated at Board of Directors meeting and having gathered information therein, 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 have periodically met with the Auditing firm.
This has allowed the Board of Statutory Auditors to fully control the organizational structure of the company allowing to express a positive opinion concerning the adequacy of the structure compared to its size.
The Board also attests to have supervised on the changes to the organizational structure following the death of Mr. Ingegnatti.

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.
The participation of the Head of Internal Controls and our participation in the Internal Control Committee’s meetings have enabled to coordinate our function of internal controls and auditing Committee, assumed under art. 19 of Legislative Decree 39/2010, with the activities carried out by the Internal Control Committee and more specifically, perform the supervision activities provided by art. 19 of Legislative Decree no. 39/2010.

We have received from Reconta Ernst & Young S.p.A. the communication issued in accordance to art. 17, paragraph 9 letter a) of Legislative Decree 39/2010, and the report pursuant to art. 19, paragraph 3 of Legislative Decree no. 39/2010 stating that during the legal audit no significant issues arose nor shortages in the internal control system in relation to the financial disclosure process.
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, to provide data for the requested periods, to identify, prevent and manage finance and operational risks and to prevent fraud against the company.
The Chief Executive Officer and the Director responsible for drawing up the financial statements have issued the attestation pursuant to art. 81-ter of *Regolamento Consob* no. 11971/1999 subsequently amended and integrated by art. 154-bis paragraph 5 of T.U.F (Law Decree 58/1998).

15. Proposals to make to the Annual General Shareholders' Meeting in accordance 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 December 31, 2010 were prepared according to the European regulation no.1606/2002 of July 19, 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. 14 del Legislative Decree. no.39 dated January 27, 2010, 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, recalling 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 May 14, 1999.

With reference to the point on the agenda concerning the amendments to articles 7,13,14,20,21,23 and 27 of the Company's by-laws, recalling what has been stated by the Directors, the Board attests that the resolution proposed is compliant to the provisions of the Civil Code, Legislative Decree 58/1998, as amended by Legislative Decree 27/2010 and to the contents of the Consob Regulation adopted with resolution no. 17221/2010.

Turin, March 28, 2011

STATUTORY AUDITORS
(Prof. Cristiano Antonelli)
(Mrs. Ada Alessandra Garzino Demo)
(Mr. Paolo Claretta Assandri)

Ernst & Young

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

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, 2010, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Reply S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to the report issued by another auditor dated April 8, 2010.

3. In our opinion, the financial statements of Reply S.p.A. at December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Reply S.p.A. for the year then ended.

4. The management of Reply S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and the Company's Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance, are consistent with the financial statements of Reply S.p.A. as of December 31, 2010.

Turin, March 28, 2011

Reconta Ernst & Young S.p.A.

Signed by: Luigi Conti, Partner

Living network

REPLY S.p.A.

REPORT ON CORPORATE GOVERNANCE 2010

Approved by the Board of Directors on March 15, 2011

www.reply.eu

Pursuant to art.123 bis D.Lgs no. 58/1998.

REPORT ON COPORATE GOVERNANCE AND SHAREHOLDINGS FOR YEAR ENDED 2010

CORPORATE GOVERNANCE SYSTEM

The *Corporate governance system* adopted by the company, that is, the set of laws and bylaws adopted in order to ensure the efficient and transparent functioning of the corporate bodies and of the control systems, adheres to the Corporate Governance Code issued by Borsa Italiana in March 2006.
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 the following bodies: The General Shareholders' Meeting, the Board of Directors (that carry out its function through executive directors and is advised by an Internal Control Committee and a Remuneration Committee), the Board of Statutory Auditors and Independent Auditors.
The General Shareholders' Meeting is the corporate body which expresses the requests of the shareholders through its resolutions. Resolutions passed in compliance with the law and the by-laws are binding on all shareholders independently whether they agree or disagree 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 is invested with the broadest powers of management of the company in order to perform all the actions held to be most appropriate in the pursuit of the company object, with the exception of those reserved to the Shareholders' meeting.

The Board of Statutory Auditors is responsible for the supervision of compliance with the law and by-laws and more specifically:

- Supervision of proper management by verifying:
  - The respect of good management principles;
  - The adequate structure of the company;
  - The implementation of the rules of corporate governance;
  - The adequacy of information disclosed by the subsidiaries in relation to mandatory information to the market and concerning privileged information.
  -
- Role of committee for internal control and audit responsible for overseeing:
  - The financial reporting process;
  - The effectiveness of the internal control, internal audit and risk management systems;
  - The audit of the annual separate and consolidated accounts;
  - The independence of the independent auditors.

The Board of Statutory auditors is not responsible for the legal audit which is a function preformed by an independent company appointed by the Shareholders' meeting.

The independent audit firm is responsible for checking that the company's accounts are properly kept and that managerial operations are correctly reflected in the accounting records. The auditors also verify that the separate and consolidated accounts correspond to the accounting records and to verifications performed and that they are in compliance with the applicable regulations. The Independent Auditors can also perform other services upon request of the Board of Directors, if not incompatible with the legal audit engagement.
Governance also includes the Internal Control System, the Organizational and management Model pursuant to Article 6 of Legislative decree 231/2001 and the structure of the powers and proxies, as presented herein.

The following Report includes the governance structure examined by the Board of Directors on 15 March 2011 and it accounts for the recommendations of the Code that the Board of Directors has decided not to adopt, providing related motivations.

The Report on Corporate Governance, that is an integral part of the Report on Operations, along with the company's by-laws, are available on the company's website (www.reply.eu – Investors – Corporate Governance).

OWNERSHIP STRUCTURE (EX ART. 123-BIS, PARAGRAPH 1, OF LEGISLATIVE DECREE 58/1998) AS AT 15 MARCH 2011

CAPITAL STRUCTURE

The share capital structure of Reply S.p.A. is summarized below.
The share capital fully paid and subscribed at 15 March 2011, amounts to 4,795,885.64 Euros, divided in 9,222,857 ordinary shares having nominal value of 0.52 Euros- no other form of shares exist.
The share capital can further be increased for a maximum of 87,568.00 Euros following the exercise of stock options, with underlying Reply ordinary shares undersigned at established prices and existing at December 31, 2010, and not yet exercised, as already specified in the Report on Operations at paragraph “Stock options” and summarized at the following table:

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

RESTRICTIONS ON THE TRANSFER OF SHARES

The by-laws do not foresee restrictions on the transfer of shares.

SIGNIFICANT SHAREHOLDINGS

According to the Shareholders' Ledger, to the notifications received in compliance to the laws and according to other available information as at 15 March 2011, the shareholders that directly or indirectly hold stakes greater than 2% of the share capital having the right to vote are the following:

Shareholder	Direct Shareholder	Ownership % over share capital	Ownership %over voting capital
Rizzante Mario	Alika S.r.l.	53.5214	53.5214
	Rizzante Mario	0.1095	0.1095
	Total	**53.6309**	**53.6309**
Kairos Partners Sgr S.p.A.	Kairos Partners Sgr S.p.A.	4.8321	4.8321
Anima Sgr S.p.A.	Anima Sgr S.p.A.	3.1123	3.1123
Highclere International Investors Limited	Highclere International Small Companies Fund	3.6089	3.6089
Lodigiani Riccardo	Lodigiani Riccardo	2.0991	2.0991

SHARES GRANTING SPECIAL RIGHTS

No shares have been issued that grant special rights of control.

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.

RESTRICTIONS ON VOTING RIGHTS

The company by-laws have not established restrictions on voting rights.

AGREEMENTS WITH SHAREHOLDERS

At present the Company has the following lock-up agreements in compliance to art. 122 of Legislative Decree no. 58/1998 in which shareholders have more than 2% of the share capital:

1. Agreement dated 9 November 2004, tacitly renewed for a further three year period and until 9 November 2010, and tacitly renewed for a further three-year period until 9 November 2013, by which the shareholders of Alika S.r.l., with headquarters in Torino Corso Francia n. 110, share capital of 90,600.00 Euros entirely called up, fiscal code and Torino company registration no. 07011510018, for a stake of 46,206.00 Euros equivalent to 51% of the share capital and more specifically:
   - Mr. Mario Rizzante holder of 5,706.00 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 with a six months written notice.

2. Agreement dated 21 May 2009, between Mr. Luigi Luoni, Mr. Fabrizio Alberton, Mr. Nicola Angelina, Mr. Nicola Canepa, Mr. Marco Cossutta and Mr. Carlo Gotta and the Company, holders of 163,011 (one hundred sixty three thousand eleven) Reply shares equivalent to approximately 1.77% of Reply's share capital by which they 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 under art. 123 of Leg. Dec. 24/02/1998 no. 58 and subsequent amendments as outlined below:

   Mr. Luigi Luoni:
   - after 24 months following 21 May 2009, the lock-up period shall expire in relation to 35,196 (thirty-five thousand one hundred and ninety-six) equivalent to approximately 0.38% (zero point three eight percent);
   - after 36 months following 21 May 2009, the lock-up period shall expire in relation to 35,196 (thirty-five thousand one hundred and ninety-six) equivalent to approximately 0.38% (zero point three eight percent);

   Messers: Fabrizio Alberton, Nicola Angelina, Nicola Canepa, Marco Cossutta, Carlo Gotta:
   - after 24 months following 21 May 2009, the lock-up period shall expire in relation to 9,262 (nine thousand two hundred and sixty two)) equivalent to approximately 0.10% (zero point one zero percent);

- after 36 months following 21 May 2009, the lock-up period shall expire in relation to 9,262 (nine thousand two hundred and sixty two) equivalent to approximately 0.10% (zero point one zero percent).

CHANGE OF CONTROL CLAUSE

With reference to agreements that could be cancelled in relation to a change of control in Reply S.p.A., the following is noted.

FINANCING CONTRACTS

Reply S.p.A., on December 30, 2005 undersigned a Loan Agreement with a pool of banks, San Paolo Imi (now Intesa San Paolo S.p.A.) as pool leader for a total of 66,000,000 Euros.
Reply S.p.A., on 31 March 2009 undersigned a Loan Agreement with Intesa San Paolo S.p.A. for a total of 50,000,000 Euros.
These contracts, having the scope of financing the Group for acquisitions on the Italian or European market, allow the funding banks the faculty to call off the contract in case of a change of control directly or indirectly in 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 when compared to the whole of Group activities, are subject to confidentiality clauses.

PROXIES TO INCREASE THE SHARE CAPITAL AND AUTHORIZATION TO BUY TREASURY SHARES

The General Shareholders' meeting has given proxy to the Board of Directors to increase the share capital, pursuant to article 2443 of the civil code.

The information regarding the current proxies is detailed in the table below:

Shareholders' Resolution	*Proxy*	*Expiry date*	*Amount authorized*		*Proxy executed*	
			Euros	*Shares*	*Euros*	*Shares*
15/06/2006	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, payable in different forms and to be executed separately against payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	15/06/2011	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	-	-

On June 14, 2007 the Company approved a share based incentive plan in favor of directors, employees and managers of the Company and its subsidiaries that cover a strategic role in achieving the overall objectives of the group; the plan is to be executed through Stock Granting represented by treasury shares of the company or newly issued shares pursuant to article 2349 of the Italian Civil Code. The Shareholders' have attributed proxy to the Board of Directors to resolve, even more than once and for a five year period, a free capital increase, pursuant to article 2349 of the Italian Civil Code for a maximum amount of 104,000 Euros corresponding to 200,000 ordinary shares. At present, the share based incentive plan of Stock Granting has not been activated.

The Shareholder's, following resolution passed on 29 April 2010, have authorized 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 757,758 ordinary shares at 0.52 Euros, corresponding to 8.216% of the existing share capital within the maximum spending limit of 30,000,000 Euros;
duration: for a period of 18 months, that is from 29 April 2010 to 29 October 2011, in substitution of the previous authorization resolved by the shareholders' meeting of 29 April 2009;
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 MTA Market the day prior to the purchase applying a spread of 15%, and a disbursement of maximum 30,000,000 Euros;
authorization to sell: (i) on the market or in blocks, through a public bid, (ii) sale, transfer, or trade of shares for investment acquisitions or negotiations with strategic *partners* (iii) following agreements made with individual directors, employees and or collaborators of the Company or with directly or indirectly controlled companies, that do not meet the requirements of Stock granting pursuant to ex. Art. 114 bis of the TUF (iv) against payment in kind pursuant to the regulations of the Stock Granting plans.

At the reporting date the company held 178,526 treasury shares.

* * * * *

It is to be noted that:
- the information requested by art. 123-bis, first paragraph letter i) of TUF is disclosed in the Directors' report at the paragraph disclosing directors remuneration;
- the information requested by art. 123-bis, first paragraph letter l) of TUF is disclosed in the Directors' report at the paragraph disclosing information on the Board of directors.

MANAGEMENT AND COORDINATION ACTIVITIES

Reply S.p.A. is not subject to management and coordination activities pursuant to article 2497 and subsequent of the civil code.

The Parent company does not exercise control and coordination activities over Reply S.p.A. inasmuch as it qualifies as a holding, lacking an autonomous organizational structure and consequently does 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 diclosed 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.

COMPLIANCE (EX ART. 123-BIS, PARAGRAPH 2, LETTER A, TUF)

The Report herein reflects and illustrates the corporate governance structure that the Company has adopted in compliance to the requirements of the Code, available on Borsa Italiana's website www.borsaitaliana.it and to which the Company has adhered.

The Board of Directors is always inclined at evaluating any new views and orientations that the Corporate Governance Code could consider and eventually integrate and amend the Company's Corporate Governance only if, and compatible with the company's reality, and that such integration enables the Company to further strengthen its reliability with investors.

Reply S.p.A. and its key strategic subsidiaries, to the Board of Directors knowledge, are not subject to foreign laws that have an influence on the corporate governance structure of the Issuer.

BOARD OF DIRECTORS

NOMINATION 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 by-laws, and is available on the Company's website (www.reply.eu under Investors – Corporate Governance).

Article 16 of the Company's by-laws 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. The same article has been further amended by the Board of Directors resolution passed on October 26, 2010 following mandatory amendments to the regulation introduced by Legislative Decree no. 27/2010 (exercising of rights of the shareholders of listed companies).

Art. 16 of the Company by-laws, regulates that:

- The list of candidates running for director, shall be deposited at the company's registered office twenty-five days prior to the date of the first call for the Annual general Shareholders' meeting; at least twenty-one days prior to the Shareholders' meeting, the list together with the information and declarations required, shall be made available to the public;
- 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 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 candidate 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;
- In case the minimum number of Independent Directors have not been nominated according to the procedure mentioned above, the last candidate elected from each list which has been nominated by at least one Director and who has received the most votes will be substituted by the candidate immediately following until the minimum number of Independent Directors have been elected.
- The company by-laws regulate that Independent directors not only must meet the requirements established for Statutory Auditors in accordance to art. 148, paragraph 3, of Legislative decree dated 24 February 1998, no. 58, but must also meet requirements established by the Corporate governance code adopted by the Company.

MEMBERS

The Company's Board of Directors is made up of a variable number of members from a minimum of 3 to a maximum of 11. The number of members 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 seven (7) Directors of which four (4) executive:

- Mr. Mario Rizzante Chairman and Chief executive officer
- Mrs. Tatiana Rizzante Chief executive officer
- Mr. Oscar Pepino Executive Director
- Mr. Claudio Bombonato Executive Director

and three (3) non Executive and Independent Directors:

- Mr. 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 April 29, 2009 based on the list presented by the major shareholder, Alika S.r.l.
The above mentioned directors will hold office until approval of the year end December 31, 2011 financial statements.
The Directors operate and take decisions in an informed and unconditioned matter, pursuing the primary objective of creating value for the shareholders. 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 with the exception of urgent and confidential matters.
The Chairman furthermore, by means of the operational members of the company, makes sure that the Directors participate in initiatives aimed at increasing 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.
On January 22, 2011 Sergio Ingegnatti, Chief executive officer passed away; the Board of Directors on January 24, 2011 resolved the cooption of the office.

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*	*Board of Directors*								*Internal control committee*		*Remuneration committee*	
		In office	*L(**)*	*E*	*N.E*	*I.da codice*	*I. TUF*	*Partecip. %*	*Other offices*	*Attendance*	*%*	*Attendance*	*%*
Mario Rizzante	Chairman and Chief executive officer	From 29/04/09 to 31/12/11(*)	M	X	-	-	-	83.33%	1	-	-	-	-
Sergio Ingegnatti	Chief executive officer	From 29/04/09 to 22/01/11(*)(***)	M	X	-	-	-	83.33%	N/A	-	-	-	-
Tatiana Rizzante	Executive Director	From 29/04/09 to 31/12/11(*)	M	X	-	-	-	100.00%	1	-	-	-	-
Oscar Pepino	Chief executive officer	From 29/04/09 to 31/12/11(*)	M	X	-	-	-	100.00%	N/A	-	-	-	-
Claudio Bombonato	Executive Director	From 29/04/09 to 31/12/11(*)	M	X	-	-	-	100.00%	1	-	-	-	-
Fausto Forti	Lead Independent Director	From 29/04/09 to 31/12/11(*)	M		X	X	X	66.67%	1	X	100%	X	100%
Marco Mezzalama	Non-Executive independent Director	From 29/04/09 to 31/12/11(*)	M		X	X	X	100.00%	N/A	X	100%	X	100%
Carlo Alberto Carnevale Maffé	Non-Executive independent Director	From 29/04/09 to 31/12/11(*)	M		X	X	X	66.67%	1	X	100%	X	100%
Number of meeting held in 2010		Meetings of the BoD.: 6								Meetings of the Internal control committee: 4		Meetings of the Remuneration committee: 1	

(*) in office until the Shareholders' meeting for the approval of December 31, 2011 financial statements.
(**) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favorable votes equal to 56.718% of the share capital.
(***) passed away on January 22, 2011; office no longer held

Legend:
L: list
M/m: M/majority list m/minority list
E: Executive
N.E.: non executive
I: independent
I.TUF independent pursuant to art. 148 of TUF

Following is a brief description of personal and professional characteristics of the members of the Board of Directors of the Company.

Mario Rizzante (Chairman, Chief Executive Officer and founder of Reply S.p.A.)
Mr. Rizzante received a graduate in Science of Informatics at the University of Turin. In the 70's, within the Fiat Group, Mr. Rizzante worked on several projects for manufacturing automation. In 1981 Mr. Rizzante left Fiat and founded Mesarteam S.p.A., a System Integration company that in a few years became one of the leading Italian companies in the ICT sector. In 1990 Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais and Mr. Rizzante contributed as Chairman and strengthened relations with important international clients. In 1994 Mr. Rizzante joined Digital (now HP), as Southern Europe Territory Manager of System Integration and Consulting. In June 1996, together with other partners Mr. Rizzante decided to undertake a new entrepreneur endeavor: constructing a system integration and consulting company specialized in new internet technologies. Reply comes to life. Within only four years since its constitution, in December 2000, Mr. Rizzante leads Reply to the Stock market, listing it on the market in Milan.
In 2006 he became member of the syskoplan AG (Germany) Supervisory Board and holds the position of Chairman.

Tatiana Rizzante (Chief Executive Officer of Reply S.p.A.)
Tatiana Rizzante received a Bachelor degree in Informatics Engineering at the Polytechnics of Turin. Immediately after having graduated, in 1995 Mrs. Rizzante begins working in the field of experimental and research activities on the Internet in collaboration with the Polytechnics of Turin and Cselt. In 1996 within Technology Reply S.r.l., she participates actively in projects involving the realization of Intranet websites, network computing and information retrieving. She continues her career within the Reply Group covering the role of Technical Director in Sytel Reply S.r.l. with the task of developing a competence center related to Internet services for Telecommunication operators. In 2002 Mrs. Rizzante is appointed Senior Partner of Reply with the mission of pursuing the business line Technological Architectures and Portals, along with marketing, communication and partnership activities. In 2003 Mrs. Rizzante was appointed Director of the Board of Directors of Reply and carries out activities of Sales & Marketing in Italy for the entire Group. In 2006 Mrs. Rizzante is appointed Chief Executive Officer of Reply and in the same year becomes member of the Supervisory Board of Syskoplan Ag (Germany).

Oscar Pepino (Executive Director and founder of Reply S.p.A.)
Mr. Pepino received a graduate degree in Science of Informatics at the University of Turin in 1977, in 1981 he founded Mesarteam S.p.A., a System Integration company covering the role of in charge of the headquarters in Milan. After Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais in 1990, Mr. Pepino joins Digital (now HP), covering the role of informatics consultant. In June 1996 he participates in the foundation of Reply and covers the role of Chief Executive Officer with the task of Technical and Quality Director of the Reply Group. Mr. Pepino within the Reply Group is currently is in charge of the Operations Office which heads: the informatics system, quality, the operational quarters, PM Academy and Cmmi; supervision of the internal control system and tasks associated to this role in accordance to the Procedures for Operations with Related Parties.

Claudio Bombonato (Executive Director of Reply S.p.A.)
Mr. Claudio Bombonato graduated in Aeronautics Engineering from the Polytechnics of Turin. He holds Doctorate in Philosophy in Aerospace Engineering from the Turin University, and also Masters degree in Business Administration from *Università Commerciale Luigi Bocconi*.
After a 10 year professional experience in Fiat Aviation Division and IBM Italy, he started working at McKinsey (in 1981) where he was mainly involved in the banking sector and Ict. In 1986 he became Partner and leader in financial institutional practices and Ict in Italy. In 1990, he was appointed Director of the company by McKinsey and was a member of the European leadership group on Financial Institutions. Mr. Claudio Bombonato was the European Responsible of Commercial Banking practices for a number of years.
In 2006 he left Mckinsey and was appointed European Senior Advisor Morgan Stanley (Financial Institution sector in Italy). He has published many articles on strategic thematic, organization and technology both for the financial and public sectors. He was Member of the Board at Sl Holding and at present he is the Member of the Board at Fonspa.

Fausto Forti (Independent Director and Lead Independent Director of Reply S.p.A.)
Mr. Forti has a graduate degree in mathematics. From 1974 to 1983 he held several positions in Inveco S.p.A. (Fiat Group) among which: IS and in charge of Spare parts for the Brazilian affiliate; from 1983 to 1994 in Fiat S.p.A. held the position of Director of Logistics. From 1994 to 2004 joins the TNT Group – Logistics division – where he covers the role of Chief Executive Officer of the Italian Business Unit and South America. In 2005 he joins DHL Express Mediterranean (Italy, Greece, Cyprus, Malta and Israel), Deutsche Post Group World Net, and is appointed Chairman and Chief Executive Officer, position that he currently holds. From 2000 to 2006 he was Chairman of Assologistica (*Associazione Italiana delle Aziende di Logistica*). Since April 2010 he is Chairman of Confetra (*Confederazione italiana delle Associazioni di Trasporto e Logistica*).

Marco Mezzalama (Independent Director of Reply S.p.A.)
Mr. Mezzalama received a graduate degree in Science of Informatics at the Polytechnics of Turin in 1972 where he is currently Professor of System Elaborations. Since 2005 he holds office of Vice-Chancellor at the Polytechnics of Turin for the informatics systems. From 2001 to 2005 he was substitute of the Chancellor. From 1993 to 2001 Mr. Mezzalama held office as Vice Chancellor for informatics systems and member of the Turin Science Academy. As a representative of the Polytechnics he also covers other roles in research and/or ICT institutions.

Carlo Alberto Carnevale Maffè (Independent Director of Reply S.p.A.)
Mr. Maffè is a professor of Business Strategy at the Strategy Institute and the School of Business Administration at the Bocconi University and was the founder and coordinator of Master in Business Strategy (MISA). He is head of the Business Strategy course for Bachlor in International Economics and Management. At present he teaches the course Media MBA at Steinbeis University of Berlin and the Master in Intelligence at the University of Malta. He has also worked as professor at the Graduate School of Business of Columbia University and Stern School of Business of New York University.
He is a member of the Steering Committee “E-business Policies” of the European Commission. He is columnist for MF- Milano Finanza and he collaborates on a regular basis with newspapers and national and international television such as CNCB International/Class CNCB and IL Sole 24 Ore. Mr. Maffè is a member of Assodigitale scientific committee and the editorial review board of “Economia & Management”. He is independent director of listed companies in the Technology, Media and Telecommunications segments and strategic advisor for important international companies. He has published many articles, books and business cases and often has released interviews and comments on the most important international economic- financial newspapers.

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

The Board of Directors has verified, at the date of approval of the Report herein, the offices of Directors and Statutory auditors, held by the Directors in other listed companies, finance, bank, and insurance companies or big enterprises.
The following arose:

- Mr. Mario Rizzante, is Chairman of the Supervisory Board of Syskoplan AG., a German company held by Reply S.p.A. and listed on the Frankfurt stock Market;
- Mrs. Tatiana Rizzante is a member of the Supervisory Board of Syskoplan AG., a German company held by Reply S.p.A. and listed on the Frankfurt stock Market;
- Mr. Claudio Bombonato is Chairman of the Board of Directors’ of Fonspa S.p.A.
- Prof. Marco Mezzalama is member of the Board of Directors of CSI Piemonte of San Paolo, CSP Innovazione in Ict and Consorzio Topix,
- Prof. Carlo Alberto Carnevale Maffè is a member of the Board of Directors’ of Poligrafica San Faustino S.p.A.,
- Mr. Fausto Forti is Chairman and Chief executive officer of DHL Express Italy S.r.l..

Although recommended by the Code, the Board of Directors has 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 appointing the directors and secondly by the individual director when accepting the office.

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is the statutory managing body vested with the broadest powers for the ordinary and extraordinary management 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, in compliance to the Code:

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, as established by the Company by-laws, or when 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 2010 the Board of Directors met six (6) times and the average duration was approximately one hour.
The Board of Directors are scheduled to meet at least five (5) times in 2011.
The Board of Directors have held one (1) meeting at the present date of this 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 calendar of the annual meetings scheduled is drafted.
Prior to the meetings, the Directors and Statutory auditors are provided with the Agenda of the meeting.

CHAIRMAN OF THE BOARD OF DIRECTORS, CHIEF EXECUTIVE OFFICERS AND EXECUTIVE DIRECTORS

The Board of Directors currently holding office comprises one Chief Executive Officer, two Executive Directors and has empowered the Chairman with the broadest operational delegations, in light of the resolutions passed on April 29, 2009.
Mr. Mario Rizzante, Chairman of the Board of Directors, is empowered with 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*.
The Chairman, is responsible for the management of the Company and is also major shareholder, as illustrated here within.

Mrs. Tatiana Rizzante, Chief Executive Officer, has the following 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;
- undersign rent and lease contracts for no longer than a nine year period 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;
- 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 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;
- 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 labor contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labor 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.

The above powers were also carried out by Mr. Sergio Ingengatti in 2010.

Mr. Oscar Pepino, Executive Director, has the following main powers:

- sign rent and lease contracts for no longer than 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 has the power to:
- 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 labor contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labor 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 authorize 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 the limits defined above are exceeded.

Mr. Claudio Bombonato in capacity of Executive Director, has been assigned further powers related to activities under Network Finance & Security within the Reply Group.

The Chairman, the Chief Executive Officers and the Executive Director, during the Board of Director meetings, and at least on a quarterly basis, report to the Board of Directors and to the Board of Statutory Auditors with regards to the activities carried out during the fiscal year and provide adequate information on atypical, unusual or with related party transactions, that are not subject to the Board of Directors approval.
The Chairman, under the company's by-laws, 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 runs 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 to several key managers of the Group Companies that can act in name and on behalf and interest of the Company.

INDEPENDENT DIRECTORS

As previously stated, the three Directors member of the Board of Directors qualifying as being independent are:

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

The independent directors constitute as a whole the Remuneration Committee and the Internal control Committee.

The same Independent directors also qualify as, in capacity of members of the Internal Control Committee, members of the Related party transaction committee established by the related procedure.

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, verified, in the meeting held March 13, 2009, also being the first meeting following its renewal on April 29, 2009, and subsequently on March 15, 2010, with positive results, the independence 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, resolving not to apply the criteria stated in point e) in view of the Directors' authority, reputation and moral statute. This was limitedly verified with regards to Prof. Marco Mezzalama since the month of September 2009.

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 2010 it was not necessary for the independent Directors to convene in specific individual meetings as they periodically meet when the Internal Control Committee and Remuneration Committee meetings are convened representing as a whole such bodies.

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, Mr. Fuasto Forti.

PROCESSING OF CONFIDENTIAL INFORMATION

The Chief Executive Officer, Mr. Sergio Ingegnatti, until January 22, 2011 and *ad interim* the Chiarman and Chief Executive Officer, Mr. Mario Rizzante together with the Investor Relator Mr. Riccardo Lodigiani, 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 outsiders 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) and endorsed by the corresponding Consob regulation a law was passed concerning the obligation to notify the public about any transactions carried out by "key 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 abolished as of April 1, 2006 date in which the new Consob Regulation no.11971/99 was implemented.

In execution of the new regulation of April 1, 2006, a new Conduct Code was implemented aimed at disciplining the flow of information from "Key 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 comprises nine paragraphs that define 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.eu – Investors – Corporate Governance).

COMMITTEES WITHIN THE BOARD

The Board of Directors has 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.

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 once (1) during 2010 with the presence of all members and met once (1) in 2011.

In 2011 two (2) meetings have been planned, of which one already held.
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.

REMUNERATION OF DIRECTORS

Remuneration of Directors not invested with operational proxies, for each year in office, was resolved by the Shareholders' Meeting of 29 April 2009, 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, authorized by the Board of Statutory Auditors.

In compliance to article 7.C.1 of the Code of the March 2006 release, article 22 of the Company by-laws provides the possibility to attribute a variable fee 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, which is resolved by the Annual General Shareholders' Meeting approving the annual financial statements.
Such a possibility, that has already been adopted since allocation of the 2004 net result (with the exception of 2009), considering that this alternative does not exclude the distribution of dividends to the shareholders, will be once again applied in relation to December 31, 2010.

The following table summarizes remuneration of controlling bodies:

(in euros)

Name and Surname	Office held	Period of office	Term of office (*)	Emoluments in Reply S.p.A.	Other compensation	Non monetary benefits
Mario Rizzante	Chairman	01/01/10 – 31/12/10	31/12/11	800,000 (1)	120,000 (2)	-
Sergio Ingegnatti	Chief executive officer	01/01/10 – 31/12/10	22/01/11(**)	440,000 (3)	240,000 (4)	-
Tatiana Rizzante	Chief executive officer	01/01/10 – 31/12/10	31/12/11	370,000 (5)	460,000 (6)	-
Oscar Pepino	Executive Director	01/01/10 – 31/12/10	31/12/11	440,000 (7)	200,000 (8)	-
Claudio Bombonato	Executive Director	01/01/10 – 31/12/10	31/12/11	880,000 (9)	-	-
C. A. Carnevale Maffé	Non executive director and Independent director	01/01/10 – 31/12/10	31/12/11	20,000	-	-
Marco Mezzalama	Non executive director and Independent	01/01/10 – 31/12/10	31/12/11	20,000	-	-
Fausto Forti	Non executive director and Independent *Lead Independent Director*	01/01/10 – 31/12/10	31/12/11	20,000	4,000 (10)	-
Directors with Key responsibilities		01/01/10 – 31/12/10	-	-	2,650,775	61,000

(*) Board of Directors will hold office until the Shareholders' meeting that will approve the December 31, 2011 financial statements.
(**) Passed away on January 22, 2011.

Following a brief description of the emoluments of the individual operating Director:
(1) Gross emolument for the office of Chairman and Chief executive officer of the Board of Directors amounting to 400,000 Euros; the residual amount is referred to 2010 dividends in accordance to the Remuneration Committee indications.
(2) Gross salary as employee of a non listed subsidiary company.
(3) Gross emolument for the office of Chief executive officer of the Board of Directors amounting to 240,000 Euros; the residual amount is referred to 2010 dividends in accordance to the Remuneration Committee indications.
(4) Gross salary as employee of a non listed subsidiary company amounting to 40,000 Euros, the residual amount is referred to 2010 dividends in the non listed subsidiary company.
(5) Gross emolument for the office of Chief executive officer of the Board of Directors amounting to 150,000 Euros; the residual amount is referred to 2010 dividends in accordance to the Remuneration Committee indications.
(6) Gross salary as employee of a non listed subsidiary company amounting to 280,000 Euros, the residual amount is referred to 2010 dividends in the non listed subsidiary company.
(7) Gross emolument for the office of Executive Director to 240,000 Euros; the residual amount is referred to 2010 dividends in accordance to the Remuneration Committee indications.
(8) Emolument referred to 2010 dividends in a non listed subsidiary company.
(9) Gross emolument for the office of Executive Director to 400,000 Euros; the residual amount is referred to 2010 dividends in accordance to the Remuneration Committee indications.
(10) Attendance tokens in 2010 for the participation in the Compliance Committees meetings.

The table below summarizes shares held in Reply S.p.A. by Directors, and managers with strategic commitments in Reply S.p.A. as at December 31, 2010 pursuant to art. 79 of Consob Regulations resolution no. 11971 of May 14, 1999:

First name and surname	Office held in Reply S.p.A.	Number of shares held at 31/12/2009	Number of shares bought in 2010	Number of shares sold in 2010	Number of shares held at 31/12/2010	% of share capital
Mario Rizzante	Chairman	11,381	-	-	11,381	0.1234%
Tatiana Rizzante	Chief executive officer	15,734	-	-	15,734	0.1706%
Sergio Ingegnatti	Chief executive officer	10,100	-	-	10,100	0.1095%
Oscar Pepino	Executive Director	13,710	-	-	13,710	0.1487%
Claudio Bombonato	Executive Director -	27,500	-	-	27,500	0.2982%
Marco Mezzalama	Independent director	250	-	-	250	0.0027%
Directors with Key responsibilities		722,783	-	-	722,783	7.8369%

At present, there are 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 summarized in the table below:

Director	Shareholders' meeting resolution	Number of options assigned	Vesting period	Strike price
Rizzante Tatiana	10/06/2004 (2004 plan)	15,000	12/5/09-12/5/2014	21.339 Euros

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.

In 2010 no stock options were either assigned nor exercised by the Directors.

The Company and the Directors have made no agreement by which compensation shall be paid in case of resignation or wrongful dismissal or if employment ceases following a public bid to purchase the company.

INTERNAL CONTROL COMMITTEE

In accordance to art. 8.P.4 of the Corporate Governance, the Board of Directors established an Internal Control Committee composed by Mr. Carlo Alberto Carnevale Maffè and Mr. Marco Mezzalama, non-executive independent directors and by Mr. Fausto Forti, *Lead Independent Director*.
The Internal Control Committee:

- evaluates 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 balance sheet;
- upon request of the executive director, expresses 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;

- perform any additional duties that are assigned by the Board of Directors;
- report to the board, at least on a half yearly basis, on the occasion of the approval of the balance sheet and the half yearly 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 Statutory Auditors or another auditor designated by the Chairman, participates in the works for the Internal Control Committee 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 2010 the Internal control committee met four (4) times and once (1) in 2011 and examined the following:

- the separate financial statements and the consolidated financial statements of 2009-2010 and half-year report of 2010;
- updates concerning activities in relation to Law 262/2005 (*Legge sul Risparmio*) and other related internal improvement projects;
- updates concerning activities in relation to Legislative Decree 231/2001 and other related internal improvement projects;
- audit proposals and the adequacy of the audit Plan adopted by the newly appointed independent audit firm substituting Deloitte & Touche S.p.A.

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.

Furthermore, within the regulations of transactions with related parties, on August 5, 2010 the Board of Directors empowered the Internal Control Committee with the functions pursuant to art. 4 of Consob Regulation no. 17221/2010, the Committee expressed a favorable opinion in relation to the adoption and to the contents of the document adopted by the Board of Directors on November 11, 2010. The Internal Control Committee must also express its opinion in relation to transactions with related parties when required by the Procedures.

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, whether business or compliance and reporting the Company has adopted the following key instruments:

Instruments monitoring business 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's 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 for "Bid Authorization" was adopted by the Group and is applicable to the bids tendered by all the Group companies and for all Public Bids, providing that the issuing of a "Bid" is subject to approval at an adequate organizational level dependent on the value of the bid and, if the bid exceeds 5,000,000.00 Euros it must be approved by the Reply Approval Board (RAB; this procedure has been approved by the Internal Control Committee.

Instruments monitoring compliance objectives

• *Law 262/2005 in relation to accounting and financial disclosures* - Following the coming into force of law 262/2005 concerning the protection of savings, Reply S.p.A. has terminated the project related to the upgrading of procedures and has adopted other initiatives to monitor and improve them. The objective of the initial project was to revise the administrative and accounting procedures in relation 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 organizational structure dedicated to the management of data security (also in accordance 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 monitoring reporting objectives

• *Accounting disclosures* – the drafting of disclosures within the consolidated and separate financial statements, is regulated by the Group accounting Manual and by the administrative-accounting procedures recently upgraded/integrated within the Project related to Law no. 262/2005, previously illustrated.

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

• *Internal information* – Reply S.p.A. has an internal communication system, aimed at facilitating and promoting internal communication within the company and the Group, this is also achieved through a structured Committee system and through the management and coordination structure.

The Internal Control Committee has evaluated the adequacy of the internal controls adopted by the Reply Group and has expressed a positive opinion.

RISK MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Reply has put in place a system of risk management and internal control over financial reporting based on the COSO Report model, according to which the internal control system is defined as a set of rules, procedures and tools designed to provide, through an adequate identification process of the major risks related to disclosure of financial data, reasonable assurance of the achievement of corporate objectives.

In relation to the financial disclosure process, the objectives are the reliability, accuracy, completeness and timeliness of the information.

The objective of the internal accounting control system is to assure that the financial information disclosed provides a correct representation of management.

The approach adopted by Reply for the evaluation, monitoring and continuous updating of the System of Internal Control over financial reporting, is based on a 'top-down, risk-based' process consistent with the COSO Framework. This enables focus on areas of higher risk and/or materiality, that is, where there is risk of significant errors, including those attributable to fraud, in elements of the financial statements and related documents.

The key components of the process are:

1. identification and evaluation of the source and probability of significant errors in elements of financial reporting;
2. identification of the key controls aimed at covering the risks;
3. assessment of the adequacy of key controls in enabling ex ante or ex post identification of potential misstatements in elements of financial reporting;
4. verification of the operating effectiveness of controls.

Identification and evaluation of the risk of misstatements which could have material effects on financial reporting is carried out through a risk assessment process, under the supervision of the Director in charge of drawing up the financial statements along with the Chief Executive Officer, that identify the organizational entities, processes and the related accounts, in addition to specific activities which could potentially generate significant errors. Under the methodology adopted by Reply, risks and related controls are associated with the accounting and business processes upon which accounting information is based.

Significant risks identified through the assessment process require definition and evaluation of key controls that address those risks, thereby mitigating the possibility that financial reporting will contain any material misstatements.
According to international best practice, the controls which the Group has in place are of two principal types:

- controls that operate at Group or subsidiary level, such as: the delegation of authorities and responsibilities, separation of duties and assignment of privileges and rights for access to IT systems;

- controls that operate at process level, such as authorizations, reconciliations, verification of consistencies, etc. This category includes controls for operating processes and controls for closing processes. Such controls can be preventive (i.e., designed to prevent errors or fraud which could result in misstatements in financial reporting) or detective (i.e., designed to reveal errors or fraud which have already occurred). They may also be defined as manual or automatic, such as application-based controls relating to the technical characteristics and configuration of IT systems supporting business activities.

The assessment of the design and operating effectiveness of key controls has led to the elaboration of control matrixes (RCM - Risk Control Matrix) that identify, for each significant process, the potential impact of financial reporting:

- risks subsequent to not having reached the "financial statement assertion" control objectives, (existence, occurrence, completeness, rights and obligation, evaluation and accounting, presentation and disclosures) and other control objectives such as authorization, segregation of tasks, data security, documentation and traceability of operations, etc.
- the related *"best practice"* (i.e. *CoSO Framework*)
- the standard control activities (key controls) over these processes/procedures, and their principal characteristics (preventive/detective manual/automatic) and the related process owners;
- the assessment of the aforesaid controls in relation to the adequacy of mitigating the risks identified;
- suggestions to improve shortages identified in the assessment of control activities.

The control activities related to significant processes of financial reporting are fully detailed in Reply Group's Manual of administration and accounting procedures, recently updated/integrated within the Project of the updating of Law no. 262/2005, previously commented.
As Reply S.p.A.'s shares are listed and negotiated on the Italian stock market, it is mandatory for the Board of Directors to nominate a Director in charge of drawing up the financial statements and all other corporate documents, the Director is responsible for setting up adequate administrative and accounting procedures enabling to disclose financial information to the market, and to monitor upon the proper application of the procedures.

The Administration and accounting procedures manual defines the guidelines that must be applied within Reply and more specifically with reference to obligations under art. 154-bis of legislative decree 58/1998 governing company's financial statements and related attestation obligations.

More specifically the Administration and accounting procedures manual has:

- defined roles and responsibilities of the single Organizational Units involved in the general activities of drafting, communication and control of the financial information disclosed to the market;
- defined the operational means of managing the necessary activities to comply with the aforementioned legal obligations;
- introduced, in order to support the drafting of the legal attestation of the Director in charge and the Chief Executive Officer, the obligation, headed by the Compliance department, to internally assess, through the internal communication processes, the correct functioning of the Accounting Control System law 262/2005 related to the accounting processes/flows disciplined by such law, the completeness and reliability of the information and the adequateness and effective application of key controls summarized in the control matrixes.

The company processes, the administrative-accounting procedures and the related control matrixes, along with the list of persons in charge of the operational units enacting the control, are subject to periodic assessments and if the case are updated.

The administrative-accounting procedures and the related control matrixes are co-shared with the related process owners who ascertain the framework and carry out the control, with the process owners, Management, with the support of the Compliance department agree upon the implementation of any necessary corrective measures.

The Compliance department carries out periodic assessments with regards to the adequacy and effective application of key controls on the annual financial statements and half year financial statements through audit procedures performed on specific areas defined by the Director in charge.

The Chief executive officers and administration directors of the foreign companies undersign an attestation on a periodic basis confirming the adequacy of the accounting procedures in relation to any underlying risks and is sent to the Director in charge and the Chief Executive Officer of the Parent company.
The company process owners, as defined by Law 262/2005, issue an attestation letter addressed to the Director in charge of drawing up the financial statements, confirming the effective application of the administrative-accounting procedures within their functions.

The audit plan is aimed at identifying a number of processes to be tested in order to cover the major processes during the year. The audit is performed on several Group companies, selected according to quantative parameters, (material thresholds with respect to the consolidated financial statements) and qualitative ones.
In order to carry out the monitoring controls check lists are prepared according to the different processes being controlled which summarize the ways of testing the key controls included in the Procedures Manual and in the RCM, the sample to be tested and the outcome of the test.

Sample testing is the criteria used and the data and assessments included in the check lists are supported by the documentation gathered during the monitoring activities, that are an integral part of the same check lists.

The outcome of the tests performed and any suggestions made concerning the opportunity of implementing further controls where shortages were identified, are summarized by the Compliance Officer in a report and addressed to the Director in charge and to the Chief Executive Officer. The report is discussed and two flows are activated:

- the attestation process addressed externally based on the declarations made by the Director in charge in compliance to art. 154-bis of legislative decree 58/1998, in occasion of the drafting of the annual financial statements or the half-year financial report, as described above.
- the internal process of sharing with the related process owners the outcome of the control assessments, the compensation controls, corrective measures or improvement plan proposals.

The Compliance Officer, in capacity of person responsible of internal controls, periodically refers to the Internal Control Committee, the Board of Statutory Auditors and to the Compliance Committee with reference to the activities carried out within the assessment process of the internal control system.

EXECUTIVE OFFICER IN CHARGE OF SUPERVISING THE INTERNAL CONTROL SYSTEM

On 24 January 2011 the Board of Directors appointed Mr. Oscar Pepino in charge of supervising the internal control system substituting Mr. Sergio Ingegnatti, Chief Executive Officer who held this role in 2010; on 29 April 2009 Mrs. Celestina Massenzio was appointed head of internal controls.

Head of internal controls reports her activities to the members of the Board of Directors, top management, Internal Control Committee and to the Board of Statutory Auditors.

ORGANISATION, MANAGEMENT AND CONTROL MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001

The Board of Directors approved in November 2004, the “Ethic Code” representing 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 2007 the project to adopt a new organization, management and control model pursuant to Legislative Decree 231/2001 (the Model) was put in place, in 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 and updated with the resolution of 13 March 2009.

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 organizational procedures, formation and informational activities and disciplinary system finalized 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.
(v) IT crimes and illegal use of personal data;
(vi) Laundering crimes.

The Model was adopted during 2008 and updated in 2009 by all the Italian Group companies. The Organizational Model of Reply S.p.A is available on the company website (www.reply.eu – Investors – Corporate Governance).

The Model and the Code of Ethics have been distributed to all Group employees and collaborators through the company Intranet. The Code of Ethics is also supplied to newly hired employees of the Group.

The Board of Directors has nominated a Compliance Committee which has the duty to verify the correct functioning of the Model and to update it accordingly. The Compliance Committee refers to the Board of Directors and to the Internal Control Committee. The Compliance Committee comprises external members (Eng. Franco Gianolio) as Chairman, Lead Independent Director (Mr. Fausto Forti) and a member employed in the company (Mrs. Celestina Massenzio) that will hold office until the approval of December 31, 2011 financial statements.

The Italian Group companies have entrusted the function of the Compliance Committee to their Directing body, which performs the functions of compliance through resources within the Compliance Committee of the Parent Company, on the basis of specific agreements.

In 2009 the Compliance Committee met four (4) times and referred to the Board of Directors and to the Statutory Auditors in relation to their activities and the state of the art concerning the Model.

INDEPENDENT AUDIT FIRM

The Shareholders' General Meeting on April 29, 2010 approved the appointment of Reconta Ernst & Young S.p.A. as the Company's independent auditors for the nine-year period 2010-2018.

DIRECTOR IN CHARGE OF DRAWING UP THE ACCOUNTING AND LEGAL DOCUMENTS

The Board of Directors on 29 April 2009, pursuant to 262/2005, has confirmed upon proposal of the Chief executive officer, 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 in view of qualified experience in the last three-year period. On 3 July 2009 a specific proxy was conferred in order to enable him to execute his powers.
Pursuant to article 24 of the Company by-laws, 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 undersign an attestation, annexed to every financial statement and to any other financial communication in accordance to specific laws and regulations.
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.

DIRECTOR'S INTERESTS AND TRANSACTIONS WITH RELATED 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.

Since June 15, 2006 the Company has adopted a Regulation on Significant Operations with related parties.

In accordance to Consob regulation 17221 of 12 March 2010, the Company has adopted, effective 1 January 2011, procedures for transaction with related parties (the "Procedures") to ensure full transparency and substantial and procedural fairness in transactions with related parties and is available on the Company website www.reply.eu – Investors – Corporate Governance).

Recalling the definition of Consob Regulation no. 17221 of 12 March 2010, the Procedures establish "significant transactions" those requiring the prior approval of the Board of Directors, with the exception of those subject to law and/or the General Shareholders, "minor transactions" (unless pertaining to the residual category of non significant transactions) those that can be delegated to one or more member of the Board and "exempt transactions" those falling under the types disciplined by Consob regulations.

The Company has exercised the option to apply the procedures related to minor transactions to significant transactions, as it is a smaller sized company.
Under a procedural perspective, when a transaction with a related party is deemed probable, the Designated Director (that is the Director in charge of supervising the internal control system) timely provides the Committee (identified within the Internal Control Committee) written communication with a brief description of the transaction.

If the transaction falls under the significant transaction category and the Designated Director has proposed the application of the specific procedures, the Committee must express a motivated and binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction. Should the Committee express an unfavorable opinion, the Board of Directors could choose to submit to the General Shareholders' Meeting the decision concerning the transaction, in this case, the transaction cannot be approved unless the majority of the non Related Shareholders express a favorable vote, provided that they represent at least 10% of the voting share capital.

If the transaction falls under the minor transaction category, the Committee submits to the director its non binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction prior to the presentation of the contractual proposal, or, in case the decision is taken by the Board of Directors of the Company, at least three days prior to the board's meeting.

If the transaction falls under the General Shareholders' competencies or must be authorized by the latter, in addition to what has been described above, depending on whether the transaction is significant or minor, the Committee must express a motivated opinion in relation to the Company's interest in carrying out the transaction along with the convenience and substantial correctness of the terms and conditions of the transaction when the Board of Directors is called to approve the motion to submit to the General Shareholders' Meeting the decision.

If, in relation to a significant operation the motion to submit to the General Shareholders' Meeting the decision is approved by the Board of Directors despite an unfavorable opinion expressed by the Committee, the transaction – having respected the constituent and voting quorum requested for the adoption of ordinary and extraordinary resolutions by the General Shareholders' Meeting – cannot be approved unless the majority of the non Related Shareholders express a favorable vote, provided that they represent at least 10% of the voting share capital.

The Designated Director, on at least a quarterly basis, submits to the Committee, to the Board of Directors and to the Board of Statutory Auditors, a detailed report concerning transactions previously approved by the Board of Directors and/or carried out by the Chief Executive Officer.

Head of internal controls periodically carries out – in any case at least on a half-year basis – control activities over the fulfillment of obligations of the Procedures herein by the competent company departments and refers to the Committee and Board of Statutory Auditors.

APPOINTMENT OF STATUTORY AUDITORS

The appointment and the substitution of statutory auditors is disciplined by Article 23 (Statutory Auditors) of the Company by-laws, and can be consulted on the company's internet website (www.reply.eu – Investors – Corporate Governance).
Article 23 of the Company by-laws 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 provides that the appointment of auditors shall come about following a transparent procedure. It shall ensure, inter alia, timely adequate information on the personal and professional characteristics of the candidates.
The same article has been amended by the Board of Directors' resolution on 26 October 2010 to encompass the mandatory amendments following the coming into force of Legislative Decree no.27/2010 (exercise of some rights pertaining to Shareholders of listed companies).

Article 23 of the bylaws regulates, among other, the following:

- the lists of the candidates for the office of Statutory Auditor must be deposited at the Company's offices at least twenty-five days prior to the date set for the Shareholders' Meeting on first call; at least twenty-one days prior to the date set for the Shareholders' Meeting, the lists, together with the requested information, must be made available to the public;
- 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; should at the expiry date stated above, only one list be presented, or only lists presented by shareholders that are inter-related in accordance to the regulations in force, lists can be presented up to five days following such date. In this case the above threshold is reduced by half.
- the voting mechanism foresees that the votes obtained from each list, with separate sections for Statutory Auditors and 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. The ratios will then be progressively assigned to the candidates on each list and ranked in descending order. The candidates with the highest ratio 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;
- if candidates obtain the same percentage of votes, the candidate will be selected from the list which has not elected a Statutory Auditor, whereas if all the lists have elected the same number of candidates, the Statutory Auditor will be chosen from the list which obtained the most votes. If the result in percentage and vote is the same the Shareholders vote once more and the candidate with the highest percentage will be appointed;
- the office of President of the Board of Statutory Auditors is held by the statutory auditor which was elected from the minority list that obtained the highest number of votes.
- in the event of a statutory auditor being replaced, the first alternate auditor belonging to the same list as the auditor will take his place. Where this is not possible, the alternate auditor will be replaced by the non elected candidate having the highest percentage of votes among the list that the leaving auditor has chosen.

STATUTORY AUDITORS

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

- Prof. Cristiano Antonelli	President
- Mrs. Ada Alessandra Garzino Demo	Statutory auditor
- Mr. Paolo Claretta – Assandri	Statutory auditor
- Mr. Alessandro Mikla	Alternate auditor
- Mr. Alessandro Pedretti	Alternate auditor

The Board of statutory auditors was appointed during the Shareholders' meeting on 29 April 2009 based on the list which was presented by the majority shareholders of Alika S.r.l., the office expires on December 31, 2011 with the approval of the financial statements.

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

Name	Office held	Period of office	List(*)	Independent from Code	% of attendance in meetings	Other offices held (1)
Cristiano Antonelli	President	From 29.04.09 To 31.12.11	M	X	100%	4
Ada Alessandra Garzino Demo	Statutory auditor	From 29.04.09 To 31.12.11	M	X	100%	16
Paolo Claretta-Assandri	Statutory auditor	From 29.04.09 To 31.12.11	M	X	100%	30
Alessandro Mikla	Alternate auditor	From 29.04.09 To 31.12.11	M	X	NA	NA
Alessandro Pedretti	Alternate auditor	From 29.04.09 To 31.12.11	M	X	NA	NA

Legend:
M/m: M/list majority list, m/list minority list
(1) A list of all positions held has been annexed, according to art 144-quinquies decies of RE, to the Statutory Auditors' report in compliance to art. 153 paragraph 1 of the TUF.

(*) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favorable votes equal to 56.178% of the share capital.

Following is a brief description of personal and professional characteristics of the members of the of the Statutory Auditors of the Company:

Cristiano Antonelli President of the Board of Statutory Auditors

Mr. Cristiano Antonelli is a professor of political economics, Director of the Economic Department Salvatore Cognetti de Martiis, and Director of the Bachelor degree in Institution and Business Communication at the University of Turin, director of BRICK (Bureau of Research in Innovation Complexity and Knowledge) at Carlo Alberto College. He is the editor of the 'Economics of Innovation and New Technology' magazine and along with Bo Carlsson edits the column 'Economics of Science Technology and Innovation' of Springer. He is member of the Board of *Fondazione CRT*, Pirelli&C and President of the Statutory Board of *Transalpina di Energia*. His education background includes a Master in Economics at ISTAO of Ancona. During 1978 and 1979 he was a junior economist of the Science and Technology department of the OCSE and Rockefeller Fellow in the Sloan School of Massachusetts Institute of Technology from 1983 to 1985. He has taught in the universities of Sassari, Calabria, the Polytechnic of Milan and in the universities of Manchester, Nice, Lione, Lumiere, Aix-en-Provence, Paris XIII and Paris XII. During the academic year 1999-2000 he taught in the university of Dauphine Paris IX.

In the past Mr. Antonelli was: member of the Board of Directors of Telecom Italia in the two-year period 1998-99; member of the Science Committee of Confindustria in 1999 and 2000; Technoscientific Committee of ENEA from 2000-2004 and was Vice-president of the International Schumpeter Society from 1999 to 2004.

Ada Alessandra Garzino Demo Statutory Auditor
Mrs. Ada Alessandra Garzino Demo graduated in Economics at the University of Turin in 1987. She is registered in the Registry of Qualified Accountants and Bookkeepers since 1991 and Registry of Auditors since 1995. She works as a Charted accountant and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals. Mrs. Ada Alessandra Garzino Demo is specialized in Telecommunication tax matters and fiscal planning. She covers the role of both statutory auditor and president in other companies.

Paolo Claretta Assandri Statutory Auditor
Mr. Paolo Claretta Assandri received a graduate degree in Economics and Commerce at the University of Turin in 1978, is registered in the Registry of Qualified Accountants and Bookkeepers since 1981 and Registry of Auditors since 1983. He works as a Charted accountant for *Studio Zunino Associazione Professionale* and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals

In 2010 the Statutory Auditors met eight (8) times.

The Board of Statutory auditors in 2010 received the following compensations:

(in Euros)

Name and Surname	Office held	Period of office	Term of office (*)	Emoluments in Reply S.p.A.	Other compensation	Non monetary benefits
MEMBERS IN OFFICE						
Cristiano Antonelli	President	01/01/10 – 31/12/10	31/12/11	41,730	-	-
Ada A. Garzino Demo	Auditor	01/01/10 – 31/12/10	31/12/11	28,095	-	-
Paolo Claretta Assandri	Auditor	01/01/10 – 31/12/10	31/12/11	28,095	-	-

(*) the Board of Statutory Auditors will hold office until the Shareholders' meeting approving the December 31, 2011 financial statements.

Legislative decree 39/2010 assigns the Board of Statutory Auditors the role of committee for internal control and audit responsible for supervising: (i) the financial disclosure process, (ii) the effectiveness of the internal control, internal audit and risk management systems, (iii) the audit of the annual separate and consolidated accounts, (iv) the independence of the independent auditors.

RELATIONS WITH SHAREHOLDERS

The Board of Directors ensures that a person in charge of relations with investors id identified and periodically assesses the need to constitute a structural function within the company.

Mr. Riccardo Lodigiani has been appointed, under resolution made 29 April 2009 the person in charge of relations with Institutional Investors and with Shareholders (*Investor relator*) in order to create an ongoing dialogue with the market.
The abovementioned person must exclusively and periodically inform the Chairman and the designated member of the board of his activities.

On the Company's website (www.reply.eu, Investors – Corporate Governance), the following documents are available:

- Company by-laws;
- Annual calendar of company events;
- Organizational 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;
- Procedures on Related party transactions.

Pursuant to *Regolamento di Borsa,* the company's calendar for 2011 and the Company events have been made available to the public within the established terms, and the following dates have been established:

- the Board of Directors meeting to approve the Annual Financial Statements;
- the Board of Directors meeting to approve the first quarter Interim Management Report of 2011 the Half-year report and the third quarter Interim Management Report 2011.

The shareholders meeting will be held on 28 April 2011 for the approval of the Annual Report 2010.

GENERAL SHAREHOLDERS' MEETINGS

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

On 26 October, 2010 the Board of Directors resolved the amendments to the Company's by-laws required by Legislative Decree no. 27 of 27 January 2010 enacting the Community Directive no. 2997/36/EC in relation to the Shareholders' rights in listed companies (Record date), providing for the application of the new regulations commencing from the first Shareholders' meeting convened after November 2010. The new regulations will be applied at the next Shareholders' meeting of 28 April.

Amended article 12 of the Company by-laws establishes that shareholders are entitled to intervene during the General Shareholders' Meeting if they are shareholders at the end of the seventh accounting day of open markets preceding the General Shareholders' Meeting and have provided written notice pursuant to art. 2370, paragraph two of the Italian Civil Code.

The Company can designate for each general meeting one or two persons to whom confer the voting rights with specific instructions for one or more proposals on the agenda. The designated persons, the means and terms of the conferred delegation are communicated on the notice calling the general meeting.

The company does not deem necessary the adoption of an Annual General Meeting legislation (aimed at regulating the running of the meetings), as the Company's by-laws provide adequate provisions concerning the matter.

OTHER CORPORATE GOVERNANCE PRACTICES

System of company's operational procedures – in order to properly apply the company's regulations and to reduce risks connected to the fulfillment of company objectives, Reply S.p.A. has adopted a set of procedures that regulate internal processes, ruling the activities carried out by the single functions and relations with other departments; please refer to what has been described at the paragraph Internal Control System.

CHANGES SUBSEQUENT TO THE YEAR END CLOSE

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

On 24 January 2011 the Board of Directors nominated Mr. Daniele Angelucci as Chief Executive Officer having the responsibilities of the Finance and Administration departments previously headed by the Chief Executive Officer, Mr. Sergio Ingegnatti.

Turin March 15, 2011

For the Board of Directors
The Chairman
Mario Rizzante

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