Reply

Living network

_Annual report 2005

_Annual report 2005

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

_Contents

_**Corporate** bodies

Board of Directors

Chairman
Mario Rizzante

Chief executive officers
Sergio Ingegnatti
Oscar Pepino

Directors
Tatiana Rizzante
Fausto Forti (1)
Marco Mezzalama (1) (2)
Carlo Alberto Carnevale Maffè (1) (2)

Statutory auditors

Statutory auditors
Piergiorgio Re - *Chairman*
Tommaso Vallenzasca
Ada Alessandra Garzino Demo

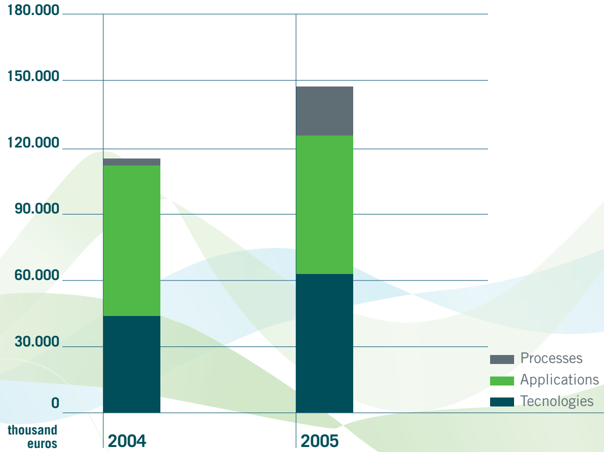
Alternate auditors
Alessandro Mikla
Paolo Claretta-Assandri

Independent auditors

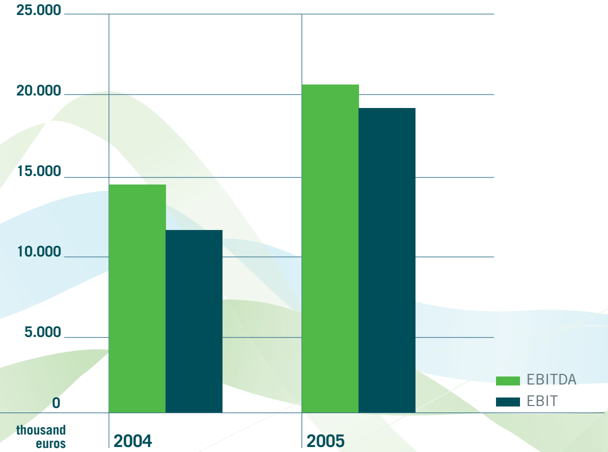
Deloitte & Touche S.p.A.

(1) Directors not invested with operational proxy;
(2) Independent directors, according to the Corporate Governance code for public companies.

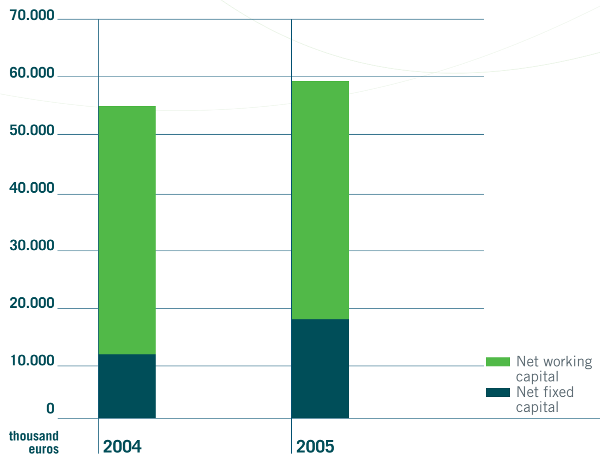
Revenues by business line



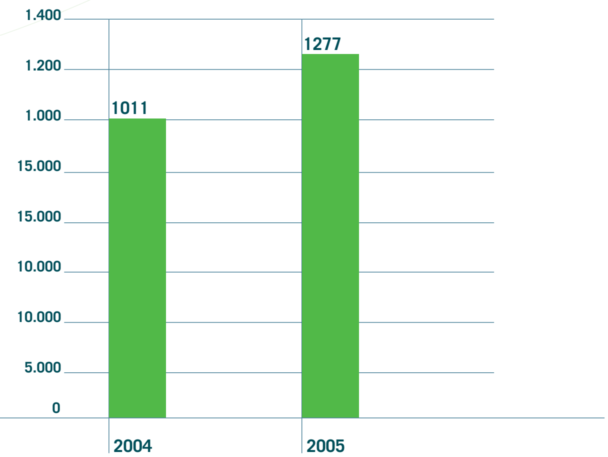
Trend in profitability



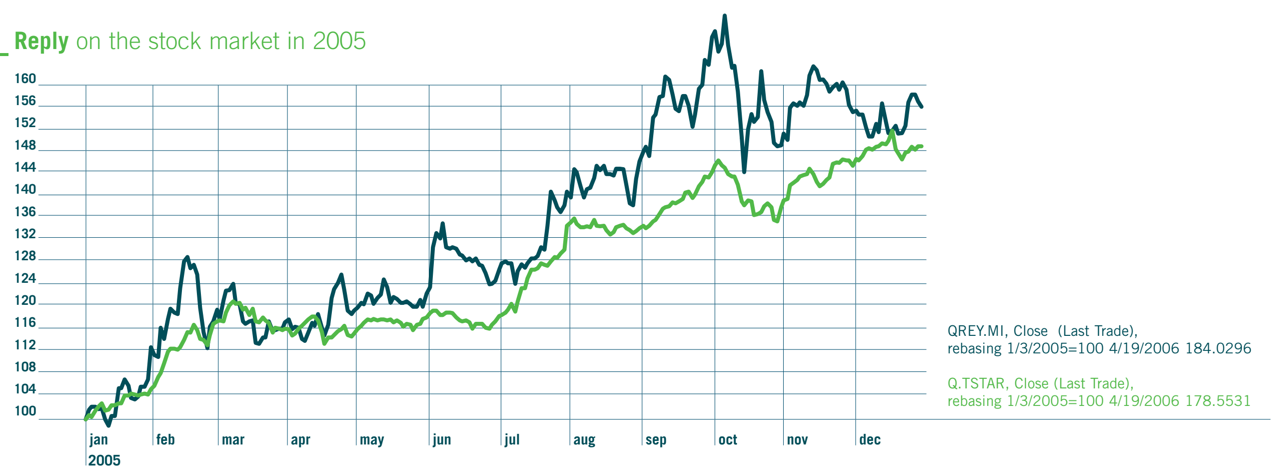
Change in net invested capital



Human resources



Reply on the stock market in 2005



_Reply Financial highlights

Financial figures (thousand euros)	2005	%	2004	%
Revenues	144.675	100,0	111.820	100,0
Gross operating income	21.017	14,5	14.160	12,7
Operating income	18.820	13,0	12.005	10,7
Income before taxes	18.841	13,0	11.481	10,3
Group net income	6.864	4,7	4.682	4,2

Balance sheet items (thousand euros)	2005	2004
Group shareholders' equity	61.056	55.273
Minority interest	206	1.037
Total assets	129.474	106.166
Net working capital	41.352	40.616
Net invested capital	59.062	54.260
Cash Flow (*)	4.916	1.624
Net financial position	2.200	2.050

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

Data per single share	2005	2004
Number of shares	8.411.710	8.357.010
Operating income per share	2,24	1,44
Net result per share	0,82	0,56
Cash Flow per share	0,58	0,19
Shareholders' equity per share	7,26	6,61

Other information	2005	2004
Number of employees	1.277	1.011

26%
increase in human resources

+32.855
increase in revenues

7,26
net equity per share

6.864
net result

4.916
cash flow

8.411.710
number of shares

_Living network

_**Letter** to the Shareholders

To our Shareholders,

2005 was another successful year for Reply, which achieved further consolidation and development, and whose results exceeded the market average.

Creating value for all Reply stakeholders has always been the basic principle of our corporate vision.

Reply is led by a group of partners and managers who have been able to make this model successful in competitive markets and currently work to have Reply become a primary player in a new scenario where telecommunications, media and consumer electronics are converging and where Digital LifeStyle and Digital Workstyle components will merge.

Companies like Reply will create innovation and value for their customers, integrating increasingly multimedia and interactive systems, designing application platforms made up of “configurable services” and enabling more and more complex and differentiated communication technologies.

In recent years, Reply has expanded thanks to its ability to anticipate market evolution and provide its customers with state-of-the-art technology solutions and the best organizational models. This approach allowed us to increase our turnover from 3 million euros in 1996 to over 144 million euros in late 2005.

I am persuaded that, putting into practice the ideas our model is based upon, we will be able to build a Europe-wide network of highly specialized "boutiques" in the ICT service market.

The decision to focus on the German market in 2006 has opened up new growth horizons for Reply. This is the largest market in Europe, but also an excellent springboard for future expansion towards Eastern European countries. In the framework of this strategy, in late 2005 we acquired the controlling stake of syskoplan A.G., a German company listed on the Frankfurt Stock Exchange, which boasts solidity and a high-quality image.

2006 is for us a year of particular importance: it is the tenth anniversary since the establishment of Reply.

These ten years have deeply changed the way we live, work, establish relationships, our habits and our day-to-day attitudes.

Since its foundation ten years ago, Reply has grown and consolidated thanks to the commitment and skills of all those people who have chosen to be part of this Group.

Companies like us rely on excellence, on individual qualities and on the ability to be part of a team. "Being a team" is not an abstract phrase for Reply, but rather a tangible way to share the values of the entire Group. These values are both human – ethics, trust, honesty, accountability – and professional - customer, focus, innovation, methodology, team, timeliness.

I believe this is the driver and the essence of our development, our success and our current image in Italy, which we want to export to Europe.

The Chairman

Mario Rizzante

_Reply Group

_Reply Group

Within Reply, the continuous approach aimed at technological innovation and the developments of specific skills are core values; their importance is enforced with its networked organization-based business model, but it is the excellence of our own people that drives the success of Reply.

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

Reply supports its customers in this path of innovation with solutions and services aimed at fully leveraging the opportunities provided by the Internet and communication technologies.

_**Reply** can boast:

_A culture *strongly* oriented towards technological innovation;

_A flexible structure able to anticipate market developments and new business models;

_A delivery method of proven success and scalability;

_A network of companies specialised by area of competence;

_Teams consisting of specialists educated at the most qualified universities, working together to achieve fast and excellent results;

_A highly-experienced management, strongly focused on generating profit;

_ Long-term relationships with its own customers.

_**Technology** innovation

Networking, in particular the convergence between contents and technology, is the driver of competition today. Companies like Reply create innovation and value for their customers integrating increasingly multimedia and interactive systems, designing application platforms made up of "configurable services" and enabling more and more complex and differentiated communication technologies.

SOA and Web Services

The Net - both wired and wireless - has set the foundations for new business, technology, process and product models: a network of networks.
A "confederation" of systems enabling new working methods, based on ubiquity and mutual interoperability.

Web Services and SOA are a model whose application components, weakly interconnected, are published, consumed and combined to other applications made accessible by the Web.

The new applications consist of two or more service levels:

- Channel services, to implement logics relating to interfaces with end-customers;
- Business services, to distribute the business logic over individual components;
- Business Process Management elements: for the orchestration and monitoring of processes.

When SOA-based solutions are deployed, it is essential to adopt a correct methodological approach and to possess in-depth knowledge of new architecture paradigms along with their specific applications in different product frameworks.

The offer of Reply on Web Services, SOA and SODA-(Service Oriented Development of Applications) -based approaches includes:

- Design of new service-oriented architecture models;
- Support in the evolution of application platforms (ERP, Application Servers and Portals) towards new SOA-based architecture models;
- Competence on new programming paradigms based on J2EE and .NET components;
- Consultancy in the design of services based on SODA models;
- Design and management of systems supporting Web Services monitoring and control.

Reply believes that the development of the Web will be increasingly focused on service-based models.
That is why it was the first partner to join WS-I, the worldwide organization for Web Services interoperability.

Mobile and Wireless

Network infrastructures and applications currently available allow creating a new generation of converging services, available for customers anywhere and at all times. Mobile content providers need to deliver services which are really device-independent, to build on contents, to increase market penetration and to reduce production costs of VAS services.
Reply supports its customers in the deployment of innovative business scenarios, integrating architectures for the distribution of value-added services with content delivery components.

For enterprises, mobility means extending and making available their business processes on a variety of devices to allow employees, partners and customers to communicate and access contents and applications anywhere and at all times.

The introduction of an effective mobile strategy into the enterprise requires a careful analysis both from a technology point of view and in terms of processes.

For Reply, building a mobile eco-system means:

- Enabling an "always on" infrastructure, making it available to businesses and service providers to manage and distribute services;
- Enabling wireless and wired devices for communication and collaboration in order to offer high value-added integrated services;
- Enhancing the experience of mobile users with context-dependent services delivered in a proactive way.

Reply combines together skills on communication devices and protocols with knowledge on major business processes and supports customers in the deployment of mobile solutions for a competitive management of all business services, both corporate and consumer.

Reply deploys collaborative environments which ensure easy access to information anywhere and at all times.

Digital Television

The adoption of the digital standard for terrestrial transmissions is the most important technology innovation in the history of television, even more than colour TV, satellite transmissions or the remote control. Digital technology has the potential to change consumption habits, operator business models and therefore the Telco-media industry as a system.

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

This means that all the households who have a TV set can avail themselves of new interactive environments capable of enabling increasingly exciting Digital Lifestyle components.

The Digital service revolution has just started. The opportunity to offer contents with the quality and ease-of-use of broadcasting services, as well as interactive and customization features, an “unlimited” number of channels (they may be as many as one for each user) provided by broadband networks will bring about changes in the content value chain over time.

Reply believes that the future of our society will lie in the spreading of new interaction channels. That is why it supports major industry operators in the path towards the convergence and the re-definition of their business models, with consulting services and a full mastering of communication and content distribution technologies (IpTV, Dvb-H, DTT...).

_**Market** focus

Telco & Media

In recent years, the Telecommunications market has seen the development of operators, from suppliers of connectivity to providers of value-added services. Network infrastructures and the applications available enable a new generation of converging services focused on users (businesses, consumers, employees), terminals (Smart phones, PDA, PC, etc.) and a new pattern of use. Wireless and Internet-based applications require a more and more sophisticated approach, both in the design and in the development stage. The volume of information managed and transmitted requires increasingly complex infrastructures, such as storage area networks.

Reply is currently one of the main technology partners in the process of convergence between Telco and Media, with a special focus on components related to the terrestrial digital technology, to the management of multimedia contents and assets and to Billing and CRM services.

The current relentless technological evolution is changing the communication landscape and potential; it is fundamental for companies to be able to develop specific content for the various media available, always focused on the perspective of the end customer.

In so doing, Reply integrates expertise and skills in the major technologies, as well as communication and creativity to design content and enable innovative services that leverage the potential of the new digital channels.

_Discovery ReplyTM

_Reply helps its customers build a new and effective approach to digital media management, so as to fully harness the potential offered by the variety of new communication channels. Knowledge on communication infrastructures and on content management platforms allows Reply to develop leading-edge Digital Media solutions.

_Reply's Digital Asset Management platform Discovery ReplyTM offers companies an opportunity to improve efficiency in the management of the entire life-cycle of digital assets, thanks to innovative methods of workflow organization, a high level of interoperability with the other business systems, and advanced content multi-channel distribution systems.

_Discovery ReplyTM facilitates the transition towards integrated models of content production, use and archiving, through an open and flexible platform and a simple and intuitive interface for the entry, processing, cataloguing, access, search and distribution of digital assets.

Industry and Services

Successful businesses must be able to make fast decisions and act effectively, aligning strategies, people, processes and technologies quickly and simultaneously within "network structures": complex aggregations of customers, partners and suppliers.

Information systems provide processes with maximum flexibility and an increasingly strict control. New technologies enhance and extend the process potential: Electronic tagging, web services, mobile solutions and instant messaging have changed the pace at which companies move.

Technological development and the ability to integrate it effectively into application solutions are the basics that Reply offers its own customers during the implementation, change and management of information systems; from strategic design to the understanding and re-definition of core processes and the creation of solutions that can guarantee the integration of applications in support of the Extended Enterprise.

Customer relationship management

Reply believes that building CRM solutions means identifying a relationship strategy: adopting the correct cultural attitude to see the customer as an integral part of your organization, re-designing - when necessary - corporate processes and designing the application architecture in support of Marketing, Sales and Customer Care activities.

Logistics and distribution

The availability of new technology solutions and the speed of communications allow increasing efficiency in Supply Chain Management. What is crucial is to re-define and re-engineer processes such as purchasing, warehouse and production unit location identification, stock turnover control, product transport and distribution. Reply helps its customers integrate operating partners, designing optimised Supply Chain Execution models in the Warehouse Management, Transportation Management, Planning and Inventory components.

Production system

A faster and faster response to market demands with products often "defined by the customer" requires production systems that can speed up the adjustment to increasingly unpredictable and variable product features.

For Reply, this involves re-thinking the systems governing production under a real-time perspective, aligning them more and more to e-business model paradigms.

_Click Reply™

_The new frontier of the Supply Chain is to integrate end-to-end solutions, capable of bringing down barriers among suppliers, companies and end-customers, transforming the current models into real Collaborative Networks, where a correct design and implementation of Execution components is becoming more and more important. In this scenario, in the field of Auto-ID (automatic identification) technologies, i.e. systems that can obtain identification data of objects and people automatically, the use of RFID (Radio Frequency IDentification) Labels or Tags is becoming more and more popular.

_Reply has been one of the first companies to invest in RFID technology in Italy, in order to provide enterprises with a full and integrated offer: from consultancy for operating process overhauling, to the development of a specific design method, and the definition of a specific application framework integrated within Click Reply™ , its proprietary platform for Supply Chain Execution.

_The solution architecture, fully oriented towards services and based on open standards, enables integration with both ERP systems and SCE and MES systems, allowing for the management and control of a wide range of devices used to read and write RFID-based tags.

_The availability of an application framework for the management of the RFID technology means a step forward in the possibility of combined use of new wireless and mobile technologies in the real-time management and control of the supply chain, providing TAG RFID information on products, packaging, pallets or containers in real time.

_Click Reply™, with its Warehouse Management, Transportation Management, Planning and Inventory components is used by over 170 customers world-wide to optimize their Supply Chain Execution.

Banking, Insurance and Financial Service Providers

The new communication technologies have created new challenges and opportunities for the Banking and Insurance industry:

– identify and implement solutions and new systems that enable the integration, management, and above all, re-utilisation of existing information assets;

– promote and introduce standards for inter-operability with the ecosystem of partners and customers, transforming data and information into a competitive edge.

2005 was an especially significant year for Banking Institutes in terms of the introduction of new technologies.

Banking Institutes have implemented the procedures required by the new Basel 2 agreement directives and by Banca d'Italia provisions on the assessment of operating risks both in terms of disaster recovery and of BCP. Banks have also started important projects related to managed assets – new instruments for performance measurement and portfolio rationalization – and to the development of new multi-channel platforms supporting the management of private customers.

The adoption of open and multi-channel-oriented technologies enables a profit increase thanks to cost-reduction, customer retention and the creation of new business opportunities.

Reply helps its own customers to anticipate changes, defining strategies based on new technologies (Web Services, SOA, Mobile and Wireless solutions, multichannel portals, on-line self-services, Business Intelligence and Knowledge Management) in order to introduce actual innovation into mission-critical areas such as Trading, Asset Management, support to business relationships and the Human Capital Management.

Energy & Utilities

Following the move towards the enforcement of "deregulation", that has also been underway in Italy for several years, in line with the European plan, for the first time the industry has tackled the phenomenon of competition, going through a stormy phase dominated by strong pressure on revenues and margins and the need to provide higher levels of service and security at all times.

The most innovative enterprises have regarded this moment of change as an opportunity to gain a competitive edge over competitors and to leverage new opportunities to generate profits, by achieving an increase in volumes which exceeds market trends, although they operate in a commodity business.

Reply has defined a portfolio of offers for the Energy & Utilities industry spread over three main vertical areas – Retailer, Merchant Energy Provider and Network Operations – that provide strategic and technological consultancy services aimed at optimising processes and selecting and implementing the most suitable technological platforms and architectures.

A specific line of consultancy is dedicated to support program management, project management and change management in terms of processes, organisation and implementation of new business components.

Public Sector

The globalization process at European level and federalism at national level are having an increasing influence on the trend of demand in the Public Sector market in which, for some time, there has been a move towards reducing bureaucracy and improving services offered to users (citizens and businesses).

The evolution towards increasingly customized services delivered in real time; ensuring citizens access to information; providing services on PCs, palmtops, TVs, mobile phones; maintaining data and information consistency among the various offices. More and more administrations use technologies to manage the relationship with citizens, leveraging and efficiently managing all our information assets and ensuring employees access to knowledge in day-to-day work.

In the Central and Local Public Sector, Reply uses its experience gained in recent years, in the most advanced online services, speed of execution and the high professional level of its own consultants, creating vertical applications and skills in order to maximise performance and effectiveness in the deployment of industry-specific solutions.

Reply's e-government ventures are aimed at creating solutions that allow companies and local governments to compete effectively in the new scenario in which Local and Central Public Sectors operate.

_ **The business** model

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

_ Processes

Reply considers the knowledge and usage of technology as a new enabling factor to processes, resulting from an in-depth expertise of the market and the industry-specific contexts;

_ Applications

Reply designs and deploys application solutions aimed at satisfying the core business requirements of companies;

_ Technologies

Reply optimises the use of state-of-the-art technologies to develop solutions that can guarantee customers maximum efficiency and operating flexibility.

_ **Reply** services include:

Consultancy

strategic, communication, process and technology consultancy;

System Integration

full exploitation of the technology potential combining business consultancy with innovative and high value-added technological solutions;

Application Management

management, monitoring and on-going innovation of technological assets.

_**Reply:** the value of people

Reply relies on the excellence of the people who are part of it. Reply women and men contribute to shape our brand with customers and partners and represent our corporate values and image. This is the reason why we only look for people educated at the most qualified universities and who natively share our values.

Anyone who wants to be part of the “Reply universe”, whatever the company, has decided so because he/she will best harness his/her potential within an organizational model based on: culture, ethics, trust, honesty and accountability.

These are essential values, for the on-going improvement and for increased focus on the quality of one’s own work.

Every day all the managers of the Group work to build on the values that have always been the foundation of Reply and have supported its growth.

__**Sharing** customer objectives
__**High** professional level and quick implementation
__**Culture** and flexibility

Excellence:
basic culture, research, focus on quality, reliability, enhancement of results.

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

Customer:
shared objectives, customer satisfaction, conscientiousness, high professional level, sense of responsibility, integrity.

Innovation:
vision, experimentation, courage, research, improvement effort.

Timeliness:
method, experience in project management, achievement of customer’s results and targets.

_Reply

Consolidated financial statements as at 31 December 2005

_**Directors'** report on operations

_**Consolidated** results of Reply

Introduction

As of January 1, 2005 the Reply Group has adopted the international accounting standards IAS/IFRS. The corresponding comparative figures of 2004 have been reinstated and remeasured according to the new standards. Further detail of the contents and the effects of the adoption of the new standards in relation to 2004 figures is provided at the appropriate paragraph in this report.

Trend of the period

The consolidated turnover in 2005 totalled 144.7 million euros (+29.4%) with EBITDA of 21.0 million euros (+48.4%), and an EBIT of 18.8 million euros (+56.8%). Income totalled 6.9 million euros (+46.6% compared to 2004).

The net financial position at December 31, 2005 stood at 2.2 million euros compared to 2.1 million euros at December 31, 2004.

In 2005 Reply confirmed positive trends. Results achieved by the Reply Group demonstrate that Reply is a competitive and reliable reality with a flexible structure capable of anticipating market trends and provide its customers with state-of-the-art technology solutions and the best organizational models.

Among the significant events in 2005, the agreement for the acquisition of the majority share in Syskoplan AG took place, a German consultancy and application management company, leader in SAP technologies and CRM consultancy, listed on the Frankfurt Stock Exchange. Acquisition of 63.7% of the share capital of the German company was completed in the first half of 2006.

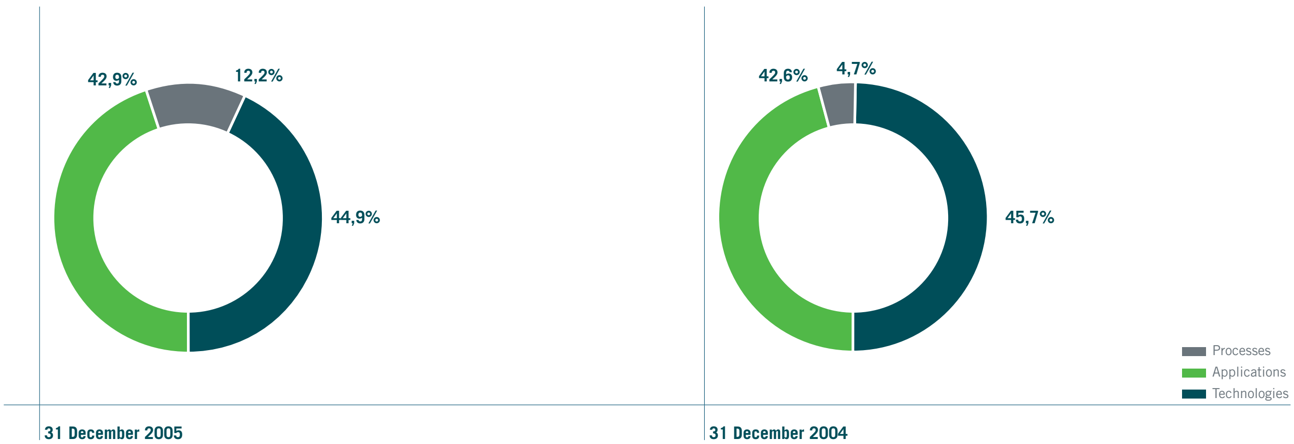
Syskoplan ended 2005 with consolidated turnover of 41.8 million euros, pre-tax profits of 3.2 million euros and a net financial position of 19.3 million euros. Year ended 2005 was an important year characterized by significant growth of financial and economic results. With the acquisition of Syskoplan, the Group has laid solid foundations for the future development of the Reply Network in Germany.

Reclassifed consolidated statement of income

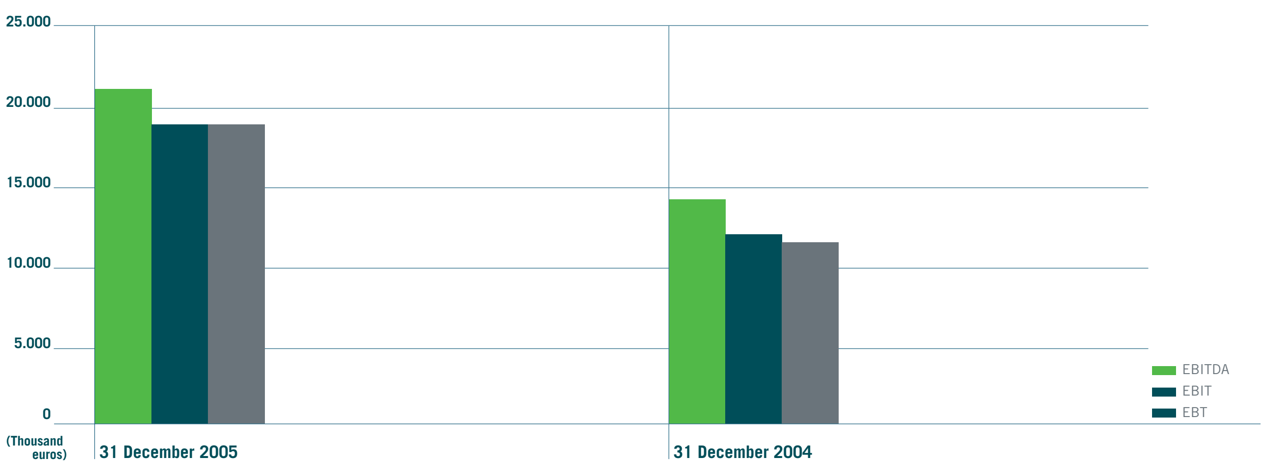
Reply's performance is shown in the following reclassified consolidated statement of income and is compared to corresponding figures of the previous year:

(thousand euros)	2005	%	2004	%
Revenues	144.675	100,0	111.820	100,0
Purchases	(3.544)	(2,4)	(3.438)	(3,1)
Personnel	(69.866)	(48,3)	(56.341)	(50,4)
Services and other costs	(49.399)	(34,1)	(37.546)	(33,5)
Other unusual operating income/expenses	(849)	(0,6)	(335)	(0,3)
Operating costs	**(123.658)**	**(85,5)**	**(97.660)**	**(87,3)**
Gross operating income (EBITDA)	**21.017**	**14,5**	**14.160**	**12,7**
Amortisation, depreciation and write-downs	(2.197)	(1,5)	(2.155)	(2,0)
Operating income (EBIT)	**18.820**	**13,0**	**12.005**	**10,7**
Result of equity investments	477	0,3	(210)	(0,2)
Financial income/(expenses)	(456)	(0,3)	(314)	(0,2)
Result before tax	**18.841**	**13,0**	**11.481**	**10,3**
Income tax	(10.993)	(7,6)	(6.366)	(5,7)
Net result before minority interest	**7.848**	**5,4**	**5.115**	**4,6**
Minority interest	(984)	(0,7)	(433)	(0,4)
GROUP NET RESULT	**6.864**	**4,7**	**4.682**	**4,2**

The breakdown of Group revenues is detailed in the pie graphs below:



Trend in the major economic indexes is shown in the graphs below:



Analysis of the financial structure

The table below details the Group's financial structure as at 31 December 2005 compared to 31 December 2004.

(thousand euros)	31/12/2005 (a)	%	31/12/2004 (b)	%	Change (a-b)
Current operating assets	87.851		71.655		16.196
Current operating liabilities	(46.499)		(31.039)		(15.460)
Net working capital (A)	**41.352**		**40.616**		**736**
Non current assets	27.634		20.130		7.504
Non M/L term financial liabilities	(9.924)		(6.486)		(3.438)
Net fixed capital (B)	**17.710**		**13.644**		**4.066**
Net invested capital (A+B)	**59.062**	**100,0**	**54.260**	**100,0**	**4.802**
Shareholders' equity (C)	61.262	103,7	56.310	103,8	4.952
NET FINANCIAL POSITION (A+B-C)	**(2.200)**	**(3,7)**	**(2.050)**	**(3,8)**	**(150)**

Net invested capital amounting to 59.062 thousand euros as at 31 December 2005, was financed by Shareholders' equity for 61.262 thousand euros, with a residual net financial position of 2.200 thousand euros.

The following table details the net working capital.

(thousand euros)	31/12/2005 (a)	31/12/2004 (b)	Change (a-b)
Inventories	1.547	278	1.269
Trade receivables	79.662	65.106	14.556
Other operating assets	6.642	6.271	371
Current operating assets (A)	**87.851**	**71.655**	**16.196**
Trade payables	16.096	12.677	3.419
Other current liabilities	30.403	18.362	12.041
Current operating liabilities (B)	**46.499**	**31.039**	**15.460**
NET WORKING CAPITAL (A-B)	**41.352**	**40.616**	**736**
% return on revenues	28,5%	36,3%	

Net financial position

Detail of the Group's net financial position as at 31 December 2005 analysed by maturity date and compared to 31 December 2004 figures is provided below.

(thousand euros)	31/12/2005	31/12/2004	Change
Cash and cash equivalents	13.989	14.381	(392)
Due to banks	(4.119)	(401)	(3.718)
Short-term financial position	**9.870**	**13.980**	**(4.110)**
Due to banks	(7.670)	(11.930)	4.260
M/L term financial position	**(7.670)**	**(11.930)**	**4.260**
TOTAL NET FINANCIAL POSITION	**2.200**	**2.050**	**150**

Due to banks is referred to the partial utilization of the syndicated bank loan undersigned by the parent company Reply S.p.A. for new M&A operations.

The net financial position as at 31 December 2005 amounted to 2.200 thousand euros, with an increase of 150 thousand euros compared to 31 December 2004, and can be analysed as follows:

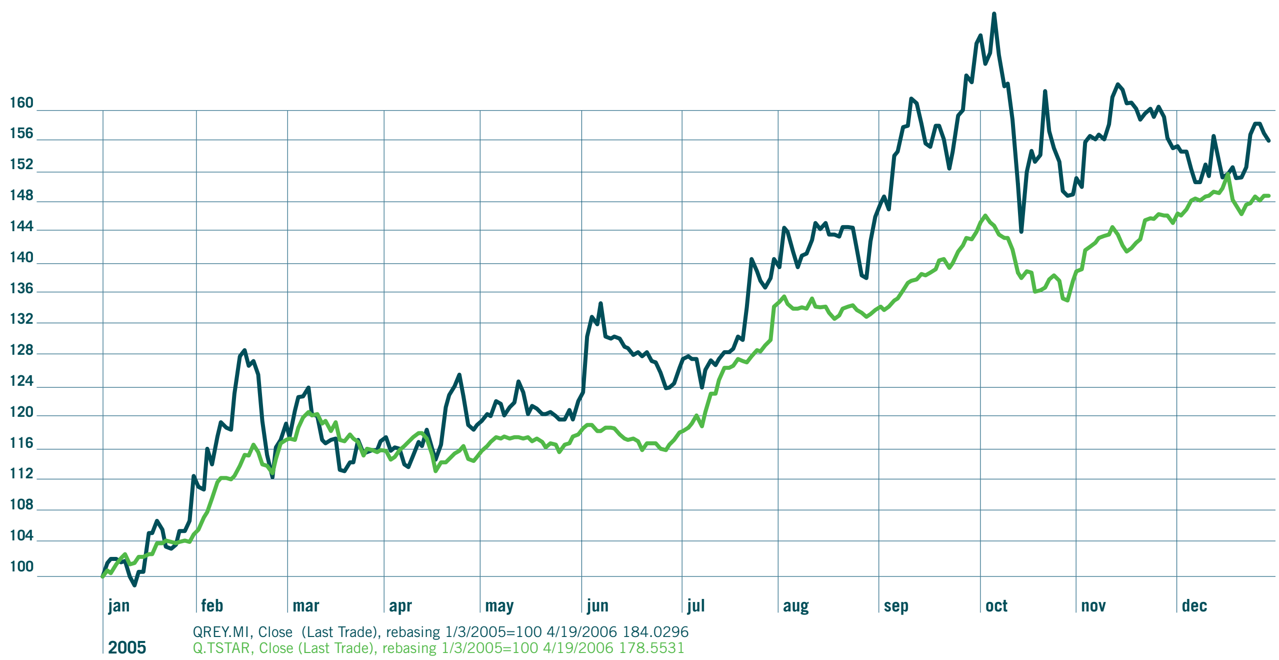
(thousand euros)	31/12/2005
Cash flows from operating activities	11.759
Change in working capital	(6.843)
Cash flows from operating activities (A)	**11.286**
Cash flows from investment activities (B)	**(4.857)**
Cash flows from financial activities (C)	**91**
Change in net financial position (A+B+C)	**150**
Net financial position at the beginning of period	2.050
Change in net financial position	150
NET FINANCIAL POSITION AT YEAR END	**2.200**

_**Reply** on the stock market

In 2005 the Italian stock market (represented by the Mibtel index) recorded an increase of 13.78% compared to year ended 2004. At the same time, the AllStar index, which represents shares with high level requisites, including the Reply share (REY.MI), recorded an increase of 32.7%, best performer of the segment.

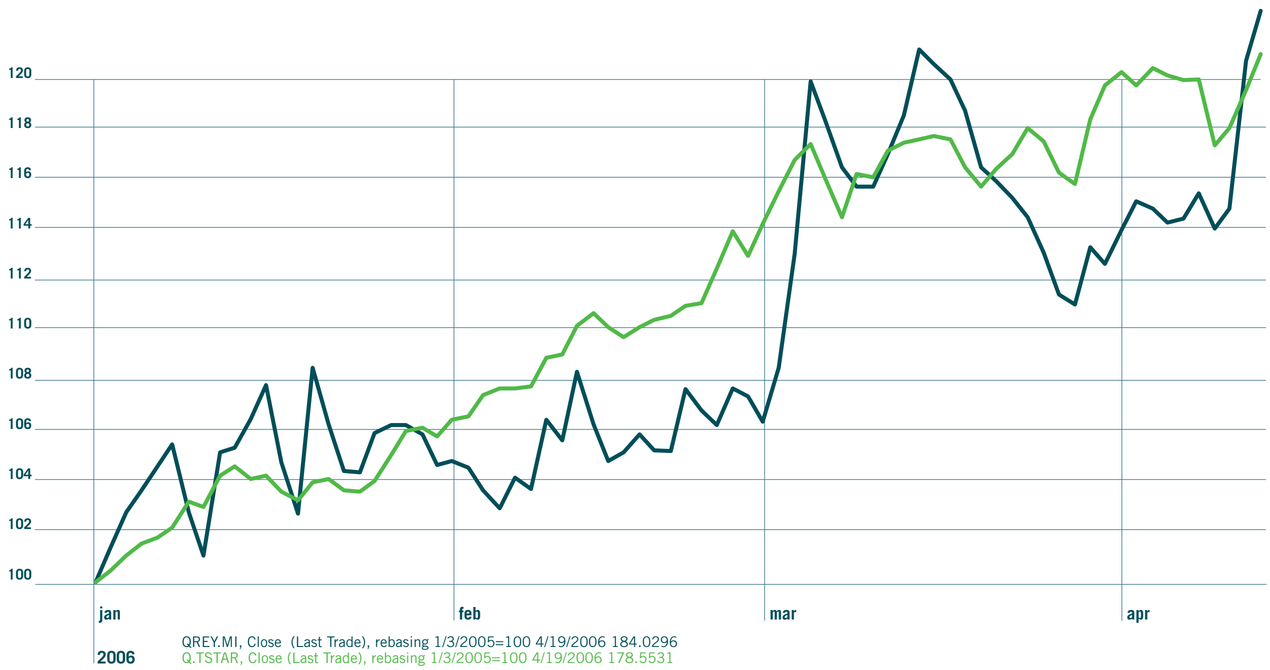
The market capitalization of companies listed on the Italian markets increased from 581 billion euros in 2004 to over 677 billion euros in 2005 (47.7% of GDP), in spite of a constant number of companies listed (282 compared to 278 at year end 2004).

During the twelve months of 2005 the Reply share trend recorded excellent performances both in absolute terms marking an increase of 57.3% (passing from 11,36 euros last closing price as at 30 December 2004 to 17,86 euros as at 30 December 2005) and in relative terms compared to the TechStar index that notwithstanding a good annual performance (+46.4%) underperformed the Reply share.



If the Reply share's performance is considered since it was listed, compared to the entire market, in five years it outperformed Piazza Affari with a positive gap of 40 percentage points compared to the Mibtel index.

In the months following fiscal close 2005, the share has maintained an absolutely positive trend in absolute terms with a further increase of 20% (at 18 April 2006).



During 2005, the major financial institutions demonstrated appreciation for Reply's share by constantly proposing research on the Group (6 coverages with positive recommendation) and by encountering management.

Italian and foreign investment institutions also showed interest in the share and are currently significant stake holders.

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

_Significant operations

Company constitutions

On March 2, 2005 Reply S.p.A. constituted the company Power Reply S.r.l. by undersigning 79% of the company's share capital. The company, of which Reply S.p.A. currently holds 67.49% of the share capital, has the objective of providing, private and public companies that operate in the utility segment, technological solutions and applications that support Asset Management and Relation Management areas.

Acquisitions

Acquisition of the business unit ACS

On March 1, 2005 the business unit specialized in Asset Management, previously managed by the company Advanced Computer System A.C.S. S.p.A., was purchased through the contract stipulated with Sytel Reply S.r.l.; the purchase price amounted to approximately 184 thousand euros.

Acquisition of the business unit Fiat Gesco

On April 28, 2005 the contract between Reply S.p.A. and Fiat Gesco S.p.A. was concluded for the acquisition of the branch related to activities in the administrative services field supporting accounting, balance sheet and reporting activities; the agreed purchase price amounted to 600 thousand euros.

More specifically, Reply has entered into over one year contracts, for an annual amount exceeding 5 million euros, related to administration and finance processes of several industrial groups such as Avio, Ilte, and GTT Gas Turbine Technologies.

Human resources and competencies acquired from Fiat Gesco are now part of EOS Reply, a new company specialised in Process Management, constituted by Reply on April 18, 2005 and of which Reply holds 80% of the share capital.

Acquisition of Syskoplan

On December 22, 2005 Reply S.p.A., on the basis of a resolution made by the Board of Directors that on the same date provided the guidelines, undersigned with the majority shareholders of Syskoplan, Mr. Manfred Wassel, Mr. Jochen Meier and DZ Equity Partner GmbH, a preliminary agreement aimed at the acquisition of a majority stake, at first equal to 53.1% of the share capital of the German based company Syskoplan AG, Parent Company of the Syskoplan Group.

Syskoplan AG, founded in 1983 and listed on the Frankfurt Stock Exchange since November 2000, has made a name for itself with its customers as a software integrator and consulting partner and application management leader in CRM for major companies and sector leaders in Germany and across Europe. On the basis of market leading standard software, Syskoplan develops solutions that are specially adapted to specific customer requirements and integrates them into the customer's existing IT infrastructure. More specifically, Syskoplan provides solutions for which CRM, Business Intelligence, Supply Chain Management and IT Management lines of business are relevant.

Syskoplan at year ended 2005 employed over 300 persons and achieved sales of 41.8 million euros with an EBITDA of 9.8% and an EBIT of 7.3% totalling 3.1 million euros.

Thanks to the integration in the Reply Group and at the same time maintaining its independency, Syskoplan can implement a broader development strategy by also leaning on the Reply network.

The acquisition of a majority investment in a public company, who among its clients acclaim some of the most important German companies, was considered a synergic investment with the Reply Group activities and was deemed strategic in view of international expansion and development.

Information concerning the means, conditions and terms of the transaction are detailed in the Directors' report on operations of Reply S.p.A..

_**Outlook** on operations

The results achieved show once again that Reply is competitive and reliable, with a flexible structure able to anticipate market developments providing innovative technological solutions and efficient organizational models.

The acquisition of Syskoplan, a German consultancy and application management company, leader in SAP technologies and CRM consultancy, listed on the Frankfurt Stock Exchange, will enable Reply to lay the grounds to access the largest IT service market in Europe and to implement its European SAP strategy.

The first months of 2006 were positive both in terms of sales and profitability.

Turin, 21 April 2006

For the Board of Directors
The Chairman
(Mario Rizzante)

_**Consolidated** financial statements and explanatory notes as at 31 December 2005

_**Reply** Consolidated statement of income

(thousand euros)	**Note**	**2005**	**2004**
Revenues	*4*	144.675	111.820
Other revenues		552	341
Purchases	*5*	(3.544)	(3.438)
Personnel	*6*	(69.866)	(56.341)
Services and other costs	*7*	(49.951)	(37.887)
Other unusual operating income/expenses	*8*	(849)	(335)
Amortisation, depreciation and write-downs	*9*	(2.197)	(2.155)
Operating income		**18.820**	**12.005**
Result of equity investments	*10*	477	(210)
Financial income/(expenses)	*11*	(456)	(314)
Result before tax		**18.841**	**11.481**
Income tax	*12*	(10.993)	(6.366)
NET RESULT		**7.848**	**5.115**
Minority interest		(984)	(433)
GROUP NET RESULT		**6.864**	**4.682**
Net result per share		*0,82*	*0,56*

_**Reply** Consolidated balance sheet

(thousand euros)	***Note***	**31/12/2005**	**31/12/2004**
Tangible assets	*13*	2.338	2.161
Goodwill	*14*	17.120	10.394
Other intangible assets	*15*	1.746	1.739
Equity investments	*16*	5.690	5.193
Other financial assets	*17*	740	643
Non current assets		**27.634**	**20.130**
Inventories	*18*	1.547	278
Trade receivables	*19*	79.662	65.106
Other receivables and current assets	*20*	3.730	2.627
Deferred tax assets	*21*	2.912	3.644
Cash and cash equivalents	*22*	13.989	14.381
Current assets		**101.840**	**86.036**
TOTAL ASSETS		**129.474**	**106.166**
Share capital		4.374	4.346
Other reserves		49.818	46.245
Net result		6.864	4.682
Group shareholders' equity		**61.056**	**55.273**
Minority interest		206	1.037
Shareholders' equity	*23*	**61.262**	**56.310**
Financial liabilities	*24*	7.670	11.930
Employee benefits	*25*	9.334	6.055
Deferred tax liabilities	*26*	590	431
Non current liabilities		**17.594**	**18.416**
Financial liabilities	*24*	4.119	401
Trade payables	*27*	16.096	12.677
Other current liabilities	*28*	29.172	17.531
Deferred tax liabilities	*26*	1.099	665
Other provisions	*29*	132	166
Current liabilities		**50.618**	**31.440**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**129.474**	**106.166**

_**Reply** Group shareholders' equity

(thousand euros)	Share capital	Reserve for cash flow hedges	Other reserves and retained earnings	Result for the year	Total
Balance at 31/12/2003	**4.244**	**(62)**	**42.913**	**3.003**	**50.098**
Allocation 2003 result					
- reserves	-	-	2.029	(2.029)	-
- dividends	-	-	-	(974)	(974)
Increase of share capital	102	-	1.714	-	1.816
Other changes	-	(13)	(336)	-	(349)
Result for the year	-	-	-	4.682	4.682
Balance at 31/12/2004	**4.346**	**(75)**	**46.320**	**4.682**	**55.273**
Allocation 2004 result					
- reserves	-	-	3.297	(3.297)	-
- dividends	-	-	-	(1.385)	(1.385)
Increase of share capital	28	-	517	-	545
Other changes	-	58	(299)	-	(241)
Result for the year	-	-	-	6.864	6.864
Balance at 31/12/2005	**4.374**	**(17)**	**49.835**	**6.864**	**61.056**

_**Reply** Consolidated statement of cash flows

(thousand euros)	**2005**	**2004**
Net result for the period	6.864	4.682
Depreciation and amortisation	2.197	2.155
Accruals for employee benefits	2.582	2.091
Accruals for deferred income tax	593	270
Adjustment of equity investments	(477)	210
Provision for doubtful accounts	-	475
Cash flows from operating activities	**11.759**	**9.883**
Change in inventories	(1.269)	3.300
Change in trade receivables	(14.556)	(19.509)
Change in current assets	(371)	388
Change in trade payables	3.419	3.166
Utilisation of employee benefit funds	(1.378)	(729)
Utilisation of deferred taxes and other provisions	(34)	(639)
Change in other current liabilities	7.346	5.764
Change in working capital	**(6.843)**	**(8.259)**
Cash flows from operating activities (A)	**4.916**	**1.624**
Goodwill	(810)	-
Investments in other intangible assets	(843)	(1.127)
Investments and decreases in tangible assets	(1.538)	(1.047)
Investments in consolidated equity share holdings	(1.549)	-
Investments in non-consolidated equity share holdings	(20)	-
Change in other non current assets	(97)	13
Cash flows from investment activities (B)	**(4.857)**	**(2.161)**
Increase in share capital and share premium	545	338
Dividend distribution	(1.385)	(974)
Change in minority interest (*)	1.172	201
Other changes in shareholders' equity	(241)	(349)
Cash flows from financial activities (C)	**91**	**(784)**
Change in net financial position (A + B + C)	**150**	**(1.321)**
Net financial position at beginning of period	2.050	3.371
Change in the net financial position	150	(1.321)
NET FINANCIAL POSITION AT PERIOD END	**2.200**	**2.050**

(*) please refer to note 14 for details on the accounting method in accordance to IAS 32.

_**Notes** to the consolidated fincancial statements

Note 1 - Accounting principles and basis of consolidation

Introduction

The year ended 2005 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union. The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

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

Following the coming into force of European Regulation No. 1606 dated 19 July 2002, starting from January 1, 2005, the Reply Group adopted International Financial Reporting Standards (IFRS).

The accounting policies applied in these financial statements are consistent with those adopted in preparing the IFRS opening consolidated balance sheet at January 1, 2004, as well as the consolidated financial statements at December 31, 2004, as restated in accordance with IFRS and published in the financial statements herein.

Reconciliations between profit or loss and equity under previous GAAP (Italian GAAP) to profit or loss and equity under IFRS for the periods shown as comparatives, as required by IFRS 1 – First-time Adoption of IFRS, together with the related explanatory notes, are included herein with reference to the balance sheet as at January 1, 2004 and the financial statements as of December 31, 2004.

New accounting standards

There are no revised or new standards or interpretations that became effective on January 1, 2005 that had a significant effect on the Group's financial statements.

Following are indications of the standards adopted in drawing up the consolidated financial statements as at 31 December 2005.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an invested enterprise so as to obtain benefits from its activities.

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

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

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

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

Difference arising from translation of equity at historical exchange rates and year end exchange rates are recorded at

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

Business combinations

Acquisition of subsidiary companies is recognised according to the purchase method of accounting. The acquisition cost is determined by the sum of the fair value, at the trading date, of all the assets transferred, liabilities settled and the financial instruments issued by the group in exchange of control of the acquired company, plus any cost directly attributable to the acquisition. The identifiable assets, liabilities and contingent liabilities of the company acquired that respect the conditions to be recognised according to IFRS 3 are stated at their fair value at the date of acquisition with the exception of those non current assets that are held for sale in accordance to IFRS 5, which are recognised and measured at fair value less selling costs.
Goodwill arising from the acquisition is recognised as an asset and initially measured at cost, determined as the exceeding cost of acquisition with respect to the Group's share of the fair value of the assets, liabilities and contingent liabilities recognised. If, after having determined such amounts, the Group's share of the fair value of the assets, liabilities and contingent liabilities exceeds the cost of acquisition, the exceeding amount is recognised immediately in the income statement.
Minority interest in the company acquired is initially measured to the extent of their shares in the fair value of the assets, liabilities and contingent liabilities recognised.
The accounting of the put and call options on the minority shareholdings of the subsidiary company are recorded according to IAS 32, taking into account therefore, depending on the case, the existence and the determinability of the consideration to the minority shareholders if the option was exercised.

Investments in associate companies

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through the participation in the financial and operating policy decisions of the investee.
The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, with the exception of investments held for future disposal.
Where a group company transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

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%

Ordinary maintenance costs are fully expensed as incurred. Incremental maintenance costs are allocated to the asset to which they refer and depreciated over their residual useful lives.
Improvement expenditures on rented property are allocated to the related assets and depreciated over the shorter between the duration of the rent contract or the residual useful lives of the relevant assets.
Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.
The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

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. They also include goodwill when it is acquired against payment.
Intangible fixed assets are recorded at purchase or production cost, including related charges incurred to bring the asset available for use.
In case of intangible fixed assets purchased for which availability for use and relevant payments are deferred beyond normal terms, the purchase value and the relevant liabilities are discounted by recording the implicit financial charges in their original price.
Assets with a defined useful life are systematically amortised from the moment when the asset is available for use throughout the period of its estimated utility; the recoverable value is assessed according to provisions set out in IAS 36.
Development costs can be capitalised on condition that they can be measured reliably and that evidence is provided that the asset will generate future economic benefits.
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and assessed on a yearly basis in order to determine any impairment losses. Impairment losses are recognised immediately as expenses that cannot be recovered in the future.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.
Goodwill deriving from acquisitions made prior to the transition date to IRFS are maintained at amounts recognised under Italian GAAP at the time of application of such standards and are subject to impairment test at such date.
Goodwill, consolidation differences, trademarks and patents and other assets with indefinite useful lives are not subject to systematic amortisation but are subject each year to an impairment test. Impairment losses, if any, cannot be reversed.
Expenditure on research activities is recognised as an expense in the period in which it is incurred.
An internally-generated intangible asset arising from the Group's e-business development (such as informatics solutions) is recognised only if all of the following conditions are met:

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

These assets are amortised when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognised as construction in progress. Amortisation is determined on a straight line basis over the relevant useful lives.

When an internally-generated intangible asset cannot be recorded at balance sheet, development costs are recognised to the statement of income in the period in which they are incurred.

Impairment

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

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

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

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

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rental payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Inventories

Inventories mainly comprise construction contracts; where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, unless this is deemed representative of the stage of completion of the contract.
Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.
Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.
When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs incurred in selling and distribution.

Trade receivables and payables

Trade receivables and trade payables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts or they are initially stated at nominal value and subsequently valued at amortised cost according to the prevailing market interest rate method.
Irrecoverable amounts are estimated and recognised in the profit or loss where there is objective evidence that the amounts receivable have lost value.
Write-downs are determined to the extent of the difference of the carrying value of the receivables and the present value of the estimated future cash flows discounted at the prevailing market interest rate at the time of recognition.
Receivables and payables denominated in non EMU currencies are stated at the exchange rate at period end provided by the European Central Bank.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.
Investments are recognised and written-off the balance sheet on a trade-date basis and are initially measured at cost, including transaction costs.
At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured and amortised at cost according to the prevailing market interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.
Investments other than held-to maturity debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in the net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

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.

Financial liabilities and equity instruments

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

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

- Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently stated at its amortised cost, using the prevailing market interest rate method.

- Equity instruments

Equity instruments issued by the Group are stated at the proceeds received, net of direct issuance costs.

- Non current financial liabilities

Liabilities are stated according to the amortisation cost.

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 set out by Group policies approved by the Board of Directors, who has established written procedures as to the use of derivatives in accordance with risk management strategies of the Group.

The Group does not use derivative financial instruments for trading purposes.

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

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

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

For hedging against change in fair value of specific items, the item hedged is restated to the extent of the change in fair value attributable to the risk hedged and recognised at the income statement. Gains and losses arising from the measurement of the derivative are also recognised at the income statement.
Changes in the fair value of derivative financial instruments that do not qualify as hedge accounting are recognised in the income statement as they arise.
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction is no longer expected to occur; the net cumulative gain or loss recognised in equity is transferred to the net profit or loss for the period.
Implicit derivatives included in other financial instruments or in other contractual obligations are treated as separate derivatives, when their risks and characteristics are not strictly correlated to the underlying contractual obligation and the latter are not stated at fair value with recognition of gains and losses in the income statement.

Provisions and reserves for risks

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

Post-employment plans

According to IAS 19, Employee termination indemnities can be recognised as "post-employment benefit" falling under the category of a "defined benefit plan"; the amount already accrued must be projected in order to estimate the payable amount at the time of employee termination and subsequently be discounted through the "Projected Unit Credit Method", an actuarial method based on demographic and finance data that allows to reasonably estimate the extent of benefits that each employee has matured in relation to the time worked.
Through actuarial valuation, current service costs are recognised as "personnel expenses" at the income statement and represent the amount of rights matured by employees at reporting date and the interest cost is recognised as financial gains or losses and represents the figurative expenditure the company would bear by securing a market loan for an amount corresponding to the Employee termination indemnities (TFR).
Actuarial gains and losses that reflect the effects arising from changes in the actuarial hypothesis made are recognised at a constant rate in the income statement over the remaining service lives of active employees to the extent in which the unrecognised amount at period end does not exceed 10% of the liability (the Corridor approach).

Share-based payment plans

The Group has applied the standard set out by IFRS 2 "Share-based payment". Pursuant to the transitional standards, IFRS 2 has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005. The Group stock option plans foresee only the physical delivery of the share when exercised.
Share-based payments are measured at fair value at granting date. Such amount is recognised in the income statement over a straight-line basis and over the vesting period; recognition is based on management's best estimate of the shares that will vest in favour of employees, taking into consideration the use conditions of such shares not based on their market value.

Revenue recognition

Revenue from sales and services is recognised when the transfer of all the risks and benefits arising from the passage of title takes place or upon execution of a service.
Sales of goods are recognised when goods are delivered and title has passed, net of returns, discounts, bonuses or directly connected taxes.
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.
Dividend income from investments is recognised when the shareholders' rights to receive payment has been established.

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. Liability for current tax is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.
Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Treasury shares

Treasury shares are recognised at cost and stated as a decrease in net equity, all gains and losses arising from trading of the shares are stated in an appropriate reserve of net equity.

Earnings per share

Earnings per share is the net profit or loss for the period attributable to ordinary shareholders divided by the number of the weighted average number of ordinary shares outstanding during the period.

Use of estimations

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

Note 2 - Activities of the Group

Reply is a Consulting, System Integration and Application Management company and leader in the design and implementation of solutions based on new communication channels and digital media.
Reply, consisting of a network of specialized companies, provides applications to optimize corporate processes and develops innovative technology-based solutions to enable communication between customers, business partners and suppliers. Reply's activities are focused on the areas of Telecom & Media, Manufacturing, Finance and Public Administration.

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

Note 3 - Consolidation

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

Changes in consolidation compared to 31 December 2004 were the following:
- consolidation of Open Reply S.r.l. and Power Reply S.r.l. constituted respectively in February 2005 and March 2005;
- consolidation of Eos Reply S.r.l., company through which a company branch operating in administration services was acquired (May 2005).

Note 4 - Revenues

Revenues from sales and services, including change in work in progress, amounted to 144.675 thousand euros and are detailed as follows.

(thousand euros)	**2005**	**2004**	**Change**
Revenues from sales and services	149.584	111.685	37.899
Change in work in progress	(4.909)	135	(5.044)
Total	**144.675**	**111.820**	**32.855**

The increase of 32.855 thousand euros compared to the year ended 2004 (+29.4%) is solely due to the internal growth of the Group and not to any significant changes in consolidation.

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

Country	**2005**	**2004**
Italy	94.67%	96.13%
Europe EU	3.17%	1.85%
Europe non EU members	1.47%	1.47%
Other	0.69%	0.55%
	100.00%	**100.00%**

Information required by IAS 14 ("Segment reporting") is provided in Note 30 herein.

Note 5 - Purchases

Detail is as follows:

(thousand euros)	2005	2004	Change
Software licenses for resale	2.196	2.322	(126)
Hardware for resale	352	359	(7)
Other	996	757	239
Total	**3.544**	**3.438**	**106**

The item "Software licenses for resale" includes change in inventory of software products for resale amounting to 363 thousand euros.

Note 6 - Personnel

Detail is as follows:

(thousand euros)	2005	2004	Change
Payroll employees	58.015	47.641	10.374
Executive Directors	8.515	6.344	2.171
Project collaborators	3.336	2.356	980
Total	**69.866**	**56.341**	**13.525**

Personnel expenses include cost for Stock Option Plans amounting to 140 thousand euros.

Increase in the item "Payroll Employees", amounting to 10.374 thousand euros, is related to the increase in the number of employees, detail by category is provided below:

(number)	31/12/2005	31/12/2004	Change
Directors	95	59	36
Managers	161	132	29
Staff	1.021	820	201
Total	**1.277**	**1.011**	**266**

Payroll employees comprise mainly electronic engineer and economic and business graduates from the best Universities.

Note 7 - Services and other costs

Service expenses comprised the following:

(thousand euros)	2005	2004	Change
Commercial and technical consulting	28.900	20.727	8.173
Travelling and professional training expenses	5.308	4.478	830
Other service costs	9.049	6.458	2.591
Office expenses	4.055	3.323	732
Lease and rentals	1.995	1.875	120
Other	644	1.026	(382)
Total	**49.951**	**37.887**	**12.064**

Change in Commercial and technical consulting is mainly due to the increase in the Group's revenues and to a greater use of third party consultants.

Office charges include charges from related parties referred to service contracts for the use of premises and centralised secretarial services.

Other service costs include:
- administration services and consulting
- marketing expenses
- utilities
- canteen expenses

Note 8 - Other unusual operating income/expenses

Other unusual operating income/expenses amounting to 849 thousand euros are related to events falling out of the ordinary course of business of the Group:
- extraordinary gains and losses related to previous year accruals;
- insurance reimbursements.

Note 9 - Amortisation, depreciation and write-downs

Depreciation of tangible assets, amounting to 1.361 thousand 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 2005 amounted to 836 thousand euros. The details are provided at the notes to intangible assets herein.

Note 10 – Result of equity investments

This item is referred to the financial investment in Santer S.p.A., consolidated according to the equity method, of which Reply S.p.A. holds 49% of the shares. This method brought an adjustment of 477 thousand euros.

Note 11 - Financial income/expenses

Detail is as follows:

(thousand euros)	2005	2004	Change
Financial gains	244	181	63
Interest expenses	(720)	(414)	(306)
Other	20	(81)	101
Total	**(456)**	**(314)**	**(142)**

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

Note 12 – Income taxes

Income taxes for financial year 2005 totalled 10.993 thousand euros and are detailed as follows:

(thousand euros)	2005	2004	Change
IRES	7.979	4.551	3.428
IRAP	3.909	2.966	943
Current taxes	**11.888**	**7.517**	**4.371**
Deferred tax liabilities			
- Provision for bad debts	175	115	60
- Measurement of contract work in progress	306	17	289
- Other	112	162	(50)
Total deferred taxes	593	294	299
Deferred tax assets			
- Prepaid taxes on costs that will become deductible in future years	(1.502)	(1.250)	(252)
- Prepaid tax on greater provision for doubtful accounts	(12)	(115)	103
- Deferred fiscal deductibility of amortization	(49)	(64)	15
- Consolidation adjustments and other	75	(16)	91
Total deferred tax assets	(1.488)	(1.445)	(43)
Deferred taxes (prepaid)	**(895)**	**(1.151)**	**256**
Total income taxes	**10.993**	**6.366**	**4.627**

Tax burden before taxation is equivalent to 58.3% (55.4% in 2004).
The difference, compared to the theoretical tax incidence of 37.25%, is mainly due to non-deductible costs and to permanent tax differences due to consolidation.

Note 13 - Tangible assets

Tangible assets as at 31 December 2005 amounted to 2.338 thousand euros and are detailed as follows:

(thousand euros)	2005	2004	Change
Buildings	70	73	(3)
Plant and machinery	130	149	(19)
Hardware	1.402	1.197	205
Other	736	742	(6)
Total	**2.338**	**2.161**	**177**

Change in tangible assets during 2005 is summarised in the table below:

(thousand euros)	Buildings	Plant and machinery	Hardware	Other	Total
Historical cost	100	717	5.074	2.382	8.273
Accumulated depreciation	(27)	(568)	(3.877)	(1.640)	(6.112)
Balance at 31 December 2004	**73**	**149**	**1.197**	**742**	**2.161**
Historical cost					
Additions	-	79	1.051	450	1.580
Disposals	-	(20)	(221)	(297)	(538)
Change in consolidation	-	-	83	-	83
Accumulated depreciation					
Depreciation	(3)	(94)	(887)	(377)	(1.361)
Utilisation	-	16	179	218	413
Historical cost	100	776	5.987	2.535	9.398
Accumulated depreciation	(30)	(646)	(4.585)	(1.799)	(7.060)
Balance at 31 December 2005	**70**	**130**	**1.402**	**736**	**2.338**

Additions in 2005 amounted to 1.580 thousand euros and were mainly related to computers and network equipment.

Note 14 - Goodwill

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

Detail is as follows:

(thousand euros)	Year of acquisition	% acquired	% interest as at 31/12/2005	Goodwill
@Logistics Reply S.r.l.	2000	30%	100%	459
Cluster Reply S.r.l.	2000	15%	100%	155
Sytel Reply S.r.l.	2000	20%	100%	223
Business Reply S.r.l.	2000	30%	100%	160
YH Reply S.r.l.	2000	100%	100%	16
XYZ Reply S.r.l.	2001	70%	100%	1.554
E* Finance Reply S.r.l.	2001	58%	100%	1.012
Sysproject Reply S.r.l.	2002	100%	100%	1.665
XYZ Reply S.r.l.	2003	30%	100%	864
IrisCube Reply S.p.A.	2003	51%	51%	2.594
Sytel Reply S.r.l. (ex Planet Reply S.r.l.)	2004	20%	100%	1.191
Blue Reply S.r.l.	2004	12%	100%	285
E* Finance Reply S.r.l.	2005	42%	100%	1.549
EOS Reply S.r.l.	2005	(*)	(*)	600
Sytel Reply S.r.l.	2005	(*)	(*)	210
IrisCube Reply S.p.A.	2006	49%	51%	4.069
Spike Reply S.r.l.	2006	10%	90%	298
Other		(*)	(*)	216
Total				**17.120**

(*) business branch acquisitions

Goodwill recognized as at 31 December 2005 does not present any impairment of value as confirmed by the expected financial results and related cash flows.
At December 31, 2005 goodwill was subject to the impairment test as required by IAS 36. This assessment, to be carried out at least once a year, was performed at the level of the Cash Generating Units (CGU), to which value of goodwill is attributed. Such assessment did not reveal any impairment, and is based on expected cash flows developed in function of programmed growth of the single companies and business areas.

The impairment model adopted by Reply is based on an “Unlevered Discounted Cash Flow Analysis” and the figures used in the formula are taken from the financial statements, accounting ledgers and the 3 year business plan of each CGU. The analysis is carried out on the basis of the strategic planning of the Group that presents a three planning.

The main assumptions used in the impairment model are the following:

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

In execution of the agreements signed in occasion of the constitution of the subsidiary company, Spike Reply S.r.l. and those signed upon acquisition of the subsidiary company IrisCube Reply S.p.A., in the following months the “put” option to be exercised by the minority shareholders of Spike Reply S.r.l. and IrisCube Reply S.p.A. will fall due (and correspondingly the “call” option for Reply S.p.A.). On the basis of the 2005 financial results achieved and on the basis of expected results for 2006, Reply S.p.A. will acquire the above mentioned minority shares for an approximate consideration of maximum euro 370.000,00 for the 10% stake in Spike Reply S.r.l. and a maximum of euro 6.000.000,00 for the 49% stake in IrisCube Reply S.p.A.

In accordance with IAS 32, at December 31, 2005 further goodwill amounting to 4,1 million euros was recorded. Such amount is related to the difference arising between the amount owed to the minority shareholders of IrisCube Reply S.p.A. and Spike Reply S.r.l. in relation to the exercising of the aforementioned option and the decrease of the stake of the minority shareholders.

The above mentioned posting according to IAS 32 did not require changes to the statement of cash flows in as much as it did not generate cash flows as at 31 December 2005.

Note 15 - Other intangible assets

Intangible assets as at 31 December 2005 amounted to 1.746 thousand euros (1.739 thousand euros as at 31 December 2004).

(thousand euros)	**Historical cost**	**Accumulated amortisation**	**Net book value at 31/12/2005**
Development costs	2.085	(1.286)	799
Software	2.230	(1.789)	441
Trademarks	1.720	(1.214)	506
Total	**6.035**	**(4.289)**	**1.746**

Change in intangible assets during 2005 is summarised in the table below:

(thousand euros)	Net book value at 31/12/2004	Change in consolidation	Increases	Accumulated amortisation	Net book value at 31/12/2005
Development costs	736	161	400	(498)	799
Software	501	30	248	(338)	441
Trademarks	502	-	4	-	506
Total	**1.739**	**191**	**652**	**(836)**	**1.746**

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

The item Software is related mainly to software licenses purchased and used internally by the Group companies.

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

Note 16 - Equity investments

The item Equity investments amounting to 5.690 thousand euros is detailed at the table below:

(thousand euros)	31/12/2005	31/12/2004	Change
Investment in Santer S.p.A.	5.670	5.193	477
Investments in other non consolidated companies	20	-	20
Total	**5.690**	**5.193**	**497**

The change of 477 thousand euros is related to the investment in Santer S.p.A., purchased in December 2002 in which the parent company Reply S.p.A. holds 49% of the share capital.

Investments in other non consolidated companies is related to the companies Hermes S.r.l. and Action S.r.l., constituted in the month of December and as at the balance sheet date were not operational.

Note 17 - Other financial assets

Detail is as follows:

(thousand euros)	31/12/2005	31/12/2004	Change
Receivables from insurance companies	473	403	70
Guarantee deposits	266	239	27
Other	1	1	-
Total	**740**	**643**	**97**

Change in this item is mainly due to the insurance premium against directors' severance indemnities.

Note 18 - Inventories

The item inventories, amounting to 1.547 thousand euros, is detailed below:

(thousand euros)	31/12/2005	31/12/2004	Change
Contract work in progress	9.209	4.300	4.909
Finished products and goods for resale	500	150	350
Advance payments from customers	(8.162)	(4.172)	(3.990)
Total	**1.547**	**278**	**1.269**

Contract work in progress at 31 December 2005 includes contract revenue amounting to 3.849 thousand euros.

Note 19 - Trade receivables

Trade receivables, amounting to 79.662 thousand euros, comprised the following:

(thousand euros)	31/12/2005	31/12/2004	Change
Domestic receivables	77.853	64.764	13.089
Foreign trade receivables	3.472	2.215	1.257
Credit notes to be issued	(368)	(473)	105
Total	**80.957**	**66.506**	**14.451**
Allowance for doubtful accounts	(1.295)	(1.400)	105
Total trade receivables	**79.662**	**65.106**	**14.556**

Trade receivables comprising mainly high rated clients and all collectable within 12 months, arise from normal sales transactions.

Note 20 - Other receivables and current assets

Detail is as follows:

(thousand euros)	31/12/2005	31/12/2004	Change
Tax receivables	1.050	1.000	50
Advances to employees	96	171	(75)
Other receivables	212	613	(401)
Accrued income and prepaid expenses	2.372	843	1.529
Total	**3.730**	**2.627**	**1.103**

Accrued income and prepaid expenses are related to service costs that at the balance sheet date had not yet been executed.

Note 21 - Deferred tax assets

This item amounted to 2.912 thousand euros as at 31 December 2005 (3.644 thousand euros as at 31 December 2004) and includes the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.
The tax rates applied were 33% corresponding to IRES and 4.25% corresponding to IRAP.

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

(thousand euros)	31/12/2004	Statements 2005	Reversals 2005	31/12/2005
Fiscal losses carried forward	1.095	-	(1.095)	-
Write down of equity investments deductible in 5 years	448	-	(149)	299
Prepaid tax on costs that will become deductible in future years	1.617	1.502	(969)	2.150
Prepaid tax on greater provision for doubtful accounts	115	12	(2)	125
Deferred fiscal deductibility of amortization	238	49	(5)	282
Consolidation adjustments and other items	131	(75)	-	56
Total	**3.644**	**1.488**	**(2.220)**	**2.912**

Note 22 - Cash and cash equivalents

This item amounted to 13.989 thousand euros as at 31 December 2005, with a decrease of 392 thousand euros compared to 31 December 2004 and reflects the amount of cash at banks and on hand at the balance sheet date.

Note 23 – Shareholders' equity

Share capital

As at 31 December 2005 the fully subscribed paid-in share capital of the Parent Company Reply S.p.A. amounted to 4.374.089,20 euros and is made up of 8.411.710 ordinary shares, par value 0,52 euros per share.

Change in the period is solely due to the stock option plans granted; no. 54,700 stock option rights for a total value of 545.317,00 euros of which 28.444,00 euros as share capital increase and 516.873 euros as share premium reserve.

Other reserves

Other reserves comprised the following:

(thousand euros)	31/12/2005	31/12/2004	Change
Share premium reserve	16.546	15.904	642
Legal reserve	709	559	150
Reserve for treasury shares on hand	224	350	(126)
Reserve for purchase of treasury shares	19.703	19.703	-
Reserve for cash flow hedges	(17)	(75)	58
Retained earnings and other	12.653	9.804	2.849
Total	**49.818**	**46.245**	**3.573**

As at 31 December 2005 the Share premium reserve amounted to 16.546 thousand euros, with an increase of 642 thousand euros compared to 31 December 2004 arising from the aforementioned exercise of no. 54,700 stock option rights.

The reserve for purchase of treasury shares, amounting to 19.703 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 December 21, 2001, which authorised, pursuant to art. 2357 of the Italian Civil Code, the purchase of a maximum of 21 million euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

The reserve for treasury shares on hand amounting to 224 thousand euros, is related to shares held by the Parent company that as at 31 December 2005 were equal to no. 29,499. The decrease compared to the previous year is related to the transfer of no. 16,338 shares for the acquisition of a further 7.5% stake in Atlas Reply. Changes to treasury shares and the gains realised on the transaction were recorded in shareholders' equity.

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

Retained earnings and other includes, among other, the effects deriving from the following "evaluations":

- the costs related to the existing Stock Option Plans as at 31 December 2005 measured according to IFRS 2;
- changes in treasury shares and results related to such transactions.

Share based payment plans

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 stock option plans have the following purposes:

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

The Board of Directors' of the Parent Company in charge of the stock option plan, has assigned stock options to approximately 50 employees and directors of the group companies. As at 31 December 2005 no. 145,700 stock options have not yet vested.
In the first months of 2006 no. 9,600 stock options have been exercised for a total value of 85.574,40 euros of which 4.992 euros as increase in share capital, and 80.582,40 euros as share premium.
As at 31 December 2005 stock option plans granted in 2001, 2002 and 2004 were assessed for the purposes of IFRS 2, more specifically, for all stock options granted after November 7, 2002 which had not yet vested at January 1, 2005, the Group applied IFRS 2.

The features of the stock option plans can be summarised as follows:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	Strike price	Vesting period	Volatility after 1 year	Spot price	Fair value
2001	26/06/2001	17/04/2003	8,934	17/04/2005 – 17/10/2005	0,3377	9,03	2,664
2002	11/06/2002	13/11/2002	10,618	13/11/2004 – 13/05/2005	0,3307	10,20	3,151
2002	11/06/2002	13/02/2003	10,572	13/02/2005 – 13/08/2005	0,3370	10,18	3,044
2002	11/06/2002	26/09/2003	8,924	26/09/2005 – 26/03/2006	0,3242	9,20	2,678
2002	11/06/2002	13/11/2003	9,058	13/11/2005 – 13/05/2006	0,2897	9,17	2,351
2002	11/06/2002	12/02/2004	8,914	12/02/2006 – 12/08/2006	0,2402	9,51	2,296
2002	11/06/2002	19/04/2004	9,208	19/04/2006 – 19/10/2006	0,2324	9,43	2,014
2002	11/06/2002	13/05/2004	9,416	13/05/2006 – 13/11/2006	0,2344	9,49	1,995
2004	11/06/2004	11/11/2004	10,943	11/11/2006 – 11/05/2007	0,1919	11,39	2,157
2004	11/06/2004	11/11/2005	17,569	11/11/2007 – 11/05/2008	0,2240	18,36	3,162

At each grant date the stock option plans were remeasured by taking into consideration the existing market conditions at the date.
The method adopted in order to assess the fair value of the options is that of the risk neutral model: the model deducts the risk free interest curve from Bootstrap rates; the expected dividend yield for each share is equal to 1.5% per annum.

The assessment was set up by applying stochastic simulation methods through the Monte Carlo model which calculation is based on distinct monthly time lines.
As far as the volatility of the Reply share is concerned, at each grant date, applying the historical volatility at 1 year was deemed reasonable.
Assessment of the option according to IFRS 2 led to an expense of 140 thousand euros for year ended 2005.

Note 24 - Financial liabilities

Detail is as follows:

(thousand euros)			**31/12/2005**			**31/12/2004**
	current	**non current**	**Total**	**current**	**non current**	**Total**
Advances on receivables and bank overdrafts	101	-	101	270	-	270
Financial borrowings	4.018	7.670	11.688	131	11.930	12.061
Total financial liabilities	**4.119**	**7.670**	**11.789**	**401**	**11.930**	**12.331**

The main features of Non-current financial borrowings, as at 31 December 2005, are detailed as follows:

Financing institution	**Balance at 31/12/05 (thousand euros)**	**Interest rate**	**Maturity**	**Instalment**
Syndicated loan – SanPaolo IMI	11.687	Euribor 6 months + 0.75%	31 December 2008	Half year
BIBOP	1	Euribor 6 months + 1.25%	1 January 2006	Monthly
Total M/L term financial liabilities	**11.688**			

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

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

- Tranche A can be used as an overdraft for a maximum amount of 12.000.000 euros with the purpose of entirely reimbursing the previous loan;
- Tranche B can be used as an overdraft and/or as a performance guarantee for a maximum amount of 54.000.000 with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalised at the acquisition of companies, strategic investments or shares.

On the same date therefore, "Tranche A" was utilised for 12 million euros and the 12.094.000 euros of the previous loan was completely reimbursed in advance.

The credit facility (Tranche B) can be used in a lump sum solution or several solutions within December 31, 2008. In the first months of 2006 Tranche B was utilised for 15.783 thousand euros in connection to the acquisition of Syskoplan.

Tranche A will be reimbursed in six instalments that expire June 30 and December 31 of each year, starting June 30, 2006 and expiring December 31, 2008.

Tranche B will be reimbursed in six instalments that expire June 30 and December 31 of each year, starting June 30, 2009 and expiring December 31, 2011.
The interest rate applied is the Euribor at 6 months with an initial spread of 0.75 percentage points per annum; the spread could be modified (from 0.75% to 1.00%) in relation to the Debt/Ebitda ratio calculated on consolidated figures of Reply.

The company has also stipulated with SanPaolo IMI an interest rate swap agreement against interest rate risks of the same loan. The floating interest rate originally foreseen (Euribor 6 months), was transformed into a fixed interest rate of 3% per annum, allowing this way the cost of the loan to be hedged against any possible interest rate increase for the remaining duration of the loan.

The loan is also encumbered with bank commissions on the credit facility not used, charged on the aforementioned Tranche B on a quarterly basis to the statement of income and is also burdened with guarantees.

Tranche A is also guaranteed by pledges on the treasury shares and on shares purchased with the loan, in favour of the participating institutions.

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

As contractually defined, such ratios are as follows:

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

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

The financial liability stated at balance sheet has been accounted for net of additional costs incurred in order to obtain the loan.

The financial debt as at December 31, 2005 also includes the effects deriving from the fair value assessment of the related hedging instruments (amounting to -17 thousand euros).

The net financial position as at December 31, 2005 amounted to 2.200 thousand euros and is detailed as follows:

(thousand euros)	**31/12/2005**	**31/12/2004**	**Change**
Cash and cash equivalents	13.989	14.381	(392)
Total financial funds	**13.989**	**14.381**	**(392)**
Current financial liabilities	(4.119)	(401)	(3.718)
Non current financial liabilities	(7.670)	(11.930)	4.260
Total financial liabilities	**(11.789)**	**(12.331)**	**542**
TOTAL NET FINANCIAL POSITION	**2.200**	**2.050**	**150**

Note 25 - Employee benefits

Detail is as follows:

(thousand euros)	**31/12/2005**	**31/12/2004**	**Change**
Employee severance indemnities (IAS 19)	8.635	5.521	3.114
Employee pension and similar obligations	552	472	80
Other	147	62	85
Total	**9.334**	**6.055**	**3.279**

For the year ended 2005 changes in the reserve for employee severance indemnities, remeasured according to IAS 19, are the following:

(thousand euros)	
Balance at 31/12/2004	**5.521**
Reserve transferred from branch acquisition	1.970
Accruals	2.502
Utilisation	(1.358)
Balance at 31/12/2005	**8.635**

Benefits to employees that fall within the Italian regulation of Employee severance indemnities (TFR) are considered by IAS 19 as “post employment benefits” of the “defined benefits” type and are therefore subject to valuation by means of the actuarial procedure “Projected Unit Credit Method”.

The procedure for the determination of the Group’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 Group 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 Group must fulfil its obligations.

Reassessment of Employee severance indemnities in accordance to IAS 19 was carried out "ad personam" and on the existing employees, that is analytical calculations were made on each employee in force in the Reply Group at the assessment date without considering future work force.
The actuarial valuation model is based on the so called technical bases which represent the demographic, economic and financial assumptions underlying the parameters included in the calculation.

The assumptions adopted can be summarised as follows:

Demographic assumptions	
Mortality	ISTAT 2000 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee	Annual frequency of advances and employee turnover were assumed from historical data of each Group company: - Frequency of advances in 2005: 2.50% - Frequency of turnover % 2005: 10%

Economic and financial assumptions	
Annual inflation rate	Constant average annual rate equal to 2%
Annual discount rate	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount rate used for 2005 was 4.00%
Annual growth rate of the Employee severance indemnities	The employee severance indemnities (TFR) is revalued on an annual basis equal to 75% of the inflation rate plus a spread of one percentage point.
Annual increase in salaries	The annual increase of salaries used was calculated in function of the employee qualifications and the Group's market segment (3.00 to 4.50%)

Note 26 – Deferred tax liabilities

Deferred tax liabilities at December 31, 2005 amounted to 1.689 thousand euros (of which 590 thousand euros non-current liabilities) and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

(thousand euros)	
Costs stated only for tax return purposes	290
Other costs not yet tax deductible	1.399
Balance at 31/12/2005	**1.689**

Other costs not yet tax deductible mainly include the measurement of contract work in progress, employee benefits, capitalisation of development costs and reversal of amortisation of intangible assets. The tax rates applied were 33% corresponding to IRES and 4.25% corresponding to IRAP.

Note 27 - Trade payables

Change in trade payables compared to period ended 2004, amounted to 3.419 thousand euros and is detailed below:

(thousand euros)	31/12/2005	31/12/2004	Change
Domestic suppliers	16.487	12.666	3.821
Foreign suppliers	709	325	384
Advances to suppliers	(1.100)	(314)	(786)
Total	**16.096**	**12.677**	**3.419**

Note 28 - Other current liabilities

Details are provided below:

(thousand euros)	31/12/2005	31/12/2004	Change
Income tax payable (Ires – IRAP)	2.550	2.037	513
VAT payable	1.152	2.485	(1.333)
Withholding tax and other (IRPEF)	1.815	1.509	306
Total due to tax authorities	**5.517**	**6.031**	**(514)**
INPS	4.482	3.600	882
Other	276	184	92
Total due to social security authorities	**4.758**	**3.784**	**974**
Employee accruals	6.169	5.184	985
Due to minority shareholders	6.370	-	6.370
Other payables	3.173	1.810	1.363
Accrued expenses and deferred income	3.185	722	2.463
Total other payables	**18.897**	**7.716**	**11.181**
Total other payables and current liabilities	**29.172**	**17.531**	**11.641**

Pursuant to IAS 32, the amount due to the minority shareholders of IrisCube Reply S.p.A. and Spike Reply S.r.l. is related to the sell option of the shares held that will be exercised in 2006. Further details are provided at note 33.

Note 29 - Other provisions

Other provisions amounting to 132 thousand euros are related to the following residual liabilities:

- the restructuring plan aimed at forming, within the Reply Group, groups of homogeneous companies by business line (100 thousand euros);
- the restructuring plan of the IrisCube Group which includes employee leave incentives and the advanced interruption of office rental contracts (32 thousand euros after having used the provision for 34 thousand euros in the year).

Note 30 – Segment reporting

Segment reporting has been prepared in accordance to IAS 14. The Group presents reporting for three segments:

- Technologies
- Applications
- Processes

The segments have been determined on the basis of the individual Group companies' activities and reflect the Group's internal organisational structure and internal reporting.

Economic data (thousand euros)	Technologies	Applications	Processes	Intercompany	2005
Revenues	**66.039**	**64.300**	**18.211**	**(3.875)**	**144.675**
Operating costs	(55.187)	(56.091)	(16.254)	3.875	(123.658)
Gross operating income	**10.852**	**8.208**	**1.956**		**21.017**
Amortisation, depreciation and write-downs	(963)	(1.000)	(234)		(2.197)
Operating income	**9.889**	**7.209**	**1.722**		**18.820**

The following table shows the income statements by business lines for the year ended 2005 in percentage:

	Technologies	Applications	Processes
Revenues	**100.0**	**100.0**	**100.0**
Operating costs	(83.6)	(87.2)	(89.3)
Gross operating income	**16.4**	**12.8**	**10.7**
Amortisation, depreciation and write-downs	(1.5)	(1.6)	(1.3)
Operating income	**15.0**	**11.2**	**9.5**

Note 31 - Transactions with Related parties

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

On the face of the consolidated financial statements the economic and financial effects deriving from transactions with group companies, that is consolidated companies, are eliminated. Transactions carried out by the group companies with related parties that as of the reporting date are Alika S.r.l. and its subsidiary, Axcel S.r.l., are considered ordinary business and are carried out at normal market conditions.

Financial and business transactions among Group companies are carried out at normal market conditions and are eliminated during consolidation.

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

Reply Group - Main economic and financial transactions

(thousand euros)	With related parties	Nature of transaction
Financial transactions		
Trade receivables and other	12	Receivables from professional services
Trade payables and other	1.098	Payables for professional services and office rental
Economic transactions		
Revenues from sales and services	58	Consulting services
Costs for professional services	1.690	Consulting services
Services from Parent company and related parties	2.349	Services related to office rental and office of the secretary

Note 32 – Contingent liabilities

Following the legal actions in relation to the supposed unauthorized use of software, a law suite has been filed against Sytel Reply S.r.l., who contests the validity of the request and the consequent request of compensation by the counterpart.
The case is still underway and at present there is not enough information to reasonably foresee the outcome of the verdict and the estimation of the probable liabilities. No provision has therefore been made in the 2005 financial statements.

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

Some Group companies have recieved notices related to tax assessments for the fiscal year 2001; the companies have appealed the motive and requested to suspend the payments.

The Revenue Board (Agenzia dell'Entrate) is currently carrying out on Reply S.p.A. a tax assessment related to the fiscal year 2003.

Note 33 – Events subsequent to December 31, 2005

Acquisition of Syskoplan

On April 11, 2006 Reply S.p.A. brought to terms the acquisition of 63.76% of Sykoplan AG's share capital, a public German company.

The acquisition was carried out through the acquisition of share packages against a cash consideration (48.15% of Sykoplan AG'S share capital) and through a share swap agreement, newly issued Reply shares against Syskoplan shares (15.61% of Syskoplan AG's share capital), resolved by the Board of Directors on April 11, 2006 as previously authorised by the General Shareholders' Meeting held on June 14, 2005.

Option for the acquisition of minority shares

As previously mentioned at note 14, in execution of the agreements signed in occasion of the constitution of the subsidiary company, Spike Reply S.r.l. and those signed upon acquisition of the subsidiary company IrisCube Reply S.p.A., in the following months the "put" option to be exercised by the minority shareholders of Spike Reply S.r.l. and IrisCube Reply S.p.A. will expire (and correspondingly the "call" option for Reply S.p.A.) and therefore an assessment of the values of the minority shares, equal to 10% and 49% respectively of the above mentioned companies, is necessary.

On the basis of the 2005 financial results achieved and on the basis of expected results for 2006, Reply S.p.A. will acquire the above mentioned minority shares for an approximate consideration of maximum euro 370.000,00 for the 10% stake in Spike Reply S.r.l. and a maximum of euro 6.000.000,00 for the 49% stake in IrisCube Reply S.p.A.

With reference to the contents of the agreements signed with the minority shareholders of Spike Reply S.r.l. and IrisCube Reply S.p.A., the 10% acquisition of Spike Reply S.r.l.'s share capital can be paid against a cash consideration or through transfer of Reply S.p.A.'s shares whereas for IrisCube Reply S.p.A. 50% will be necessarily paid in cash and the remaining 50 % can either be paid in cash or through transfer of Reply S.p.A.'s shares.

Reply S.p.A. intends on purchasing, where provided by the agreements, the above mentioned minority shares through a share capital increase, with exclusion of pre-emptive rights for the current shareholders, released in kind through the transfer of the same shares to Reply S.p.A.. The technical means deemed more appropriate for the execution of these transactions consists in partially executing the proxy granted to the Board of Directors, for the share capital increase in kind with exclusion of pre-emptive rights, by the General Shareholders' meeting held on June 14, 2005 and as allowed by art. 2443 of the Italian Civil Code.

As already resolved by the Board of Directors on February 13, 2006, in order to carry out the above mentioned transfer of shares, pursuant to art. 2343 of the Italian Civil Code, Reply S.p.A. requested that a sworn expert be nominated by the Court of Turin in charge of drawing up a valuation report on the shares subject to the transfer.
Following the above request, the President of the Court of Turin, with decree dated February 24, 2006 nominated the independent audit firm PricewaterhouseCoopers as sworn expert.

Stock options

With reference to the scope and the characteristics of the stock option plans and in view of the advancing expiry date, the Board of Directors intends on proposing to the Shareholders in the next general meeting, an increase of the share capital against payment with exclusion of the pre-emptive rights and a probable share premium pursuant to art. 2441, paragraph 5 of the Italian Civil Code, to be undersigned by the directors of the same company and directors of its subsidiaries.

The stock option plan will include a total of 200,000 shares for a nominal value of 0,52 euros each.

Proxy for the increase of share capital

The directors intend on proposing to the shareholders of the forthcoming General meeting, as already resolved in past years, to provide the Board of Directors with the proxy for the increase of the share capital against payment, in one or more tranches, and therefore in separable form, within June 11, 2011, pursuant to art. 2443 of the Italian Civil Code, for a maximum nominal amount of 312.000 euros, through the issuing of 600,000 new Reply shares with a nominal value of 0,52 euros each and share premium and with exclusion of pre-emptive rights in compliance with art. 2441 paragraph 4, of the Italian Civil Code.

The increase of the share capital must be released in kind through shares of joint-stock companies having the same business scope or similar to that of the company or is however functional to the development of its activities.

Such instrument, which has been recently used successfully, would allow Reply to seize on a timely basis, acquisition opportunities in other joint-stock companies having the same business scope or similar or functional to the development of the activities, in order to enrich the range of services, all achievable through the swap of shares.

_**Annexed** tables

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Companies included in the consolidated financial statements at 31 December 2005 and equity investments

Company name	Registered office		Share capital	Group interest
PARENT COMPANY				
Reply S.p.A.	Torino - Corso Francia, 110	€	4.374.089	-
SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS				
@Logistics Reply S.r.l.	Torino - Corso Francia, 110	€	78.000	100,00%
Aktive Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Atlas Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Blue Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Business Reply S.r.l.	Torino - Corso Francia, 110	€	78.000	100,00%
Cape Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Cluster Reply S.r.l.	Torino - Corso Francia, 110	€	100.000	100,00%
Cluster Reply Padova S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
e*finance consulting Reply S.r.l.	Torino - Corso Francia, 110	€	34.000	100,00%
EOS Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	80,00%
IrisCube Reply S.p.A.	Milano – Via F. Filzi 25/A	€	651.735	51,00%
Logistics Reply do Brasil LTDA	Sao Paolo - Brazil	R$	588.059	80,00%
Logistics Reply SL	Barcellona - Spain	€	53.010	100,00%
Open Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Power Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	67,49%
Reply Consulting S.r.l.	Torino - Corso Francia, 110	€	10.000	51,00%
Spike Reply S.r.l.	Torino - Corso Francia, 110	€	50.000	90,00%
Sysproject S.r.l.	Torino - Corso Francia, 110	€	10.400	100,00%
Sytel Reply S.r.l.	Torino - Corso Francia, 110	€	115.046	100,00%
Technology Reply S.r.l.	Torino - Corso Francia, 110	€	79.743	100,00%
Themis Reply S.A.	Lugano - Switzerland	CHF	100.000	69,98%
Twice Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	70,00%
XYZ Reply S.r.l.	Torino - Corso Francia, 110	€	12.939	100,00%
YH Reply S.r.l.	Torino - Corso Francia, 110	€	21.224	100,00%
ASSOCIATE COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD				
Santer S.p.A.	Milano - via Don Minzoni, 24	€	2.209.500	49,00%
ASSOCIATE COMPANIES VALUED AT COST				
Action Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Hermes Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%

_**Transition** to international accounting standards (IAS / IFRS)

Introduction

Following the coming into force of European Regulation No. 1606 dated July 2002, starting from January 1, 2005, the Reply Group adopted International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. This Appendix provides reconciliations between equity reported under previous GAAP (Italian GAAP) and reported under IFRS for the prior periods shown as comparatives, as required by IFRS 1 – First-time Adoption of IFRS, together with the related explanatory notes.

This information has been prepared as part of the Group conversion to IFRS and in connection with the preparation of its year ended 2005 consolidated financial statements in accordance with IFRS, as adopted by the European Union; it does not include all of the statements, comparative information and disclosures which would be necessary for a full presentation of the financial position and results of operations of the Reply Group as of and for the year ended December 31, 2004.

Reconciliations required by IFRS 1

As required by IFRS 1, this Appendix describes the standards applied in preparing the consolidated balance sheet in accordance with IFRS at the opening date of January 1, 2004, it illustrates the major differences compared to the Italian GAAP applied in preparing the year ended 2004 consolidated financial statements together with reconciliations between the same figures, prepared in accordance with Italian GAAP and already published in the June 2005 half-year report, and the corresponding figures remeasured in accordance with IFRS.
The 2004 restated IFRS consolidated balance sheet and income statement have been prepared in accordance with IFRS 1 – First-time Adoption of IFRS. In particular, the IFRS applicable from January 1, 2005, as published as of December 31, 2004, have been adopted, including the following:

- IAS 39 – Financial Instruments: Recognition and Measurement in its entirety. In particular, the Group adopted derecognition requirements retrospectively from the date in which financial assets and financial liabilities had been derecognized under Italian GAAP.

- IFRS 2 – Share-based Payment, which was issued by the IASB on February 19, 2004 and adopted by the European Commission on February 7, 2005.

First time application of IFRS

General principles

The Group applied the accounting standards in force at December 31, 2004 retrospectively to all periods presented, except for some exemptions adopted by the Group in accordance with IFRS 1, as described in the following paragraph.

These 2004 financial statements constitute the comparative data in the consolidated financial statements as of December 31, 2005.

Optional exemptions adopted by the Group

Business combinations: The Group elected not to apply IFRS 3 - Business Combinations retrospectively to the business combinations that occurred before the date of transition to IFRS.
Employee benefits: The Group elected to recognize all cumulative actuarial gains and losses that existed at January 1, 2004, even if it decided to use the corridor approach for later actuarial gains and losses.
Cumulative translation differences: The cumulative translation differences arising from the consolidation of foreign operations have been set at nil as at January 1, 2004; gains or losses on subsequent disposal of any foreign operation shall only include accumulated translation differences after January 1, 2004.

Effects on the Group financial and economic situations arising from transition to IFRS

Reconciliation statements demonstrating the effects on net equity and on net result arising from transition to IFRS are reported below. The amounts stated do not consider the related tax effect, which is summarised in the item "tax effects and other".
Following is a description of the major differences between Italian GAAP and the IFRS that had financial and/or economic effects on the Group's financial statements; their description follows the numbers indicated on the statement.
Statements including the effects of transition to IFRS and a detail of adjustments by nature are also provided for:

- the balance sheets as at 1 January 2004 and 31 December 2004;

- the statement of income for the year-ended 2004.

Balance sheet reconciliation statement

(thousand euros)	01/01/2004	31/12/2004
Net equity stated according to national accounting standards	**50.891**	**54.841**
1 Reclassifications	(350)	(350)
2 Goodwill	-	1.252
3 Listing expenses	(910)	-
4 Trademark	-	343
5 Development costs	712	738
6 Contract work in progress	1.135	1.180
7 Directors' fees	(585)	(1.398)
8 Employee benefits	420	390
9 Stock Options	-	-
10 Derivative financial instruments	(62)	(75)
11 Tax effects and other minor adjustments	(317)	(611)
Total IAS / IFRS adjustments	**43**	**1.469**
NET EQUITY STATED ACCORDING TO IAS / IFRS	**50.934**	**56.310**

Income statement reconciliation

(thousand euros)	Year ended 2004
Net result stated according to national accounting standards	**3.779**
1 Reclassifications	-
2 Goodwill	1.252
3 Listing expenses	910
4 Trademark	343
5 Development costs	26
6 Contract work in progress	45
7 Directors' fees	(1.398)
8 Employee benefits	(30)
9 Stock Options	(140)
10 Derivative financial instruments	-
11 Tax effects and other minor adjustments	(105)
Total IAS / IFRS adjustments	**903**
NET RESULT STATED ACCORDING TO IAS / IFRS	**4.682**

1. Reclassifications

According to Italian GAAP, the Group recognises treasury shares as assets and the related adjustments, gains and losses arising from their disposal in the statement of income. As per IFRS treasury shares must be stated in net equity and all changes in treasury shares must be recognised in net equity instead of in the income statement; for transition purposes therefore treasury shares were reclassified in net equity.

2. Goodwill

Intangible assets purchased or internally generated are recognised as assets, according to IAS 38, when it is probable that the asset will generate future economic benefits and the cost of the asset can be measured reliably.
These assets are recognised at acquisition or production cost and amortised on a straight line basis over the estimated useful lives, if they have a finished useful life.
Intangible fixed assets having an undefined useful life are assessed annually or each time there is an indication of a probable impairment in order to determine whether there is a real impairment.
Other intangible assets recognised following an acquisition of a company are stated separately from goodwill, if their fair value can be measured reliably.

3. Listing expenses

According to Italian GAAP, listing expenses are capitalised and amortised, under IFRS such expenses were deducted in net equity as at 1 January 2004.

4. Trademark

Starting January 1, 2004, the income statement does not include amortisation expenses related to the trademark, as it is considered an intangible asset with an undefined useful life.

5. Development costs

According to Italian GAAP, applied research and development costs may be alternatively capitalised or recognised as costs in the period in which they are incurred. The Reply Group originally recognises research and development costs in the income statement as incurred, in accordance with Italian standards. IAS 38 – Intangible Assets requires that research costs be expensed, whereas development costs that meet the criteria for capitalisation must be capitalised and then amortised from the start of production over the economic life of the related products.
Under IFRS, the Group has capitalised development costs incurred for "Click" and "Discovery", using the retrospective approach in compliance with IFRS 1.
The effect on the stockholders' equity at January 1, 2004 redetermined according to IFRS, corresponds to the cumulative amount of qualifying development expenditures incurred in prior years by the Group, net of accumulated amortization.

6. Contract work in progress

Contract work in progress is measured according to the percentage of completion.
Any probable losses on such contracts are entirely recognised at the income statement when incurred.
Any advances previously invoiced to clients are deducted from the value of the contract.

7. Directors' fees

The Reply Group, as allowed under Italian GAAP, recognises directors' fees, distributed upon shareholders' resolutions, as allocation of net profit without effects on result for the period.
Under IFRS directors' fees are recognised in the income statement in relation to when the fees are payable.
Consequently, for transition purposes, directors' fees have been recognised when they become payable.

8. Employee benefits

With the adoption of IFRS, TFR is considered a defined benefit obligation to be accounted for in accordance with IAS 19 and consequently has been recalculated applying the Projected Unit Credit Method.
The Group elected to recognize all cumulative actuarial gains and losses that existed at January 1, 2004 with a positive impact on stockholders' equity opening balance.
The Group has decided to use the corridor approach for actuarial gains and losses that will arise after January 1, 2004.

9. Stock Options

According to Italian GAAP, neither obligations nor costs are recognised for share-based payments.
Under IFRS 2 – Share-based payments, stock options measured at fair value must be entirely recognised at the income statement at the grant date; changes in fair value subsequent to the grant date do not have effect on the original measurement. Costs for payments corresponding to the fair value of the rights are recognised as personnel expenses in equal portions over the grant date and vesting period, with a counter balance in net equity.
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 as provided by the temporary provisions of IFRS 2, no costs are recognised for share-based payments prior to 7 November 2002.

10. Derivative financial instruments

Beginning in 2001 the Reply Group adopted – to the extent that it is consistent and not in contrast with general principles set forth in the Italian law governing financial statements – IAS 39 Financial Instruments: Recognition and Measurement. In particular, taking into account the restrictions under Italian law, the Group maintained that IAS 39 was applicable only in part and only in reference to the designation of derivative financial instruments as "hedging" or "non-hedging instruments" and with respect to the symmetrical accounting of the result of the valuation of the hedging instruments and the result attributable to the hedged items ("hedge accounting").

The transactions which, according to the Group's policy for risk management, are able to meet the conditions stated by the accounting principle for hedge accounting treatment, are designated as hedging transactions; the others, although set up for the purpose of managing risk exposure (inasmuch as the Group's policy does not permit speculative transactions), have been designated as "trading".

The main differences between Italian GAAP and IFRS may be summarized as follows:

Under IFRS, derivative financial instruments designated as "hedging instruments" can be distinguished as follows:

a) In the case of a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value shall be recognized in the income statement and the gain or loss on hedged item attributable to the hedge risk shall adjust the carrying amount of the hedged item and be recognized in the income statement. Consequently, no impact arises on net income (except for the ineffective portion of the hedge, if any) and on net equity, while adjustments impact the carrying values of hedging instruments and hedged items.
b) In the case of a cash flow hedge (hedging of future flows), the portion of gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in equity through the statement of changes in equity; the ineffective portion of the gain or loss shall be recognized in the income statement. Consequently, with reference to the effective portion, only a difference on net equity arises between Italian GAAP and IFRS.

11. Tax effects and other minor adjustments

This adjustment includes the combined effect of the net deferred tax effects, after allowance, on the above mentioned IFRS adjustments, as well as other minor differences between Italian GAAP and IFRS relating to the recognition of tax assets and liabilities.

The following minor adjustments are also included:

a) incidental charges on loans: they are recognised as expenses in the period in which they are incurred, with exception of the incidental charges capitalised as part of an asset that qualifies for capitalisation;
b) start-up and expansion costs: they qualify as share capital transactions and therefore should be deducted in net equity.

In addition, the following adjustments were made that did not have effects on net equity:

- advances to suppliers were stated in deduction to trade payables;
- reserves for risks were subdivided according to when the correlated liability is expected to occur.

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Effects on the balance sheet at January 1, 2004 arising from adoption of IFRS

Balance Sheet at January 1, 2004 (thousand euros)	**According to Italian GAAP**	Reclassifications	IAS/IFRS adjustments	**IAS/IFRS**
Tangible fixed assets	2.000	444	-	2.444
Goodwill	8.916	-	-	8.916
Other intangible assets	2.319	(608)	(274)	1.437
Equity investments	5.403	-	-	5.403
Other financial assets	656	-	-	656
Deferred tax assets	-	-	-	-
Non-current assets	**19.294**	**(164)**	**(274)**	**18.856**
Inventories	4.393	(1.950)	1.135	3.578
Trade receivables	46.072	-	-	46.072
Other receivables and current assets	3.908	(169)	-	3.739
Deferred tax assets	2.341	-	579	2.920
Financial assets	2.695	(350)	-	2.345
Cash and cash equivalents	10.319	-	-	10.319
Current assets	**69.728**	**(2.469)**	**1.714**	**68.973**
TOTAL ASSETS	**89.022**	**(2.633)**	**1.440**	**87.829**
Share capital	4.244	-	-	4.244
Other reserves	42.808	(350)	393	42.851
Group net result	3.003	-	-	3.003
Group Shareholders' equity	**50.055**	**(350)**	**393**	**50.098**
Minority interest	836	-	-	836
Total shareholders' equity	**50.891**	**(350)**	**393**	**50.934**
Financial liabilities	6.640	(164)	-	6.476
Employee benefits	5.113	-	(420)	4.693
Deferred tax liabilities	74	(74)	340	340
Other provisions	731	(731)	-	-
Non-current liabilities	**12.558**	**(969)**	**(80)**	**11.509**
Financial liabilities	2.761	-	56	2.817
Trade payables	9.680	(169)	-	9.511
Other payables and current liabilities	13.132	(1.950)	585	11.767
Deferred tax liabilities	-	74	486	560
Other provisions	-	731	-	731
Current liabilities	**25.573**	**(1.314)**	**1.127**	**25.386**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**89.022**	**(2.633)**	**1.440**	**87.829**

Reply

Effects on the balance sheet at January 1, 2004 arising from adoption of IFRS

Balance sheet at January 1, 2004 (thousand euros)	According to Italian GAAP	1 Reclassi fications	2 IAS 38/IFRS 3 Goodwill	3 IAS 38 Listingi expenses	4 IAS 38 Trademark	5 IAS 38 Development costs
Tangible fixed assets	2.000	444	-	-	-	-
Goodwill	8.916	-	-	-	-	-
Other intangible assets	2.319	(608)	-	(910)	-	712
Equity investments	5.403	-	-	-	-	-
Other financial assets	656	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-
Non current assets	**19.294**	**(164)**	**-**	**(910)**	**-**	**712**
Inventories	4.393	(1.950)	-	-	-	-
Trade receivables	46.072	-	-	-	-	-
Other receivables and current assets	3.908	(169)	-	-	-	-
Deferred tax assets	2.341	-	-	-	-	-
Financial assets	2.695	(350)	-	-	-	-
Cash and cash equivalents	10.319	-	-	-	-	-
Current assets	**69.728**	**(2.469)**	**-**	**-**	**-**	**-**
TOTAL ASSETS	**89.022**	**(2.633)**	**-**	**(910)**	**-**	**712**
Share capital	4.244	-	-	-	-	-
Other reserves	42.808	(350)	-	(910)	-	712
Group net result	3.003	-	-	-	-	-
Group Shareholders' equity	**50.055**	**(350)**	**-**	**(910)**	**-**	**712**
Minority interest	836	-	-	-	-	-
Shareholders' equity	**50.891**	**(350)**	**-**	**(910)**	**-**	**712**
Financial liabilities	6.640	(164)	-	-	-	-
Employee benefits	5.113	-	-	-	-	-
Deferred tax liabilities	74	(74)	-	-	-	-
Other provisions	731	(731)	-	-	-	-
Non current liabilities	**12.558**	**(969)**	**-**	**-**	**-**	**-**
Financial liabilities	2.761	-	-	-	-	-
Trade payables	9.680	(169)	-	-	-	-
Other payables and current liabilities	13.132	(1.950)	-	-	-	-
Deferred tax liabilities	-	74	-	-	-	-
Other provisions	-	731	-	-	-	-
Current liabilities	**25.573**	**(1.314)**	**-**	**-**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**89.022**	**(2.633)**	**-**	**(910)**	**-**	**712**

6 IAS 11 Contract work in progress	7 IAS 19 Directors' fees	8 IAS 19 Employee benefits	9 IFRS 2 Stock Options	10 IAS 32,39 Derivative financial instruments	11 Tax effects and other minor adjustments	IAS/IFRS
-	-	-	-	-	-	2.444
-	-	-	-	-	-	8.916
-	-	-	-	-	(76)	1.437
-	-	-	-	-	-	5.403
-	-	-	-	-	-	656
-	-	-	-	-	-	-
-	**-**	**-**	**-**	**-**	**(76)**	**18.856**
1.135	-	-	-	-	-	3.578
-	-	-	-	-	-	46.072
-	-	-	-	-	-	3.739
-	-	-	-	-	579	2.920
-	-	-	-	-	-	2.345
-	-	-	-	-	-	10.319
1.135	**-**	**-**	**-**	**-**	**579**	**68.973**
1.135	**-**	**-**	**-**	**-**	**503**	**87.829**
-	-	-	-	-	-	4.244
1.135	(585)	420	-	(62)	(317)	42.851
-	-	-	-	-	-	3.003
1.135	**(585)**	**420**	**-**	**(62)**	**(317)**	**50.098**
-	-	-	-	-	-	836
1.135	**(585)**	**420**	**-**	**(62)**	**(317)**	**50.934**
-	-	-	-	-	-	6.476
-	-	(420)	-	-	-	4.693
-	-	-	-	-	340	340
-	-	-	-	-	-	-
-	**-**	**(420)**	**-**	**-**	**340**	**11.509**
-	-	-	-	62	(6)	2.817
-	-	-	-	-	-	9.511
-	585	-	-	-	-	11.767
-	-	-	-	-	486	560
-	-	-	-	-	-	731
-	**585**	**-**	**-**	**62**	**480**	**25.386**
1.135	**-**	**-**	**-**	**-**	**503**	**87.829**

_Reply

Effects on the balance sheet at December 31, 2004 arising from adoption of IFRS

Balance Sheet at December 31, 2004 (thousand euros)	According to Italian GAAP	Reclassifications	IAS/IFRS adjustments	IAS/IFRS
Tangible fixed assets	1.923	238	-	2.161
Goodwill	9.142	-	1.252	10.394
Other intangible assets	1.200	(402)	941	1.739
Equity investments	5.193	-	-	5.193
Other financial assets	643	-	-	643
Non-current assets	**18.101**	**(164)**	**2.193**	**20.130**
Inventories	3.270	(4.172)	1.180	278
Trade receivables	65.106	-	-	65.106
Other receivables and current assets	2.940	(313)	-	2.627
Deferred tax assets	3.089	-	555	3.644
Financial assets	350	(350)	-	-
Cash and cash equivalents	14.381	-	-	14.381
Current assets	**89.136**	**(4.835)**	**1.735**	**86.036**
TOTAL ASSETS	**107.237**	**(4.999)**	**3.928**	**106.166**
Share capital	4.346	-	-	4.346
Other reserves	45.679	(350)	916	46.245
Group net result	3.779	-	903	4.682
Group Shareholders' equity	**53.804**	**(350)**	**1.819**	**55.273**
Minority interest	1.037	-	-	1.037
Total shareholders' equity	**54.841**	**(350)**	**1.819**	**56.310**
Financial liabilities	12.094	(164)	-	11.930
Employee benefits	6.445	-	(390)	6.055
Deferred tax liabilities	115	-	316	431
Other provisions	166	(166)	-	-
Non-current liabilities	**18.820**	**(330)**	**(74)**	**18.416**
Financial liabilities	282	-	119	401
Trade payables	12.989	(313)	1	12.677
Other payables and current liabilities	20.305	(4.172)	1.398	17.531
Deferred tax liabilities	-	-	665	665
Other provisions	-	166	-	166
Current liabilities	**33.576**	**(4.319)**	**2.183**	**31.440**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**107.237**	**(4.999)**	**3.928**	**106.166**

_Reply

Effects on the balance sheet at December 31, 2004 arising from adoption of IFRS

Balance sheet at December 31st 2004 (thousand euros)	According to Italian GAAP	1 Reclassi-fications	2 AS 38/IFRS 3 Goodwill	3 IAS 38 Listing expenses	4 IAS 38 Trademark	5 IAS 38 Development costs
Tangible fixed assets	1.923	238	-	-	-	-
Goodwill	9.142	-	1.252	-	-	-
Other intangible assets	1.200	(402)	-	-	343	738
Equity investments	5.193	-	-	-	-	-
Other financial assets	643	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-
Non current assets	**18.101**	**(164)**	**1.252**	**-**	**343**	**738**
Inventories	3.270	(4.172)	-	-	-	-
Trade receivables	65.106	-	-	-	-	-
Other receivables and current assets	2.940	(313)	-	-	-	-
Deferred tax assets	3.089	-	-	-	-	-
Financial assets	350	(350)	-	-	-	-
Cash and cash equivalents	14.381	-	-	-	-	-
Current assets	**89.136**	**(4.835)**	**-**	**-**	**-**	**-**
TOTAL ASSETS	**107.237**	**(4.999)**	**1.252**	**-**	**343**	**738**
Share capital	4.346	-	-	-	-	-
Other reserves	45.679	(350)	-	(910)	-	712
Group net result	3.779	-	1.252	910	343	26
Group Shareholders' equity	**53.804**	**(350)**	**1.252**	**-**	**343**	**738**
Minority interest	1.037	-	-	-	-	-
Shareholders' equity	**54.841**	**(350)**	**1.252**	**-**	**343**	**738**
Financial liabilities	12.094	(164)	-	-	-	-
Employee benefits	6.445	-	-	-	-	-
Deferred tax liabilities	115	-	-	-	-	-
Other provisions	166	(166)	-	-	-	-
Non current liabilities	**18.820**	**(330)**	**-**	**-**	**-**	**-**
Financial liabilities	282	-	-	-	-	-
Trade payables	12.989	(313)	-	-	-	-
Other payables and current liabilities	20.305	(472)	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-
Other provisions	-	166	-	-	-	-
Current liabilities	**33.576**	**(4.319)**	**-**	**-**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**107.237**	**(4.999)**	**1.252**	**-**	**343**	**738**

6 IAS 11 Contract work in progress	7 IAS 19 Directors' fees Directors' fees	8 IAS 19 Employee benefits	9 IFRS 2 Stock Options	10 IAS 32,39 Derivative financial instruments	11 Tax effects and other minor adjustments	IAS/IFRS
-	-	-	-	-	-	2.161
-	-	-	-	-	-	10.394
-	-	-	-	-	(140)	1.739
-	-	-	-	-	-	5.193
-	-	-	-	-	-	643
-	-	-	-	-	-	-
-	**-**	**-**	**-**	**-**	**(140)**	**20.130**
1.180	-	-	-	-	-	278
-	-	-	-	-	-	65.106
-	-	-	-	-	-	2.627
-	-	-	-	-	555	3.644
-	-	-	-	-	-	-
-	-	-	-	-	-	14.381
1.180	**-**	**-**	**-**	**-**	**555**	**86.036**
1.180	**-**	**-**	**-**	**-**	**415**	**106.166**
-	-	-	-	-	-	4.346
1.135	-	420	140	(75)	(506)	46.245
45	(1.398)	(30)	(140)	-	(105)	4.682
1.180	**(1.398)**	**390**	**-**	**(75)**	**(611)**	**55.273**
-	-	-	-	-	-	1.037
1.180	**(1.398)**	**390**	**-**	**(75)**	**(611)**	**56.310**
-	-	-	-	-	-	11.930
-	-	(390)	-	-	-	6.055
-	-	-	-	-	316	431
-	-	-	-	-	-	-
-	**-**	**(390)**	**-**	**-**	**316**	**18.416**
-	-	-	-	75	44	401
-	-	-	-	-	1	12.677
-	1.398	-	-	-	-	17.531
-	-	-	-	-	665	665
-	-	-	-	-	-	166
-	**1.398**	**-**	**-**	**75**	**710**	**31.440**
1.180	**-**	**-**	**-**	**-**	**415**	**106.166**

_Reply

Effects on the income statement at December 31, 2004 arising from adoption of IFRS

Income statement at December 31, 2004 (thousand euros)	According to Italian GAAP	Reclassifications	IAS/IFRS adjustments	IAS/IFRS
Revenues	111.775	-	45	111.820
Other revenue	341	-	-	341
Purchases	(3.438)	-	-	(3.438)
Personnel expenses	(55.121)	-	(1.220)	(56.341)
Services and other costs	(37.762)	-	(125)	(37.887)
Other unusual operating income/expenses	-	(336)	1	(335)
Amortisation, depreciation and write-downs	(4.397)	-	2.242	(2.155)
Operating income	**11.398**	**(336)**	**943**	**12.005**
Result of equity investments	(210)	-	-	(210)
Financial income/(expenses)	(264)	-	(50)	(314)
Extraordinary income/(expenses)	(336)	336	-	-
Result before taxes	**10.588**	**-**	**893**	**11.481**
Income taxes	(6.376)	-	10	(6.366)
Net result before minority interest	**4.212**	**-**	**903**	**5.115**
Minority interest	(433)	-	-	(433)
GROUP NET RESULT	**3.779**	**-**	**903**	**4.682**

_Reply

Effects on the income statement at December 31, 2004 arising from adoption of IFRS

Balance sheet at December 31, 2004 (thousand euros)	According to Italian GAAP	1 Reclassi-fications	2 IAS 38/IFRS 3 Goodwill	3 IAS 38 Listing expenses	4 IAS 38 Trademark	5 IAS 38 Development costs
Revenues	111.775	-	-	-	-	-
Other revenue	341	-	-	-	-	-
Purchases	(3.438)	-	-	-	-	-
Personnel expenses	(55.121)	-	-	-	-	351
Services and other costs	(37.762)	-	-	-	-	-
Other unusual operating income/expenses	-	(336)	-	-	-	-
Ammortamenti e svalutazioni	(4.397)	-	1.252	910	343	(325)
Operating income	**11.398**	**(336)**	**1.252**	**910**	**343**	**26**
Result of equity investments	(210)	-	-	-	-	-
Financial income/(expenses)	(264)	-	-	-	-	-
Extraordinary income/(expenses)	(336)	336	-	-	-	-
Result before taxes	**10.588**	**-**	**1.252**	**910**	**343**	**26**
Income taxes	(6.376)	-	-	-	-	-
Net result before minority interest	**4.212**	**-**	**1.252**	**910**	**343**	**26**
Minority interest	(433)	-	-	-	-	-
GROUP NET RESULT	**3.779**	**-**	**1.252**	**910**	**343**	**26**

6 IAS 11 Contract work in progress	7 IAS 19 Directors' fees	8 IAS 19 Employee benefits	9 IFRS 2 Stock Options	10 IAS 32,39 Derivative financial instruments	11 Tax effects and other minor adjustments	IAS/IFRS
45	-	-	-	-	-	111.820
-	-	-	-	-	-	341
-	-	-	-	-	-	(3.438)
-	(1.398)	(30)	(140)	-	(3)	(56.341)
-	-	-	-	-	(125)	(37.887)
-	-	-	-	-	1	(335)
-	-	-	-	-	62	(2.155)
45	**(1.398)**	**(30)**	**(140)**	**-**	**(65)**	**12.005**
-	-	-	-	-	-	(210)
-	-	-	-	-	(50)	(314)
-	-	-	-	-	-	-
45	**(1.398)**	**(30)**	**(140)**	**-**	**(115)**	**11.481**
-	-	-	-	-	10	(6.366)
45	**(1.398)**	**(30)**	**(140)**	**-**	**(105)**	**5.115**
-	-	-	-	-	-	(433)
45	**(1.398)**	**(30)**	**(140)**	**-**	**(105)**	**4.682**

_**Statutory** auditors' report

to the shareholders' meeting on the consolidated financial statements as at 31 December 2005

To the Shareholders,

The Board of Directors is submitting to You the consolidated financial statements as of 31 December 2005, consisting of the Balance Sheet, the Statement of Income and the Notes to the consolidated financial statements.

The Consolidated Financial Statements for the year ended 2005 present a consolidated net equity of 61.056 thousand euros and a net result of 6.864 thousand euros and were delivered to the Statutory Auditors, within the required time, jointly with the financial statements and the Directors' Report on Operations.

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

The consolidation area is exhaustively defined at the aforementioned financial statements and as at 31 December 2005 includes, apart from the Parent Company, 24 companies consolidated on a line-by-line basis and one company consolidated according to the net equity method.

Controls carried out by the Audit Firm Deloitte & Touche S.p.A. lead to confirm that the values expressed on the face of the Consolidated Financial Statements as at 31 December 2005 reflect the accounting results of the Parent Company, of the subsidiary companies' financial statements and replicate the information communicated by the latter.

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

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

Deloitte & Touche S.p.A., Independent Auditors engaged in certifying the Consolidated Financial Statements, issued its opinion on May 9, 2006, in which it asserts that the Reply Group Consolidated Financial Statements as at 31 December 2005 are in compliance with laws governing the criteria for their preparation.

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

- the consolidation area has been determined correctly;
- the adopted consolidation procedures are pursuant to the law and have been applied correctly;
- the figures expressed in the Directors' Report on Operations correspond to results expressed on the face of the consolidated financial statements;
- the information used for consolidation purposes is referred to the entire administrative period of the year 2005;
- the accounting principles and the evaluation criteria are in line with the previous year with the exception of those changed as a consequence of adoption of IAS/IFRS;
- the associate company Santer S.p.A is consolidated according to the equity method and the subsidiary companies Action Reply S.r.l. and Hermes Reply S.r.l., constituted in the month of December are carried at cost.

Turin, May 29, 2006

The statutory auditors
(Prof. Piergiorgio Re)
(Mr. Tommaso Vallenzasca)
(Mrs. Ada Alessandra Garzino Demo)

Deloitte.

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REPORT OF THE INDEPENDENT AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLES 156 OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998

(Translation from the Original Issued in Italian)

To the Shareholders of
REPLY S.p.A.

We have audited the consolidated financial statements of Reply S.p.A. and subsidiaries (the "Reply Group"), which comprise the balance sheet as at December 31, 2005, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and the explanatory notes. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. These consolidated financial statements represent Reply S.p.A.'s first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The consolidated financial statements present for comparative purposes the corresponding data for the year 2004 prepared in accordance with IFRS. In addition, the explanatory notes to the consolidated financial statements explains the effects of transition to IFRS as adopted by the European Union and includes the reconciliation statements required by IFRS 1, previously approved by the Board of Directors and published as an attachment to the Reply Group's half-yearly interim financial statements as of June 30, 2005, which we have audited and on which we issued a special purpose auditors' report dated September 28, 2005.

In our opinion, the consolidated financial statements present fairly the financial position of the Reply Group as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

s/Giuseppe Pedone
Partner

Turin, Italy
May 9, 2006

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

_Reply S.p.A.

Financial statements
at 31 December 2005

_**Directors'** report on operations

_Trend in operations

Introduction

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

The statements provided and commented below were drawn up on the basis of the December 31, 2005 financial statements, to which reference must be made, and according to the rules set forth in Italian Legislative Decree no. 127 of April 9, 1991 as amended.
As from fiscal year 2006, the Parent Company Reply S.p.A. will also prepare its statutory financial statements in accordance with international accounting standards (IAS/IFRS).

Reclassified statement of income

The Parent Company's statement of income is reported below:

(thousand euros)	**2005**	**2004**	**Change**
Revenues from operational activities	14.488	12.039	2.449
Revenues from sales and services	65.426	47.374	18.052
Purchases, services and other costs	(75.009)	(54.230)	(20.779)
Personnel and related costs	(4.665)	(4.733)	68
Gross operating income	**240**	**450**	**(210)**
Amortisation and depreciation	(768)	(1.905)	1.137
Operating income	**(528)**	**(1.455)**	**927**
Financial income/(expenses), net	944	747	197
Income from equity investments	4.200	3.500	700
Extraordinary income/(expenses), net	200	31	169
Result before taxes	**4.816**	**2.823**	**1.993**
Income taxes	(395)	177	(572)
NET INCOME	**4.421**	**3.000**	**1.421**

Revenues from operational activities are mainly related to:

- Royalties on the Reply trademark for 4.096 thousand euros (3.334 thousand euros for the year ended 2004);
- Activities carried out centrally for the subsidiary companies for 7.849 thousand euros (5.616 thousand euros in the previous year);
- Management services for 2.543 thousand euros (2.322 thousand euros in for the year ended 2004).

The increase of Group revenues in 2005, has a direct influence on Reply S.p.A. who has developed in the past years fronting activities concerning relations with primary clients also in capacity of sole manager of processes compliant to ISO 9001 quality standards. The gross operating margin, solely influenced by ordinary activities, was positive and totalled 240 thousand euros (450 thousand euros in 2004).

Operating income marked a negative result of 528 thousand euros, after having deducted amortization expenses of 768 thousand euros mainly related to the "Reply" trademark (157 thousand euros), to hardware (113 thousand euros) and to other intangible assets (235 thousand euros).

Net financial income amounting to 944 thousand euros includes interest income from subsidiaries and interest from security investments (1.471 thousand euros) and interest expenses (514 thousand euros) related to the utilization of the credit facility for new M&A operations.

Income from equity investments refers to dividends from subsidiaries, recorded on accrual basis for 4.200 thousand euros.

Net income for the year ended 2005 amounted to 4.421 thousand euros after a negative tax burden of 395 thousand euros.

Financial structure

The financial structure of Reply S.p.A. at December 31, 2005 with comparative figures at December 31, 2004 is provided below:

(thousand euros)	**31/12/2005**		**31/12/2004**		**Change**
	(a)	**%**	**(b)**	**%**	**(a-b)**
Current Assets					
Financial assets	42.466	32,8	7.672	7,3	34.794
Operating assets	61.677	47,6	46.347	44,4	15.330
Total current assets	**104.143**	**80,4**	**54.019**	**51,7**	**50.124**
Non current assets					
Financial assets and securities	443	0,3	28.442	27,2	(27.999)
Other assets	24.978	19,3	22.009	21,1	2.969
Total non current assets	**25.421**	**19,6**	**50.451**	**48,3**	**(25.030)**
TOTAL ASSETS	**129.564**	**100,0**	**104.470**	**100,0**	**25.094**
Current liabilities					
Financial liabilities	5.240	4,0	-	-	5.240
Operating liabilities	59.473	45,9	39.138	37,5	20.335
Total current liabilities	**64.713**	**49,9**	**39.138**	**37,5**	**25.575**
Non current liabilities					
Financial liabilities	8.000	6,2	12.094	11,6	(4.094)
Other non current liabilities	773	0,6	556	0,5	217
Total non current liabilities	**8.773**	**6,8**	**12.650**	**12,1**	**(3.877)**
Total Liabilities	**73.486**	**56,7**	**51.788**	**49,6**	**21.698**
Total shareholders' equity	**56.078**	**43,3**	**52.682**	**50,4**	**3.396**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**129.564**	**100,0**	**104.470**	**100,0**	**25.094**

Total assets as at 31 December 2004 amounted to 104.470 thousand euros and as at 31 December 2005 amounted to 129.564 thousand euros, with an increase of 25.094 thousand euros. The change is mainly due to the increase in operating current assets.

Current financial assets at December 31, 2005 amounted to 42.466 thousand euros and included the transaction accounts from subsidiary companies who take part in the cash pooling system (31.489 thousand euros); with the introduction of these accounts the financial loans, that at December 31, 2004 were included as non current financial assets, granted to the subsidiary companies were discharged.

Long term financial liabilities are related to the utilization of 12 million euros of the credit facility, undersigned for new M&A operations, a detailed description of such facility is provided at the Notes to the Financial Statements. Current financial liabilities also include transaction accounts with an outstanding credit balance to subsidiary companies (1.232 thousand euros).

The reclassified balance sheet of the company, with comparative figures of the previous year, is shown below:

(thousand euros)	**31/12/2005 (a)**	**31/12/2004 (b)**	**Change (a-b)**
Tangible assets	493	432	61
Intangible assets	808	663	145
Equity investments	23.676	20.914	2.762
Fixed capital	**24.977**	**22.009**	**2.968**
Net working capital	**2.205**	**7.209**	**(5.004)**
INVESTED CAPITAL	**27.182**	**29.218**	**(2.037)**
M/L term non financial liabilities	773	556	217
Shareholders' equity	56.078	52.682	3.396
Net financial position	(29.669)	(24.020)	(5.649)
TOTAL FUNDS	**27.182**	**29.218**	**(2.036)**

Net invested capital, totalling 27.182 thousand euros was financed by medium/long term non-financial liabilities, including the reserve for employee termination indemnity (672 thousand euros) and the reserve for deferred tax liabilities (101 thousand euros) for a total of 773 thousand euros and also funded by Shareholder's equity, 56.078 thousand euros, with a residual net financial liquidity of 29.669 thousand euros.

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

Net financial position

The net financial position at December 31, 2005 amounted to 29.669 thousand euros and is detailed below:

(thousand euros)	31/12/05	31/12/04	Change
Banks and cash on hand	10.763	7.322	3.441
Financial receivables from subsidiary companies	31.479	-	31.479
Financial assets not held as fixed assets	224	350	(126)
Bank overdrafts	(4.008)	-	(4.008)
Financial liabilities to subsidiary companies	(1.232)	-	(1.232)
Short term financial position	**37.226**	**7.672**	**29.554**
Financial receivables from subsidiary companies	350	28.349	(27.999)
Other financial assets	93	93	0
Bank overdrafts	(8.000)	(12.094)	4.094
Long term financial position	**(7.557)**	**16.348**	**(23.905)**
TOTAL NET FINANCIAL POSITION	**29.669**	**24.020**	**5.649**

In the second half of 2005 a cash pooling system was introduced in relation to which the subsidiary companies signed an agreement.

Under such agreement Reply S.p.A. provides financial services that enable to optimize the out-sourcing of financial needs and the use of financial resources.
Furthermore, in order to have a more efficient management of the cash pooling system, the subsidiary companies can maintain external bank accounts in order to receive and execute payments from third parties. The centralized bank accounts of the subsidiary companies are zeroed on a daily basis through transfer of the funds to the Parent company's holding account; remuneration is in line with market conditions (SanPaolo holding-cash).

Consequently, the interest bearing long-medium term loans granted to the subsidiaries by Reply S.p.A. were cancelled and the remaining amounts were transferred to the transaction accounts and stated in the balance sheet as current assets from subsidiary companies.

Reply S.p.A.'s statement of cash flows is annexed to the 31 December 2005 financial statements.

_**Significant** operations

Acquisition of companies

Acquisition of Syskoplan

On December 22, 2005 Reply S.p.A., on the basis of a resolution made by the Board of Directors that on the same date provided the guidelines, undersigned with the majority shareholders of Syskoplan, Mr. Manfred Wassel, Mr. Jochen Meier and DZ Equity Partner GmbH, a preliminary agreement aimed at the acquisition of a majority stake, at first equal to 53.1% of the share capital of the German based company Syskoplan AG, Parent Company of the Syskoplan Group.

Syskoplan AG, founded in 1983 and listed on the Frankfurt Stock Exchange since November 2000, has made a name for itself with its customers as a software integrator and consulting partner and application management leader in CRM for major companies and sector leaders in Germany and across Europe.

The acquisition of the 63.76% stake in Syskoplan AG was carried out as follows:

(a) on December 22, 2005, in relation to the resolution made by the Board of Directors that on the same date provided the guidelines, an agreement was reached to purchase 53.1% of Sykoplan AG's share capital of which:

- 31.2% related to the active shareholders, half of the stake to be paid through a cash consideration and the other half through a share swap against shares in Reply S.p.A. to be newly issued (11.0 million euros);
- 21.9% through a share purchase and transfer agreement with DZ Equity Partner GmbH (7,7 million euros);

The cash consideration was paid on January 18, 2006 and the share capital increase will take place on April 11, 2006.

(b) on January 18, 2006 Reply S.p.A. purchased 7.31% from Siemens Business Services GmbH & Co. OHG against a cash consideration (2,6 million euros);

(c) on April 3, 2006 Reply S.p.A. purchased a further 3.35% following a Mandatory Public Offer launched, in accordance with German regulations, for the free float of Syskoplan AG (1,2 million euros).

The acquisition model adopted contemplated the need for credibility by Syskoplan shareholders that, in view of their strategic role within the Syskoplan Group, received newly issued Reply shares subject to a lock up period, which led to a corresponding cash saving of 5,5 million euros. At the same time, the cash consideration was financed for over 90% (15,8 million euros) by a medium-long term bank loan finalized at new acquisitions, allowing the Reply Group to obtain tax benefits deriving from the deductibility of the interest expenses on the loan.

The acquisition of a public company, leader on the German market, will enable to pursue expansion strategies, also through acquisitions, demonstrated by Reply since it has gone public in December 2000.

Pursuant to art. 70, paragraph 4 and 5 letter b) and 71 of Consob Regulation no. 11971/99, an Informative Document has been drawn up related to the above mentioned acquisition.

_**Transition** to international accounting standards (IAS/IFRS)

Following the coming into force of European Regulation No. 1606 dated July 19, 2002, starting from January 1, 2005, the Reply Group adopted International Financial Reporting Standards (IFRS). In accordance with the national law enforcing the above mentioned Regulation, the Parent Company Reply S.p.A.'s financial statements will be drawn up according to such regulation starting 2006. Consequently, procedures for the transition to IFRS of Reply S.p.A.'s financial statements are currently underway. The half-year 2006 figures and previous year comparative figures will be IAS/IFRS compliant.

First time application of IFRS

The IFRS standards must be applied retrospectively to all periods presented in the first time compliant IFRS financial statements and to the opening balance sheet.

The opening balance sheet as at January 1, 2005 compared to the financial statements as at December 31, 2004, drawn up according to Italian GAAP, include the following accounting differences:

- all assets and liabilities recognised under IFRS standards, including those not recognised under Italian GAAP, have been recognised and measured according to IFRS;
- all assets and liabilities recognised under Italian GAAP but not allowed under IFRS, have been eliminated;
- some balance sheet items have been reclassified as required by IFRS.

Such differences will be stated directly at the opening shareholders' equity balance at the first time adoption of IFRS (January 1, 2005).

In brief, the assets and liabilities presented in the Parent Company Reply S.p.A.'s financial statements drawn up in accordance to IFRS will be stated at the same values of those used in the drawing up of the Group consolidated statements, with the exception of consolidation adjustments in compliance to IFRS 1.

Major differences between Italian GAAP and IFRS

Description of the major differences between Italian GAAP and IFRS of Reply S.p.A.'s financial statements is provided below:

- Intangible assets – Goodwill - goodwill related to the branch acquisition in July 2000 (Information Technology activities) is currently recorded at the item Intangible assets – "Goodwill" and amortized in 10 years on the basis of the underlying expected future benefits. Once IAS/IFRS is adopted such item will no longer be amortized but subject to an annual "impairment test" in order to determine its "fair value" and if the conditions exist to a write-down of the same;

__ Intangible assets – start-up and expansion costs – start-up and expansion costs cannot be capitalized according to IAS/IFRS. The balances of such item, in application of the international accounting principles will be written-off against Shareholders' Equity.

__ Intangible assets – trademark – as of January 1, 2005 the statement of income will no longer include amortization of trademarks as it is considered an intangible asset with an indefinite life;

__ Tangible assets – impairment test – as already stated in relation to "Goodwill", fixed assets are subject to a periodic "impairment test" in order to assess whether the net book value is recoverable according to the future cash flows that the underlying asset is able to generate;

__ Measurement of equity investments - In Reply S.p.A.'s statutory accounts, drawn up in accordance to Italian GAAP, equity investments are stated as financial fixed assets (equity investments in subsidiaries and equity investments in associate companies) at historical cost, written down to reflect any permanent impairment in value and reinstated in subsequent years if the reasons for such write down no longer apply.
According to IFRS, IAS 27, Consolidated Financial Statements and Accounting for Investments, provides that equity investments be measured at cost or alternatively, at their fair value in relation to the cost. Should there be indications that the cost is not recoverable in whole or in part, the carrying value must be reinstated to the recoverable value as provided by IAS 36. If in subsequent years the reasons for such write down no longer apply, the carrying value is adjusted to reflect the new value, that cannot exceed the value had no impairment been determined. The amount reinstated is recorded immediately to the statement of income.
At present, the measurement of equity investments in subsidiary companies using the cost method provided by IAS 27, should not lead to the reporting of significant differences in the drawing up of the opening IFRS balance sheet.

__ Reporting and measurement of financial liabilities
Financial liabilities as at January 1, 2005 are mainly related to the use of the credit facility granted by a pool of banks for new M&A acquisitions. Reply S.p.A.'s financial statements, drawn up in accordance to Italian GAAP, report this item for an amount corresponding to the sums paid. The bank fees and commissions are capitalized as intangible assets and amortized on a straight-line basis over the life of the contract (pro-rata temporis).
According to IFRS, financial liabilities are reported on the basis of the amounts paid, net of any additional costs related to the transaction and subsequently are measured at the amortized cost by using the effective interest rate method. Application of the IFRS will therefore imply the recalculation of the interest expenses recorded at the income statement of each year with effects on shareholders' equity at January 1, 2005.

__ Treasury shares – In accordance to IFRS treasury shares (and any relative gains or losses on disposal) will be accounted for in shareholders' equity and any changes to treasury shares must be reported in net equity instead of at the income statement.

__ Stock Options – According to Italian GAAP, with reference to share based payments, neither obligations nor costs are recognized.

Under IFRS 2 – Share-based payments, stock options measured at fair value must be entirely recognised at the income statement at the grant date; changes in fair value subsequent to the grant date do not have effect on the original measurement. Costs for payments corresponding to the fair value of the rights are recognised as personnel expenses in equal portions over the grant date and vesting period, with a counter balance in net equity.

Employee severance indemnities (TFR) – Employee severance indemnities will be considered as "Defined benefit plan treatment" and therefore will be subject to an actuarial evaluation on a periodic basis. Such an evaluation has led to analysis conducted by external independent consultants.

Directors' fees – Reply, as allowed under Italian GAAP, recognizes directors' fees, distributed upon shareholders' resolutions, as allocation of net profit without effects on result for the period.
Under IFRS directors' fees are recognized in the income statement in relation to when the fees are payable.
Consequently, for transition purposes, directors' fees will be recognized when they become payable.

Extraordinary income and expenses – income and expenses recorded as extraordinary items as at 31 December 2005 must be reclassified as ordinary income and expenses, bearing in mind that IAS/IFRS do not foresee separate indication on the face of the statement of income.

Derivative financial instruments – Beginning in 2001 Reply S.p.A adopted – to the extent that it is consistent and not in contrast with general principles set forth in the Italian law governing financial statements – IAS 39 Financial Instruments: Recognition and Measurement. In particular, taking into account the restrictions under Italian law, it was common belief that IAS 39 was applicable only in part and only in reference to the designation of derivative financial instruments as "hedging" or "non-hedging instruments" and with respect to the symmetrical accounting of the result of the valuation of the hedging instruments and the result attributable to the hedged items ("hedge accounting").
The transactions which, according to the company's policy for risk management, are able to meet the conditions stated by the accounting principle for hedge accounting treatment, are designated as hedging transactions; the others, although set up for the purpose of managing risk exposure (inasmuch as the company's policy does not permit speculative transactions), have been designated as "trading".
The main differences between Italian GAAP and IFRS may be summarized as follows:
Under IFRS, derivative financial instruments designated as "hedging instruments" can be distinguished as follows:

a) In the case of a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value shall be recognized in the income statement and the gain or loss on hedged item attributable to the hedge risk shall adjust the carrying amount of the hedged item and be recognized in the income statement. Consequently, no impact arises on net income (except for the ineffective portion of the hedge, if any) and on net equity, while adjustments impact the carrying values of hedging instruments and hedged items.

b) In the case of a cash flow hedge (hedging of future flows), the portion of gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in equity through the statement of changes in equity; the ineffective portion of the gain or loss shall be recognized in the income statement. Consequently, with reference to the effective portion, only a difference on net equity arises between Italian GAAP and IFRS.

_**Corporate** governance

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

In March 2006, Borsa Italiana S.p.A. published the new edition of the Conduct Code for Enterprises listed on the Stock Exchange, that enforces some of the new legislative rules introduced by Law 62/2005 (so called "Market Abuse") and Law 262/2005 (so called "Legge sul risparmio").

Members are requested to adopt the new Conduct Code by the end of 2006. The administration body must therefore carry out the necessary adjustments to the Corporate Governance of the company as a consequence of complying to the new regulations laid out by the Conduct Code published in March 2006. The Corporate Governance structure following the aforesaid adjustments will be illustrated in the company government report that will be published in 2007.

Articles of incorporation

The articles of incorporation in force are those approved by the Extraordinary Shareholders' meeting on June 14 2005, that was updated to take into consideration the new rulings concerning company law.

Governance structure of the company

Reply S.p.A.'s government structure is based on a traditional system that includes the Board of Directors and the Board of Statutory Auditors.

Role and tasks of the Board of Directors

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

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

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

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

During 2005 the Board of Directors met 8 times and is expected to meet at least 11 times in 2006.

Annual Calendar of company events

In compliance to Borsa Italiana's Regulation, the 2006 annual calendar of company events has been made available to the public within the established time period.

Members of the Board of Directors

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

The Board of Directors is normally made up of executive and non executive directors.
At present the Company's Board of Directors consists of 7 directors of which 4 executive and 3 non-executive.
Such directors will hold office until the 31 December 2005 financial statements are approved.
Among the non-executive directors, 2 have the characteristic of being independent according to the definition provided by the Conduct Code.
The Board has also verified that the requirements of independence have been met along with the approval of the Directors' Report herein.
The Board annually verifies that Directors and Statutory Auditors holding office do not hold office in other listed companies, in banks, in finance and in insurance companies.

Nomination of directors

The Articles of Incorporation provide that, unless unanimously resolved by the Annual General Meeting, the members of the Board of Directors are nominated by the Annual General Meeting upon presentation of a list presented by the shareholders that alone or together with others represent 2% of the ordinary voting shares.
The nomination of the current Board of Directors, that took place on June 10, 2003, was not carried out through the presentation of a list as none of the Shareholders deemed it necessary.

Chairman of the board and chief executive officers

The current Board of Directors nominated among its members two Chief Executive Officers and empowered the Chairman with vast operational delegation.
The Chairman of the Board of Directors is empowered with extensive control over the ordinary and extraordinary administration of the company, with the exception of those that by law have been reserved to the Board of Directors and also excluding "significant" transactions (intending transactions greater than 250.000 euros) with related parties.
The Directors control the ordinary administration of the company.
On at least a quarterly basis, the Chairman and Directors refer to the Statutory Auditors with regards to the activities carried out during the year, the assignments received and must also provide adequate information concerning non-typical, unusual operations or with related parties whose approval is not brought to the attention of the Board of Directors.
The Chairman coordinates the Board's activities and also coordinates their meetings.

Directors' remuneration

The Board of Directors has internally constituted a Remuneration Committee comprising two independent directors and one non-executive.
The Committee formulates proposals to the Board in respect of the Chairman's and Chief Executive Officer's remuneration and upon indication by the executive officers, formulates proposals for the criteria to follow for top management remuneration taking into consideration the beneficiaries of the stock option plan of the company.
During 2005 the Remuneration Committee met twice.

Internal Control Committee

The Board of Directors has internally constituted an Internal Control Committee comprising two independent directors and one non-executive.
The internal control system is the group of procedures aimed at monitoring the efficiency of company operations, the reliability of financial information, compliance to laws and rules and the safeguard of the company.
The Board of Directors has nominated internally a person in charge of such procedures and who refers his activities to the Board of Directors, to top management and to the Statutory Auditors.
During 2005 the Internal Control Committee met 3 times.

Ethic Code

In November 2004 the Board of Directors approved and issued the "Ethic Code" which represents an important step towards the creation of a good internal control system, even in view of the procedures established by Law Decree 231/2001 in matter of administrative liability of legal entities.
The Ethic Code, which is applied to the Parent company Reply S.p.A. and to its subsidiaries (directly or indirectly controlled), establishes the ethic and transparency principles that all companies must bide by in their internal and external activities, outlining all the fundamental principles necessary in order to guarantee legality, loyalty and correctness when conducting relations.

Transactions with related parties

The Board of Directors, within the framework set out by the Conduct Code in July 2003, has provided procedures concerning transactions with related parties that provide that the Board of Directors are solely competent for "significant" operations with related parties, that is for operations having a value greater than 250.000 euros and are entitled to identify any further operations that have to be approved by the Board and to define the behavioral guide lines to be used in order to achieve correct management.
Related parties are those defined in CONSOB's circular no. 2064231 dated 30 September 2002.

Relations with institutional investors and shareholders

The Investor Relator is in charge of keeping contact with financial analysts, institutional investors and Italian and foreign private shareholders in order to create a continuous channel of communication.
The Investor Relator reports exclusively and periodically to the Chairman and the Chief Executive officers.

Disclosures to the board of directors and processing of confidential information

The Chief Executive Officer and the Investor Relator handle the processing of confidential information in order to avoid the spreading of such information through means not in compliance with law, provisions or rulings or by means that are not timely, or that are incomplete or inadequate.
Furthermore, all employees, and in particular those having a managing position, have been instructed as to their duties concerning confidentiality of information of a listed company and must verify that the chief executive officer's directions are followed.

Internal dealing

Following the so called regulation "market abuse" enacted by Community Law 2004 and endorsed by the corresponding Consob regulation, a law was passed concerning the obligation to notify the public about any transactions carried out by "important persons" and people strictly associated to them in relation to financial instruments of the company.
Consequently, the Internal Conduct Code on Internal Dealing already adopted by Reply S.p.A. since January 2003, was eliminated as of April 1, 2006 date in which the new Consob Regulation no.11971/99 was implemented.
In execution of the new regulation of April 1, 2006, a new Conduct Code was implemented aimed at disciplining the flow of information from "Important persons" and "Parties connected to them" with respect to the Company and the corresponding obligations and informative and communication means with respect to Consob and to the market related to operations carried out by these parties.
The new code defines the conduct in terms of "internal dealing" and the ways of applying the same. The code disciplines more specifically, the identification of the so called "important" 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 "Important persons".

Composition of the share capital

The share capital amounting to 4.537.020,28 euros, at the present date, is made up of 8,725,039 ordinary shares of nominal value 0,52 euros each.

At present no other category of shares is in circulation.

The controlling shareholder is Iceberg S.àr.l., with headquarters in Luxemburg (non listed company) that at present holds 4,807,538 Company shares, equivalent to 55.10% of the Company's share capital.

Annual General Meeting

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

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

Statutory Auditors

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

Independent Auditors

The General Shareholders' meeting of June 10, 2004 resolved to confer auditing of the Financial Statements of the Company and the Consolidated Financial Statements as well as the limited auditing of the Half-year financial statements for the fiscal year 2004, 2005 and 2006 to the independent auditors Deloitte & Touche S.p.A.

Management and coordination activities

All the Italian subsidiary companies, directly or indirectly controlled by Reply S.p.A., have complied to requirements established by art. 2497-bis of the Italian Civil Code, by indicating the management and coordination activities they are subject to by Reply S.p.A.

Internet website

On the company website (www.reply.it, under investor) all financial information of the company can be found.

_**Transactions** with related parties

In relation to CONSOB communication no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1999 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2005 financial statements related to such transactions are summarized below.
Transactions carried out by Reply S.p.A. with related parties, that as of the closing date are Alika S.r.l. and its subsidiary, Axcel S.r.l., are considered ordinary business and are carried out at normal market conditions.
Financial and business transactions among Reply S.p.A. and its subsidiary and associate companies are carried out at normal market conditions.
Pursuant to art. 150, paragraph 1 of the Italian Legislative Decree n. 58 of 24 February 1998, no transactions have been carried out by the members of the Board of Directors that might be in potential conflict of interests with the Company.

Reply S.p.A. – main economic and financial transactions

(thousand euros)	With subsidiary and associate companies	With related parties	Nature of transaction
Financial transactions			
Financial receivables	350	-	Financial loans yielding interest
Transaction accounts	30.247	-	Transaction accounts held by the Parent Company and introduced with the Group cash pooling system
Receivables from dividends	4.200	-	Dividends from subsidiary companies
Trade receivables and other	15.443	9	Royalties, administration services, marketing and quality management, management services and office rental
Trade payables and other	49.934	6	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Economic transactions			
Revenues from royalties	4.096	-	Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	7.849	-	Administration services, marketing and quality management and office rental
Revenues from management services	2.580	-	Strategic management services
Costs for professional services	65.606	-	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	-	475	Services related to office rental and office of the secretary
Interest income on loans	1.248	-	Interest on financial loans: 3 month euribor with a spread of 2 percentage points

_Other information

Research and development activities

Research and development activities are carried out within the activities assigned to the Group companies.

Treasury Shares

In compliance with paragraph 2 of art. 2428 of the Italian Civil Code numbers 3) and 4), at the balance sheet date, the Parent Company holds 29,499 treasury shares, amounting to 223.825 euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same value.

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

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

At the balance sheet date no members of the Board of Directors or the Board of Statutory Auditors directly hold shares in the Company.

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

- Messer Mario Rizzante, Sergio Ingegnatti, Oscar Pepino hold 51%, 18% and 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin;
- Alika S.r.l. holds 99.94% of Iceberg's share capital, company governed by Luxemburg laws with headquarters at 5, rue Guillaume Kroll;
- Iceberg holds 4,807,538 Reply S.p.A. Company shares, equivalent to 55.10% of the Company's share capital.

Stock option plans

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 stock option plans have the following purposes:

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

The Board of Directors' of the Parent Company in charge of the stock option plan, has assigned stock options to approximately 50 employees and directors of the group companies. As at 31 December 2005 no. 145,700 stock options have not yet expired.

Contingent liabilities

Reply S.p.A. has not received any notification of tax assessments for the fiscal years presented herein.

The Revenue Board (Agenzia dell'Entrate) is currently carrying out on Reply S.p.A. a tax assessment related to the fiscal year 2003.

Information pursuant to art. 2428, paragraph 2, no. 6-bis of the Italian Civil Code

Pursuant to art. 2428, paragraph 2 no. 6-bis of the Italian Civil Code, in relation to the use of derivative financial instruments, the company has adopted an interest rate risk management policy aimed at reducing the company's exposure to interest rates on the loans granted by the Company.

Such financial instruments are considered as hedging instruments as they can be clearly related to the hedged object (in terms of amount and expiry date).
The notes to the financial statements provide more detail on the aforementioned transactions.

_**Events** subsequent to 31 December 2005

Share capital increase

The Board of Directors of Reply S.p.A. on April 11, 2006 resolved to increase the share capital through the issuing of new shares to Mr. Manfred Wassel (2.8%) and Mr. Jochen Meier (0.7%), Chief Executive Officers of Syskoplan AG, a German company of which Reply currently holds 63.76% of the share capital following the Mandatory Public Offer on the Frankfurt stock exchange which ended on April 3, 2006.

The increase of the share capital was carried out through the issuing of 303,729 ordinary shares of nominal value 0,52 euros with a share premium totalling 5.348.971,42 euros, equivalent to 17,61 euros per share, released through the transfer of 655,583 Syskoplan AG shares.

The agreements signed on December 22, 2005 provided that the Chief Executive Officers, Manfred Wassel and Jochen Meier sell their shares, 25.1% and 6.1% respectively, in part through a cash consideration and in part through newly issued Reply shares.

Option for the acquisition of minority shares

In execution of the agreements signed in occasion of the constitution of the subsidiary company, Spike Reply S.r.l. and those signed upon acquisition of the subsidiary company IrisCube Reply S.p.A., in the following months the "put" option to be exercised by the minority shareholders of Spike Reply S.r.l. and IrisCube Reply S.p.A. will expire (and correspondingly the "call" option for Reply S.p.A.) and therefore an assessment of the values of the minority shares, equal to 10% and 49% respectively of the above mentioned companies, is necessary.

On the basis of the 2005 financial results achieved and on the basis of expected results for 2006, Reply S.p.A. will acquire the above mentioned minority shares for an approximate consideration of maximum euro 370.000,00 for the 10% stake in Spike Reply S.r.l. and a maximum of euro 6.000.000,00 for the 49% stake in IrisCube Reply S.p.A.

With reference to the contents of the agreements signed with the minority shareholders of Spike Reply S.r.l. and IrisCube Reply S.p.A., the 10% acquisition of Spike Reply S.r.l.'s share capital can be paid entirely in cash or through transfer of Reply S.p.A.'s shares whereas for IrisCube Reply S.p.A. 50% will be necessarily paid in cash and the remaining 50 % can either be paid in cash or through transfer of Reply S.p.A.'s shares.

Reply S.p.A. intends on purchasing, where provided by the agreements, the above mentioned minority shares through a share capital increase, with exclusion of pre-emptive rights for the current shareholders, released in kind through the transfer of the same shares to Reply S.p.A.. The technical means deemed more appropriate for the execution of these transactions consists in partially executing the proxy granted to the Board of Directors for the share capital increase in kind with exclusion of pre-emptive rights by the General Shareholders' meeting held on June 14, 2005 and as allowed by art. 2443 of the Italian Civil Code.

As already resolved by the Board of Directors on February 13, 2006, in order to carry out the above mentioned transfer of shares, pursuant to art. 2343 of the Italian Civil Code, Reply S.p.A. requested that a sworn expert be nominated by the Court of Turin in charge of drawing up a valuation report on the shares subject to the transfer.
Following the above request, the President of the Court of Turin, with decree dated February 24, 2006 nominated the independent audit firm PricewaterhouseCoopers as sworn expert.

Stock options

With reference to the scope and the characteristics of the stock option plans and in view of the advancing expiry date, the Board of Directors intends on proposing to the Shareholders in the next general meeting an increase of the share capital against payment with exclusion of the pre-emptive rights and a probable share premium pursuant to art. 2441, paragraph 5 of the Italian Civil Code, to be undersigned by the directors of the same company and directors of its subsidiaries.

The stock option plan will include a total of 200,000 shares for a nominal value of 0,52 euros each.

Proxy for the increase of the share capital

The directors intend on proposing to the shareholders of the forthcoming General meeting, as already resolved in past years, to provide the Board of Directors with the proxy for the increase of the share capital against payment, in one or more tranches, and therefore in separable form, within June 11, 2011, pursuant to art. 2443 of the Italian Civil Code, for a maximum nominal amount of 312.000 euros, through the issuing of 600,000 new Reply shares with a nominal value of 0,52 euros each and share premium and with exclusion of pre-emptive rights in compliance with art. 2441 paragraph 4, of the Italian Civil Code.

The increase of the share capital must be released in kind through shares of joint-stock companies having the same business scope or similar to that of the company or is however functional to the development of its activities.

Such instrument, which has been recently used successfully, would allow Reply to seize on a timely basis, acquisition opportunities in other joint-stock companies having the same business scope or similar or functional to the development of the activities, in order to enrich the range of services, all achievable through the swap of shares.

_**Outlook** for 2006

As holding of a Group of companies, Reply S.p.A.'s economic trends are strongly influenced by the subsidiary's ability to generate profits.

Results achieved by the Reply Group demonstrate that Reply is a competitive and reliable reality with a flexible structure capable of anticipating market trends and provide its customers with state-of-the-art technology solutions and the best organizational models.

The acquisition of Syskoplan, a German company listed on the Frankfurt Stock Exchange, leader in CRM, Business Intelligence and SAP for major companies and sector leaders in Germany and across Europe, will allow Reply to lay solid foundations for the future development of the Reply Network in Germany.

The trends in revenues and profitability in the first months of 2006 were positive.

_**Allocation** of net result

Reply S.p.A.'s financial statements for the year ended 2005, recorded a net result of 4.420.833 euros and net equity amounted to 56.077.537 euros detailed below:

(in euros)	**31/12/2005**
Share capital	4.374.089
Share premium reserve	16.546.430
Legal reserve	708.718
Reserve for treasury shares on hand	223.804
Other reserves	24.928.923
Retained earningd	4.874.740
Total share capital and reserves	**51.656.704**
Net result for the year	4.420.833
Total	**56.077.537**

The Board of Directors proposes to the Shareholders to allocate the net result for the year, amounting to 4.420.833 euros, as follows:

- 221.042 euros to the legal reserve;
- 630.000 euros, equal to 3% of the gross consolidated operating margin, to the directors Mr. Mario Rizzante, Mr. Sergio Ingegnatti and Mr. Oscar Pepino as participation in the Parent Company's net result in compliance to art. 22 of the Articles of Incorporation;
- dividends to the shareholders, in the amount of 0,20 euros per ordinary share having the right and that are in circulation at the fixed payment date, 20 July 2006, excluding treasury shares;
- the residual amount to the extraordinary reserve.

Turin, 21 April 2006

For the Board of Directors
The Chairman
(Mario Rizzante)

_**Financial** statements and notes

_Reply S.p.A. Balance sheet
Assets

(in euros)	31/12/2005	31/12/2004
A AMOUNTS DUE FROM SHAREHOLDERS	**-**	**-**
B FIXED ASSETS		
I Intangible		
1 Start-up and expansion costs	63.557	84.010
3 Industrial patents and intellectual property rights	118.638	23.465
4 Concessions, licenses, trademarks and similar rights	6.737	159.154
5 Goodwill	57.843	72.304
6 Intangible assets in progress	94.350	-
7 Other	467.373	323.894
Total intangible assets	808.498	662.827
II Tangible		
2 Plant and machinery	54.996	48.902
3 Industrial and commercial equipment	16.319	7.069
4 Other	421.470	376.220
Total tangible assets	492.785	432.191
III Financial fixed assets		
1 Equity investments in:		
a) subsidiary companies	18.055.351	15.292.576
b) associate companies	5.621.021	5.621.021
	23.676.372	*20.913.597*
2 Receivables:		
a) subsidiary companies	350.000	28.348.620
d) other	92.757	93.396
	442.757	*28.442.016*
Total financial assets	24.119.129	49.355.613
Total fixed assets (B)	**25.420.412**	**50.450.631**

(in euros)	31/12/2005	31/12/2004
C CURRENT ASSETS		
I Inventories	-	-
II Receivables		
1 Trade receivables	38.937.176	29.711.467
2 From subsidiary companies	50.803.029	14.492.864
3 From associate companies	318.240	-
4 From parent companies	4.118	777
4-bis Receivables from tax authorities	102.005	582.455
4-ter Deferred tax assets	649.134	815.676
5 Other	484.624	261.620
Total receivables	91.298.326	45.864.859
III Financial assets not held as fixed assets		
5 Treasury shares	223.825	349.680
Total financial assets not held as fixed assets	223.825	349.680
IV Liquid funds		
1 Bank and post office deposits	10.757.398	7.310.705
3 Cash on hand	5.849	11.539
Total liquid funds	10.763.247	7.322.244
Total current assets (C)	**102.285.398**	**53.536.783**
D ACCRUED INCOME AND PREPAID EXPENSES	**1.857.719**	**482.767**
TOTAL ASSETS	**129.563.529**	**104.470.181**

Liabilities

(in euros)		31/12/2005	31/12/2004
A	**SHAREHOLDERS' EQUITY**		
	I Share capital	4.374.089	4.345.645
	II Share premium reserve	16.546.430	15.903.681
	IV Legal reserve	708.718	558.718
	VI Reserve for treasury shares on hand	223.804	349.680
	VII Other reserves	24.928.923	23.649.295
	VIII Retained earnings	4.874.740	4.874.740
	IX Net result for the year	4.420.833	3.000.006
	Total Shareholders' equity (A)	**56.077.537**	**52.681.765**
B	**RESERVES FOR RISKS AND CHARGES**		
	2 Taxation reserve, including deferred tax	101.005	42.380
	Total Reserves for risks and charges (B)	**101.005**	**42.380**
C	**RESERVE FOR EMPLOYEE TERMINATION INDEMNITY**	**672.121**	**513.780**
D	**PAYABLES**		
	4 Due to banks		
	- within 12 months	4.007.980	56
	- beyond 12 months	8.000.000	12.094.000
	6 Advances	3.418.215	1.594.077
	7 Trade payables	2.357.494	1.730.455
	9 Due to subsidiary companies	51.083.811	33.202.093
	10 Due to associate companies	81.668	-
	12 Due to tax authorities	1.785.960	1.611.416
	13 Due to social security authorities	359.919	363.193
	14 Other	502.599	517.563
	Total payables (D)	**71.597.646**	**51.112.853**
E	**ACCRUED EXPENSES AND DEFERRED INCOME**	**1.115.220**	**119.403**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**129.563.529**	**104.470.181**

Memorandum accounts

(in euros)	**31/12/2005**	**31/12/2004**
Guarantees issued on behalf of related parties	733.725	827.729
Guarantees received from third parties	5.113.373	1.807.148
Risks for pledges on shares	12.000.000	12.094.000
Commitments for lease contracts	457.855	564.684
Commitments for financial derivatives	12.000.000	14.579.500
TOTAL MEMORANDUM ACCOUNTS	**30.304.953**	**29.873.061**

_Reply S.p.A. Statement of income

(in euros)	2005	2004
A VALUE OF PRODUCTION		
1 Revenues from sales and services	78.099.030	58.195.874
5 Other income	1.814.746	1.217.061
Total value of production (A)	**79.913.776**	**59.412.935**
B COSTS OF PRODUCTION		
6 Raw material, consumable and goods for resale	629.880	847.221
7 Services	72.859.335	51.949.858
8 Lease and rentals	1.214.517	1.124.070
9 Personnel expenses		
a) salary and wages	3.326.512	3.369.050
b) social security charges	1.034.820	1.087.306
c) employee termination indemnities	223.939	214.843
e) other personnel expenses	79.880	61.444
	4.665.151	*4.732.643*
10 Amortisation, depreciation and write-downs		
a) amortisation of intangible assets	497.405	1.598.636
b) depreciation of tangible assets	270.384	306.042
	767.789	*1.904.678*
14 Other operating expenses	305.282	308.832
Total costs of production (B)	**80.441.954**	**60.867.302**
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION (A-B)	**(528.178)**	**(1.454.367)**

(in euros)	2005	2004
C FINANCIAL INCOME AND EXPENSES		
15 Income from equity investments		
- subsidiary companies	4.200.000	3.499.650
16 Other financial income		
b) income from receivables held as financial assets	119.712	78.115
d) other		
- subsidiary companies	1.248.284	953.798
- other	102.936	17.367
Total financial income	5.670.932	4.548.930
17 Interest and other financial expenses		
a) subsidiary companies	(12.208)	-
d) other	(514.363)	(301.271)
17-bis Gain (loss) on exchange differences	(116)	(1.032)
Total financial expenses	(526.687)	(302.303)
Total financial income and expenses (C)	**5.144.245**	**4.246.627**
D ADJUSTMENTS TO FINANCIAL ASSETS	**-**	**-**
E EXTRAORDINARY INCOME AND EXPENSES		
20 Income	510.193	51.723
21 Expenses	(310.006)	(21.054)
Total extraordinary income and expenses (E)	**200.187**	**30.669**
RESULT BEFORE TAXATION	**4.816.254**	**2.822.929**
22 Income taxes	395.421	(177.077)
a) current	263.647	(26.212)
b) prepaid	73.149	(193.245)
c) deferred	58.625	42.380
NET RESULT FOR THE YEAR	**4.420.833**	**3.000.006**

_**Notes** to the financial statements

Form and contents of the financial statements

The financial statements as at 31 December 2005 have been prepared in accordance with the related provisions enclosed in the Italian Legislative Decree No. 127 dated April 9, 1991, and integrated with the new provisions set out by law decree no. 6/2003 “Reform of Company law” (interpreted by the accounting principles issued by the Board of National Accountants and by the interpretations provided by the Italian Accounting Organ (Organismo Italiano di Contabilità) in the OIC no. 1 document of 25 October 2004) and, where lacking but non in contrast with, IASB (International Accounting Standard Board).
The financial statements consist of the Balance Sheet, Statement of income, Notes to the financial statements and the Directors’ report on operations. The contents of the Balance sheet and Statement of income are disciplined by articles 2424 and 2425 of the Italian Civil Code; any items not expressly stated are intended having a zero balance.

As far as transition to the international accounting principles “International Financial Reporting Standards”, issued by IASB is concerned, the Directors’ report on operations provides full detail of such process.

These notes explain, analyze and, in some cases, supplement the data reported on the face of the financial statements with the information required by article 2427 of the Italian Civil Code and with other provisions of Italian Decree No. 127/1991. Additional information is provided in order to present a true and fair view, even where this is not required by specific legislation.

Significant events following the year end close which have been disclosed at the Directors’ Report on Operations are an integral part of the Notes herein.

Activity of the company

Reply S.p.A. is listed on the STAR segment of Borsa Italaina (REY.MI), it is the Holding of a group of companies that are focused and specialized in the E-business market.

Reply S.p.A. mainly carries out the operational, co-ordination and the technical management of the Group, as well as accounting, finance, purchases and marketing management.

Accounting principles

The accounting principles adopted herein are pursuant to art. 2426 of the Italian Civil Code and pursuant to CONSOB indications, to the accounting principles issued by the National Board of Accountants and where lacking to the principles issued by the International Accounting Standards Board (IASB). The evaluation criteria adopted and outlined below, are in compliance with art. 2426 of the Italian Civil Code, with CONSOB indications and, with the exception of changes deriving from law decree 6/2003, are homogeneous to those of the previous year.
The financial statement items were valued according to the general principle of prudence and economic accrual based accounting in the perspective of company continuity, in addition to the prevalence of substance over form introduced by law decree 6/03.
The application of the prudence principle implicated the evaluation of each single item in order to avoid compensation of losses that were to be recognized and gains that were not to be recognized as not yet realized.
Pursuant to the accrual based accounting principle, the effects of operations and other events are accounted for and attributed to the year to which these operations and events refer and not to the moment in which the collection or payment of the same takes place.

Intangible fixed assets

Intangible fixed assets are recorded at purchase or production cost, including related charges; book value is amortized on a straight-line-basis in relation to the residual period they are expected to benefit.
In any case, the cost cannot exceed the recoverable value, defined as the greater between the sale value and the recoverable value from the use of the asset, as determined by the company plans.

In compliance with accounting principle No. 24 costs incurred by the Parent Company for the listing on the New Market, have been included in start-up and expansion costs with the approval of the Statutory Auditors.

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

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

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

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

Research and development costs are recorded at the statement of income as incurred.

Tangible fixed assets

Tangible fixed assets are generally recorded at purchase or construction costs including related charges and other direct or indirect expenses reasonably attributable to the individual assets. Neither monetary nor economical revaluations have been made to the historical cost of the assets. Such cost does not include any financial expense incurred during acquisition or the construction period.

Depreciation is calculated on a straight-line basis using rates that reflect the estimated useful lives of the related assets.

The annual depreciation rates applied are as follows:

	Rate
Plant and machinery	40%
Industrial and commercial equipment	30%
Electronic office equipment	40%
Mobile telephones	100%
Vehicles	50%

In the year of acquisition such rates are reduced by 50% in consideration of the shorter use of such assets.
Tangible assets are written down to reflect a permanent impairment of value, regardless of the amortization already accounted for. Their book value is reinstated in subsequent years if the reasons for such write-down no longer apply.

Assets in leasing

Assets held under financial lease contracts are accounted for according to the existing regulations, that is by recording the lease fees to the statement of income on the basis of the duration of the contract. Had these assets been accounted for according to the financial method, in accordance to law decree 6/2003 and to international accounting principles, it would not have produced significant effects on the Company's net equity.

Equity investments

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

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

Financial non-current receivables are recorded at their net realizable value.

Accounts receivable and accounts payables

Accounts receivable are recorded, in accordance with art. 2426 of the Italian Civil Code, at their estimated realizable value. Such value is determined through the accrual of a reserve for risks on receivables and directly reduces the trade receivable to which it refers; accounts payable are stated at face value.

Other financial assets not held as fixed assets

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

Treasury shares

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

Cash and cash equivalents

Cash and cash equivalents are recorded at face value.

Accruals and Deferrals

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

Reserves for risks and charges

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

Reserve for employee termination indemnities

This reserve reflects the liability for severance indemnities accrued for each employee and determined in accordance with current legislation and labor contracts at the balance sheet date.
Such liability is subject to an index-based revaluation in accordance with the current legislation.

The reserve accrued corresponds to the total indemnity matured in favor of employees as at the balance sheet date net of any advances paid.

Derivative Contracts

Derivative contracts as at 31 December 2005 were valued at cost in consideration of the fact that they were stipulated in order to hedge the interest rate risk on financial loans.

Memorandum Accounts

Memorandum accounts include amounts related to real risks, commitments and guarantees as of the balance sheet date.
More specifically, the amounts recorded for commitments for guarantees issued and received correspond to the liability to which they refer.
Risks for pledges on shares are recorded as memorandum accounts when the derivative contracts are stipulated for the nominal value of the underlying contract.

Revenue recognition

Revenues from services are recognized at the time of execution.
Revenues from the execution of specific contracts are recognized upon customer approval of the completion of the work or according to the percentage of completion method.
Revenues from sales of products are recognized when title is passed to the client, which is generally at the time of shipment.

Dividends

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

Income taxes

Current income taxes are provided on the basis of taxable income for the year, in accordance with the current Italian legislation.
Pursuant to accounting principle CNDC no. 25 ruling deferred tax, prepaid and deferred tax having a temporary nature arising from differences between values attributed to assets or liabilities according to accounting principles and values attributed to the same for fiscal purposes are also accounted for.
Deferred tax is recorded at the balance sheet item B2, the explanatory notes include a summary of the differences that originated deferred tax.

Prepaid tax, accounted for only if there is a reasonable belief that they will be recovered, are recorded at the balance sheet item C II 4-ter. The explanatory notes provide a summary of the differences that originated prepaid tax.
The fiscal effects of the temporary differences are determined by applying the tax rate corresponding to the moment these differences will be reversed, or the theoretical current tax rate at the balance sheet date as the best estimate of the rate if the reversal date cannot be reasonably identified.
In relation to prepaid tax recorded in previous years, reasonable certainty to achieve future taxable income and therefore the possibility to recover the entire amount of prepaid tax has been verified.

Translation of foreign currency items

Receivables and payables denominated in foreign currency are translated and booked at the year-end exchange rate. The exchange differences arising at the time of collection or payment are booked to the statement of income. According to art. 2426 8-bis of the Italian Civil Code, assets and liabilities existing at the balance sheet date and for which a hedging contract does not exist, are translated at the year end spot exchange rate recording the difference at the statement of income. Fixed assets do not follow such a rule, they are recorded at the exchange rate at the date of acquisition, they are translated at the year end exchange rate only if the decrease due to this exchange rate is deemed of enduring nature.

Any positive differences deriving from the translation of foreign currency items at the closing date make up part of the net result and is considered as a non-distributable item pursuant to art. 2426 no. 8-bis of the Italian Civil Code.

_**Other** information

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

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

Fiscal Consolidation

Starting from fiscal year 2004 and for the following three years the Company has decided to abide to 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 will transfer to Reply S.p.A. its taxable income recording a payable to the company corresponding to IRES to pay, 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.

Cash pooling

In the second half of 2005 a cash pooling system was introduced. The bank relations were therefore modified as follows:

- Reply S.p.A. continues to have accounts with different banking institutions;
- All subsidiary companies have only one bank account with SanPaolo IMI, used solely for the purpose of incoming payments from third parties;
- Accounts held at SanPaolo IMI, by Reply S.p.A. (in Turin, Rome and Milan) and by the subsidiary companies are connected by cash pooling and are zeroed on a daily basis with account pooler Reply S.p.A.'s account in Turin. Therefore all the subsidiary companies' transaction accounts and Reply's accounts in Rome and Milan have a zero balance and the remaining balances are transferred to Reply S.p.A.'s transaction account in Turin.

Temporarily, some of the subsidiary companies' accounts held at banks other than SanPaolo IMI are still active and will be closed once all the third party clients have acknowledged the new bank where payments must be made.

Upon the introduction of the cash pooling system, transaction accounts for each subsidiary company have been created at Reply S.p.A.. Companies who had previously received from Reply S.p.A. financial interest bearing loans, saw these amounts cancelled and transferred to the corresponding transaction account.

Under cash pooling, Reply S.p.A. makes payments to third parties (suppliers, salaries, taxes, etc…) on behalf of all the group companies whereas incoming payments are received by the subsidiary companies on their SanPaolo IMI bank account.

The cash pooling accounts are activated each time Reply makes payments on behalf of a subsidiary or withdraws amounts in order to refurbish the subsidiary's cash balances (in this case by withdrawing from the intercompany transaction accounts) or are activated when the bank zeroes the accounts and transfers the payments received on the subsidiary accounts to Reply's account (in this case by crediting the intercompany transaction accounts).

On a quarterly basis Reply provides a bank statement to each company, and on the basis of this statement the related interest, commissions and fees owed/due are calculated.

_**Notes** to assets recorded in the balance sheet

B) Fixed assets

I. Intangible assets

Net intangible assets as at 31 December 2005 amounted to 808.498 euros (662.827 euros as at 31 December 2004).

(in euros)	Historical cost	Accumulated amortisation	Net book value at 31/12/2005
Start-up and expansion costs	4.671.277	(4.607.720)	63.557
Industrial patents and intellectual property rights	972.057	(853.419)	118.638
Concessions, licenses, trademarks and similar rights	1.720.220	(1.713.483)	6.737
Goodwill	144.608	(86.765)	57.843
Intangible assets in progress	94.350	-	94.350
Other	1.053.453	(586.080)	467.373
Total	**8.655.965**	**(7.847.467)**	**808.498**

Movements in intangible assets in 2005 are summarized as follows:

(in euros)	Net book value at 31/12/2004	Increases	Amortisation	Net book value at 31/12/2005
Start-up and expansion costs	84.010	874	(21.327)	63.557
Concessions, licenses, trademarks and similar rights	23.465	164.853	(69.680)	118.638
Goodwill	159.154	4.153	(156.570)	6.737
Intangible assets in progress	72.304	-	(14.461)	57.843
Other	94.350	-	-	94.350
Start-up and expansion costs	323.894	378.846	(235.367)	467.373
Total	**662.827**	**643.076**	**(497.405)**	**808.498**

Start-up and expansion costs refer to charges related to the operations of share capital increase. At the balance sheet date listing expenses have been completely amortized.

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

The item Concessions, licenses, trademarks and similar expresses the value of the "Reply" trademark granted to 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 trademark is amortized over a 5-year period calculated from the date of acquisition.

Goodwill amounted to 57.843 euros and is referred to the value of the business branch related to the Information Technology consultancy and management support activities, purchased in July 2000.
Amortization is calculated on a 5 to 10 year basis, in relation to the realizable value and the economic benefits of the same.

The item Other mainly includes leasehold improvements and incidental charges incurred related to the syndicated financial loan with SanPaolo IMI for M&A operations. Such loan is fully detailed at the item "financial liabilities". The aforesaid charge is amortized over the duration of the contract.

II. Tangible fixed assets

Tangible fixed assets as at 31 December 2005 amounted to euros 492.785 and are detailed in the table below:

(in euros)	**31/12/2005**	**31/12/2004**	**Change**
Plant and machinery	54.996	48.902	6.094
Generic equipment	16.319	7.069	9.250
Electronic equipment	146.548	129.403	17.145
Ordinary office equipment	4.467	1.182	3.285
Furniture and fittings	239.897	204.084	35.813
Other	30.558	41.551	(10.993)
Total	**492.785**	**432.191**	**60.594**

Movements in tangible assets in 2005 are illustrated in the table below:

(in euros)	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Historical cost	297.876	19.029	1.123.979	1.440.884
Accumulated depreciation	(248.974)	(11.960)	(747.759)	(1.008.693)
Balance at 31 December 2004	**48.902**	**7.069**	**376.220**	**432.191**
Historical cost				
Increases	55.802	14.961	294.165	364.928
Disposals	(1.800)	-	(35.369)	(37.169)
Accumulated depreciation				
Depreciation	(48.268)	(5.711)	(216.405)	(270.384)
Utilization	360	-	2.859	3.219
Historical cost	351.878	33.990	1.382.775	1.768.643
Accumulated depreciation	(296.882)	(17.671)	(961.305)	(1.275.858)
Balance at 31 December 2005	**54.996**	**16.319**	**421.470**	**492.785**

In 2005 the Company's additions totalled 365 thousand euros and referred mainly to:

- computers and network equipment for 131 thousand euros;
- furniture and fittings and plants for new office locations totalling 123 thousand euros;
- telephone and network systems for 56 thousand euros.

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

As at 31 December 2005, 72% of the value of tangible assets has been depreciated (70% in 2004).

As already mentioned, had these assets been accounted for according to the financial method, it would not have produced significant effects on the Company's financial statements at 31 December 2005.

III. Financial assets

Equity investments

Equity investments as at 31 December 2005 amounted to 23.676.372 euros, with an increase of 2.762.775 euros compared to 31 December 2004.

(in euros)	Balance at 31/12/2004	Acquisitions and subscriptions	Disposals	Financial loan remission	Balance at 31/12/2005	Interest
@Logistics Reply S.r.l.	969.167				969.167	100,0%
Action Reply S.r.l.		10.000			10.000	100,0%
Aktive Reply S.r.l.	140.692				140.692	100,0%
Atlas Reply S.r.l.	39.250	317.325			356.575	100,0%
Blue Reply S.r.l.	527.892				527.892	100,0%
Business Reply S.r.l.	274.461			40.000	314.461	100,0%
Cape Reply S.r.l.	70.000				70.000	100,0%
Cluster Reply S.r.l.	539.010				539.010	100,0%
Cluster Reply Padova S.r.l.	54.572				54.572	100,0%
e*finance consulting Reply S.r.l.	1.195.200	1.881.185			3.076.385	100,0%
EOS Reply S.r.l		8.000			8.000	80,0%
Hermes Reply S.r.l.		10.000			10.000	100,0%
IrisCube Reply S.p.A	3.610.000				3.610.000	51,0%
Logistics Reply do Brasil LTDA	229.316				229.316	80,0%
Logistics Reply SL	53.010				53.010	100,0%
Open Reply S.r.l.		10.000			10.000	100,0%
Power Reply S.r.l.		6.749		435.000	441.749	67,5%
Reply Consulting S.r.l.	105.100				105.100	51,0%
Spike Reply S.r.l.	55.000				55.000	90,0%
Sysproject Reply S.r.l.	2.071.022				2.071.022	100,0%
Sytel Reply S.r.l.	2.153.255				2.153.255	100,0%
Technology Reply S.r.l.	241.353				241.353	100,0%
Themis Reply SA		45.116			45.116	70,0%
Twice Reply S.r.l.	407.600		(600)		407.000	70,0%
XYZ Reply S.r.l.	2.467.019				2.467.019	100,0%
YH Reply S.r.l.	89.657				89.657	100,0%
Santer S.p.A.	5.621.021				5.621.021	49,0%
Total	**20.913.597**	**2.288.375**	**(600)**	**475.000**	**23.676.372**	

Detail of changes in Equity investments is provided below:

Acquisitions and subscriptions

__ Atlas Reply S.r.l

Change in the carrying value of such investment is related to the acquisition of a further 7.5% stake in the company.

__ E*finance consulting Reply S.r.l

Change in the carrying value of such investment is related to the acquisition of a further 42% stake in the company.

__ EOS Reply S.r.l.

In the month of April 2005, EOS Reply S.r.l. was constituted, company in which Reply S.p.A. holds 80% of the share capital.

EOS Reply S.r.l. carries out its activities in administration services and provides support to accounting activities, the drawing up of financial statements and reporting of third party companies.

__ Action Reply S.r.l.

In the month of December 2005, Action Reply S.r.l. was constituted, company in which Reply S.p.A. holds 100% of the share capital.

The company carries out its activities on ERP systems strongly orientated on engineering services and application outsourcing.

__ Hermes Reply S.r.l.

In the month of December 2005, Hermes Reply S.r.l. was constituted, company in which Reply S.p.A. holds 100% of the share capital.

Hermes Reply S.r.l.'s business purpose is that of developing the activity of Factory Automation.

__ Open Reply S.r.l.

In the month of February 2005, Open Reply S.r.l. was constituted, company in which Reply S.p.A. holds 100% of the share capital.

The company activities are carried out in the field of quality certification of open source products by developing open solutions and supplying maintenance and support activities.

__ Power Reply S.r.l.

In the month of March 2005, Power Reply S.r.l. was constituted, company in which Reply S.p.A. holds 67.49% of the share capital.

The company is specialised in the Energy and Utilities field with the scope of supporting clients in the process of optimizing IT investments offering innovative solutions and services aimed at introducing greater efficiency in processes.

__ Themis Reply SA.

In the month of July 2005, Themis Reply SA was constituted, with registered office in Bioggio Switzerland, company in which Reply S.p.A. holds 69.98% of the share capital.

Disposals

Twice Reply S.r.l.

The amount refers to the disposal of 6.0% of the share capital to the management of the company.

Financial loan Remission

The amounts recorded are referred to reserves set up to cover several equity investments' losses against waiver of the financial receivable from the same. Such reserve was utilized by the subsidiaries to partially cover the 2005 loss.

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

Receivables

Receivables from subsidiaries

At December 31, 2004 this item included interest bearing loans granted to subsidiary companies that following the introduction of the cash pooling system were cancelled and the corresponding amounts were transferred to transaction accounts, recorded in the balance sheet at the item current receivables.

The amounts stated at this item at 31 December 2005 refer to non-interest bearing loans granted to Reply Consulting S.r.l. (200.000 euros) and Themis Reply SA. (150.000 euros).

Receivables from other companies

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

C) Current assets

II. Receivables

Trade receivables

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

(in euros)	**31/12/2005**	**31/12/2004**	**Change**
Third party trade receivables	39.443.050	30.216.575	9.226.475
Credit notes to be issued	(308.100)	(307.334)	(766)
Total	**39.134.950**	**29.909.241**	**9.225.709**
Allowance for doubtful accounts	(197.774)	(197.774)	-
Total trade receivables, net	**38.937.176**	**29.711.467**	**9.225.709**

These receivables refer to professional services related to third party agreements entered with Reply S.p.A. and sub-contracted by the latter to its subsidiaries.
The above contractual practice was more frequent in 2005 even as a consequence of the ISO 9001 certification accomplished by Reply S.p.A.

Receivables from subsidiaries

Detail is as follows:

(in euros)	**31/12/2005**	**31/12/2004**	**Change**
Dividends from subsidiaries recorded on accrual basis	4.200.000	3.499.650	700.350
Transaction accounts	31.478.977	-	31.478.977
Other receivables	15.124.052	10.993.214	4.130.838
Total	**50.803.029**	**14.492.864**	**36.310.165**

The item "Transaction accounts" is referred to the amounts owed by the subsidiary companies in relation to the cash pooling system.

Dividends from subsidiary companies recorded on an accrual basis were resolved by the shareholders' meeting of the subsidiaries at the time of approval of the financial statements for the year ended 2005. The detail is as follows:

(in euros)	**31/12/2005**
Aktive Reply S.r.l.	300.000
Atlas Reply S.r.l.	245.000
Blue Reply S.r.l.	335.000
Cluster Reply S.r.l.	545.000
e*finance Consulting Reply S.r.l.	265.000
Sysproject Reply S.r.l.	210.000
Sytel Reply S.r.l.	1.795.000
Technology Reply S.r.l.	235.000
XYZ Reply S.r.l.	270.000
Total	**4.200.000**

Other receivables refer to:

- the utilization of the trademark "Reply" by the subsidiaries and to service contracts that Reply carries out in favor of the subsidiaries at normal market conditions (9.126 thousand euros);
- IRES receivables are calculated on taxable income, such income was transferred to Reply S.p.A by the Italian subsidiary companies in compliance to the national fiscal consolidation (5.999 thousand euros).

Receivables from tax authorities

(in euros)	31/12/2005	31/12/2004	Change
Receivables from revenue board	42.865	451.752	(408.887)
VAT receivables	59.140	130.703	(71.563)
Total	**102.005**	**582.455**	**(480.450)**

Receivables from the revenue board mainly refer to withholding tax.

Deferred tax assets

This item includes the fiscal charge corresponding to the temporary differences deriving from the book value of assets and liabilities and the corresponding fiscal value.

The tax rates applied were 33% corresponding to IRES and 4.25% corresponding to IRAP.

Temporary deductible differences (in euros)	Taxable income	Tax
Total deferred tax assets at 31/12/2004	2.436.895	815.676
- accruals	380.830	130.316
- utilization	(890.199)	(296.857)
Total deferred tax assets at 31/12/2005, of which:	1.927.526	649.134
- within 12 months	750.676	251.811
- beyond 12 months	1.176.851	397.324
Total	**1.927.527**	**649.135**

The table below summarizes the fiscal effects:

	2005			2004		
(thousand euros)	Temporary differences	rate	Tax effect	Temporary differences	rate	Tax fiscale
Deferred tax assets						
- write-down of equity investments deductible in 5 years	904	33,00%	298	1.356	33,00%	447
- Deferred tax assets on costs that will become deductible in future years	203	33,00%	67	280	33,00%	92
- Deferred fiscal deductibility of amortization	693	37,25%	236	702	37,25%	239
- Other	128	37,25%	48	99	37,25%	38
Total deferred tax assets	**1.928**		**649**	**2.437**		**816**

Other receivables

Detail is as follows:

(in euros)	31/12/2005	31/12/2004	Change
Advance payments to suppliers	453.603	103.806	349.797
Advances to employees	2.500	-	2.500
Miscellaneous	28.521	157.814	(129.293)
Total	**484.624**	**261.620**	**223.004**

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

III. Financial assets not held as fixed assets

Treasury shares

Such item amounted to 223.825 euros and is referred to no. 29,499 treasury shares recorded at cost determined according to the LIFO method.

During the year the Company transferred no. 16,338 shares for the acquisition of a further 7.5% of Atlas Reply S.r.l.'s share capital.
Shareholders' equity includes an unavailable reserve for the same amount.

IV. Cash and cash equivalents

This item amounted to 10.763.247 euros, and shows a change of 3.441.003 euros compared to 31 December 2004, and is referred to cash at banks and on hand at year-end.
The average interest rates on such funds are in line with the market yield.

D) Accrued income and prepaid expenses

This item, amounted to 1.857.719 euros, with an increase of 1.374.952 euros compared to 31 December 2004, and mainly refers 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.

_**Notes** to balance sheet liabilities

A) Shareholders' equity

The table below shows the changes in Shareholders' equity for the years ended 2005 and 2004.

(thousand euros)	Share capital	Share premium reserve	Legal reserve	Reserve for treasury shares on hand
Balance at 31/12/2003	**4.244.344**	**14.189.548**	**467.933**	**349.680**
2003 result allocation				
- Reserves	-	-	90.785	-
- Dividends	-	-	-	-
Share capital increase	101.301	1.714.133	-	-
Other changes	-	-	-	-
Result for 2004	-	-	-	-
Balance at 31/12/2004	**4.345.645**	**15.903.681**	**558.718**	**349.680**
2004 result allocation				
- Reserves	-	-	150.000	-
- Dividends	-	-	-	-
- to Directors	-	-	-	-
Other changes	-	-	-	-
- stock options	28.444	516.873		
Other		125.876		(125.876)
Result for 2005	-	-	-	-
Balance at 31/12/2005	**4.374.089**	**16.546.430**	**708.718**	**223.804**

As at 31 December 2005 the fully subscribed paid-in share capital of Reply S.p.A. amounted to 4.374.089 euros. This is made up of 8,411,710 ordinary shares, nominal value 0,52 euros each.

Changes in the item net equity are mainly referred to:

_ Distribution of a compensation to the directors for a total amount of 315.000 euros;

Extraord. reserve	Reserve for purchase of treasury shares	Rounding reserve	Retained earnings	Result for the year	Total
3.195.347	**19.703.012**	**(6)**	**4.874.740**	**1.815.689**	**48.840.287**
					-
750.941	-	-	-	(841.726)	-
-	-	-	-	(973.963)	(973.963)
-	-	-	-	-	1.815.434
-	-	1	-	-	1
-	-	-	-	3.000.006	3.000.006
3.946.288	**19.703.012**	**(5)**	**4.874.740**	**3.000.006**	**52.681.765**
					-
1.279.624	-	-	-	(1.429.624)	-
-	-	-	-	(1.255.382)	(1.255.382)
-	-	-	-	(315.000)	(315.000)
-	-	-	-	-	-
					545.317
		4			4
-	-	-		4.420.833	4.420.833
5.225.912	**19.703.012**	**(1)**	**4.874.740**	**4.420.833**	**56.077.537**

- Increase of share capital following the exercising of 54,700 stock options for a total amount of 545.317 euros of which 28.444 euros as share capital increase and 516.873 euros as share premium;
- Distribution of dividends (0,15 euros per ordinary share) for a total value of 1.255.382 euros.

A part from treasury shares, the Company has not issued other forms of financing.

Origin, possibility of utilization and distribution of the items included at Shareholders' net equity

The items included at Shareholders' net equity are distinguished according to their origin, possibility of utilization, possibility of distribution, availability and the utilization in the previous three fiscal years.

				Summary of the amounts used in the prior three fiscal years	
Nature/description	Amount	Possibility of utilization	Available amount	For coverage of losses	Other
Capital	**4.374.089**				
Capital reserves					
Reserve for treasury shares	223.804				
Share premium reserve	16.546.430	A, B	16.546.430		
Reserve for purchase of treasury shares	19.703.012	A, B	19.703.012		
Income reserves					
Legal reserve	708.718	A, B	-		
Extraordinary reserve	5.225.912	A, B, C	5.225.912		
Retained earnings	4.874.740	A, B, C	4.874.740		3.360.565
Total	**51.656.705**		**46.350.094**		
Amount not available (*)			36.312.999		
Residual available amount			**10.037.095**		

Legend

A: for share capital increase

B: for loss coverage

C: distribution to shareholders

In the past three years amounts have not been used to cover losses or for other reasons.

(*) Represents the amounts not available owing to:

_ Share premium reserve (16.546 thousand euros);

_ Reserve for purchase of treasury share (19.703 thousand euros);

_ Amount designated to cover intangible assets not yet amortised pursuant to art. 2426, no. 5 (64 thousand euros)

Stock option plans

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. Such stock option plans are detailed as follows:

- Extraordinary Shareholders' Meeting of June 26, 2001: 250,000 new ordinary shares were issued with a par value of 0,52 euros in favour of employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 130.000 euros. The stock option plan was in force until 30 June 2003 for the rights assignment; 31 December 2005 is the deadline for the subscription of the share capital increase.

- Extraordinary Shareholders' Meeting of June 11, 2002: 200,000 new ordinary shares were issued with a par value of 0,52 euros in favour of directors and employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 104.000 euros. The stock option plan will be in force until 30 June 2004 for the rights assignment; 31 December 2006 is the deadline for the subscription of the share capital increase.

- Extraordinary Shareholders' Meeting of June 10, 2004: 200,000 new ordinary shares were issued with a par value of 0,52 euros in favour of directors and employees of Reply S.p.A. and its subsidiaries. This brought about a capital increase of 104.000 euros. The stock option plan will be in force until 30 June 2006 for the rights assignment; 31 December 2008 is the deadline for the subscription of the share capital increase.

The following table summarizes the valid stock-options as at 31 December 2005:

Board's resolution date	n° of options	strike price (euro)	Vesting period
12 February 2004	12.000	8,914	12/02/2006 – 12/08/2006
19 April 2004	18.600	9,208	19/04/2006 – 19/10/2006
13 May 2004	100.300	9,416	13/05/2006 – 13/11/2006
11 November 2004	12.400	10,943	11/11/2006 – 11/05/2007
11 November 2005	2.400	17,569	11/11/2007 – 11/05/2008
	145.700		

In the first months of 2006 no. 9,600 stock options have been exercised for a total value of 85.574,40 euros of which 4.992 euros as increase in share capital, passing from 4.374.089,20 euros to 4.379.081,20 euros and 80.582,40 euros as share premium.

B) Reserves for risks and charges

At present there are no determinable risks for charges or probable future liabilities that would require a specific accrual.

Deferred tax liabilities

This item includes the fiscal charge corresponding to the temporary differences deriving from the book value of assets and liabilities and the corresponding fiscal value.
The tax rates applied were 33% corresponding to IRES and 4.25% corresponding to IRAP.

(in euros)

Taxable temporary differences	**Taxable income**	**Tax**
Total tax liabilities		
- Balance at 31/12/2004	128.424	42.380
- accruals	177.651	58.625
- utilization	-	-
Total at 31/12/2005	**306.075**	**101.005**

The amount accrued, amounting to 101.005 euros is referred to the temporary difference arising on the accrual for doubtful accounts made solely for tax purposes.

C) Reserve for employee severance indemnities

Movements in the reserve were as follows:

(in euros)

Balance at 31/12/2004	**513.780**
Accruals for the year	223.939
Utilization	(65.598)
Balance at 31/12/2005	**672.121**

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

The number of employees as at 31 December 2005 were 73 resources, with an increase of 3 resources compared to 31 December 2004.

D) Payables

As at 31 December 2005 payables amounted to 71.597.646 euros, of which 13.239.626 euros financial payables (12.094.056 euros as at 31 December 2004) and 58.358.020 euros trade and other payables (39.018.797 euros as at 31 December 2004).

Financial payables

(in euros)			31/12/2005			31/12/2004
	Short term	M/L term	Total	Short term	M/L term	Total
Advances on invoices and bank overdrafts	7.980	-	7.980	56	-	56
Medium/long term borrowings	4.000.000	8.000.000	12.000.000	-	12.094.000	12.094.000
Total due to banks	**4.007.980**	**8.000.000**	**12.007.980**	**56**	**12.094.000**	**12.094.056**
Transaction accounts from subsidiaries	1.231.646	-	1.231.646	-	-	-
Total financial payables	**5.239.626**	**8.000.000**	**13.239.626**	**56**	**12.094.000**	**12.094.056**

The item Medium/long term borrowings at December 31, 2004 was related to the partial use of a credit facility granted on June 30, 2003 for a maximum usable amount of 35,5 million euros.

As the expiry date for the utilization of the credit facility drew near (31 December 2005), Reply S.p.A. on December 30, 2005 undersigned a new contract with a pool of banks, with SanPaolo IMI as pool leader, for a medium/long term credit facility for a maximum usable amount of 66 million euros divided into 2 tranches.

- Tranche A can be used as an overdraft for a maximum amount of 12.000.000 euros with the purpose of entirely reimbursing the previous loan;
- Tranche B can be used as an overdraft and/or as a performance guarantee for a maximum amount of 54.000.000 euros with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalised at the acquisition of companies, strategic investments or shares.

On the same date therefore, "Tranche A" was utilised for 12 million euros and the 12.094.000 euros of the previous loan was completely reimbursed in advance.
The credit facility (Tranche B) can be used in a lump sum solution or several solutions within December 31, 2008. In the first months of 2006 Tranche B was utilised for 15.783 thousand euros in connection to the acquisition of Syskoplan.
Tranche A will be reimbursed in six instalments that expire June 30 and December 31 of each year, starting June 30, 2006 and expiring December 31, 2008.
Tranche B will be reimbursed in six instalments that expire June 30 and December 31 of each year, starting June 30, 2009 and expiring December 31, 2011.
The interest rate applied is the Euribor at 6 months with an initial spread of 0.75 percentage points per annum; the spread could be modified (from 0.75% to 1.00%) in relation to the Debt/Ebitda ratio calculated on figures of Reply S.p.A.

The company has also stipulated with SanPaolo IMI an interest rate swap agreement against interest rate risks of the same loan. The floating interest rate originally foreseen (Euribor 6 months), was transformed into a fixed interest rate of 3% per annum, allowing this way the cost of the loan to be hedged against any possible interest rate increase for the remaining duration of the loan.
The loan is also encumbered with bank commissions on the credit facility not used, charged on the aforementioned Tranche B on a quarterly basis to the statement of income and is also burdened with guarantees.
Tranche A is also guaranteed by pledges on the treasury shares and on shares purchased with the loan, in favour of the participating institutions.
Throughout the duration of the contract and until the loan is completely reimbursed, Reply S.p.A. must achieve predetermined ratios (Covenants) of economic and financial nature calculated on the consolidated financial statements as at 31 December of each year.

As contractually defined, such ratios are as follows:
- Net financial indebtedness / Equity ≤ 1,5
- Net financial indebtedness / Ebitda ≤ 3,0

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

Analysis of the net financial position

The net financial position as at 31 December 2005 amounted to 29.669.180 euros and is detailed as follows:

(in euros)	31/12/2005	31/12/2004	Change
Financial assets			
Financial receivables beyond 12 months			
Subsidiary companies	350.000	28.348.620	(27.998.620)
Other	92.757	93.396	(639)
Total financial assets	**442.757**	**28.442.016**	**(27.999.259)**
Current assets			
Other	223.825	349.680	(125.855)
Cash and cash equivalents	10.763.247	7.322.244	3.441.003
Transaction accounts	31.478.977	-	31.478.977
Total financial assets not held as fixed assets	**42.466.049**	**7.671.924**	**34.794.125**
Total financial sources	**42.908.806**	**36.113.940**	**6.794.866**
Financial liabilities			
Due within 12 months	(4.007.980)	(56)	(4.007.924)
Transaction accounts	(1.231.646)	-	(1.231.646)
Due beyond 12 months	(8.000.000)	(12.094.000)	4.094.000
Total financial liabilities	**(13.239.626)**	**(12.094.056)**	**(1.145.570)**
NET FINANCIAL POSITION	**29.669.180**	**24.019.884**	**5.649.296**

As previously described, during the fiscal year presented herein, a cash pooling system was introduced which led to the discharge of the interest bearing loan granted by Reply S.p.A. to its subsidiaries and the transfer of the amounts to the transaction accounts, recorded as current receivables from subsidiary companies.

Change compared to the previous year amounted to 5.649.296 euros and is due to:

(in euros)	**2005**
Cash flows from operating activities before working capital movements	5.513.566
Change in net working capital	4.897.620
Cash flows from operating activities (A)	**10.411.186**
Cash flows used in investment activities (B)	**(3.736.829)**
Cash flows in financial activities (C)	**(1.025.061)**
CHANGE IN THE NET FINANCIAL POSITION (A+B+C)	**5.649.296**

Trade payables and other liabilities

The change in trade payables and other liabilities compared to year ended 2004 amounted to 58.358.020 euros and is detailed in the table below:

(in euros)	**31/12/2005**	**31/12/2004**	**Change**
Trade payables and other liabilities			
Advance payments	3.418.215	1.594.077	1.824.138
Trade payables			
- Third party	2.357.494	1.730.455	627.039
Due to subsidiary companies	49.852.165	33.202.093	16.650.072
Due to associate companies	81.668	-	81.668
Due to tax authorities			
Ires (income tax)	1.546.458	1.425.298	121.160
Irap (income tax)	65.805	15.128	50.677
Withholding tax (employees)	167.304	161.235	6.069
Withholding tax (professionals)	2.593	5.955	(3.362)
Other	3.800	3.800	-
	1.785.960	1.611.416	174.544
Due to social security authorities			
Inps	188.057	176.879	11.178
Inail	650	1.750	(1.100)
Previndai	39.195	37.694	1.501
Contribution on employee accruals	129.886	146.295	(16.409)
Other	2.131	575	1.556
	359.919	363.193	(3.274)
Other liabilities			
Employee accruals	415.374	459.051	(43.677)
Other payables to employees	9.567	1.408	8.159
Due to directors	-	428	(428)
Miscellaneous	77.658	56.676	20.982
	502.599	517.563	(14.964)
Total trade payables and other liabilities	**58.358.020**	**39.018.797**	**19.339.223**

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

Advance payments

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

Trade payables

Trade payables as at 31 December 2005 amounted to 2.357 thousand euros and included:

- domestic suppliers for 2.255 thousand euros;
- foreign suppliers for 85 thousand euros;
- foreign non European member suppliers for 12 thousand euros.

Due to subsidiary companies

This item refers to trade transactions carried out at normal market conditions.
Such payables refer to professional services related to third party agreements with Reply S.p.A. and subcontracted by the latter to subsidiaries. Such a practice has become much more frequent in 2005 compared to the prior year and this explains the difference in the payable position.

Due to tax authorities

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

Due to social security authorities

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

Miscellaneous

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

Memorandum accounts

Detail is as follows:

(in euros)	31/12/2005	31/12/2004	Change
Guarantees issued on behalf of related parties	733.725	827.720	(93.995)
Guarantees received from third parties	5.113.373	1.807.148	3.306.225
Risks for pledges on shares	12.000.000	12.094.000	(94.000)
Commitments for lease contracts	457.855	564.684	(106.829)
Commitments for financial derivatives	12.000.000	14.579.500	(2.485.500)
Total	**30.304.953**	**29.873.061**	**431.892**

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

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

Risks for pledges on shares are related to the medium-long term financial loan, recorded at the balance sheet item financial payables for a total value of 12 million euros, burdened by a pledge in favour of the participating banking institutions on all the shares purchased through the loan.

Commitments for financial derivatives are referred to an interest rate swap agreement (IRS) and forward rate agreement (FRA) against interest rate risks of the SanPaolo IMI syndicated loan as already described previously. At the balance sheet date, the market value of such commitment that reflects the amount that the company would have to pay at the contract expiry date, determined on the basis of the notifications received by the bank counterparties, would not have had significant effects on the financial statements (17 thousand euros).

_**Notes** to the statement of income

A) Value of production

Revenues from sales and services

Revenues from sales and services amounted to 78.099.030 euros and are detailed below:

(in euros)	2005	2004	Change
Revenues from services	65.349.515	47.302.681	18.046.834
Royalties on "Reply" trademark	4.095.946	3.333.626	762.320
Intercompany services	6.110.496	4.477.000	1.633.496
Other intercompany revenues	2.543.073	3.082.567	(539.494)
Total	**78.099.030**	**58.195.874**	**19.903.156**

The increase of Group revenues in 2005, has a direct influence on Reply S.p.A. who has developed in the past years fronting activities concerning relations with primary clients also in capacity of sole manager of processes compliant to ISO 9001 quality standards.

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

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

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

B) Costs of production

Raw materials, consumables and goods for resale

Purchase costs are detailed below:

(in euros)	2005	2004	Change
Hardware	-	57.556	(57.556)
Software licenses	393.708	610.606	(216.898)
Other	236.172	179.059	57.113
Total	**629.880**	**847.221**	**(217.341)**

Service costs

Detail of service costs is outlined below:

(in euros)	2005	2004	Change
Commercial and technical consulting	1.778.673	924.122	854.551
Professional service from group companies	64.970.528	46.895.875	18.074.653
Services from parent companies and related parties	915.000	468.000	447.000
Directors' fees	830.000	829.000	1.000
Travelling and training expenses	698.584	458.884	239.700
Marketing expenses	449.957	353.466	96.491
Administrative and legal services	580.257	463.933	116.324
Statutory auditors and independent auditors	140.064	86.914	53.150
Utilities	207.884	200.737	7.147
Services to be recharged to group companies	1.250.439	709.798	540.641
Other	1.037.949	559.129	478.820
Total	**72.859.335**	**51.949.858**	**20.909.477**

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

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

Leases and rentals

Charges for leases and rentals is detailed below:

(in euros)	2005	2004	Change
Leases and rentals	961.670	871.594	90.076
Lease of automobiles	246.262	252.098	(5.836)
Other	6.585	378	6.207
Total	**1.214.517**	**1.124.070**	**90.447**

Personnel expenses

Personnel costs amounted to 4.665.151 euros, with a difference of 67.492 euros and are detailed in the statement of income.

The following table indicates the number of employees by category:

(number)	2005	2004	Change
Directors	19	20	(1)
Managers	9	6	3
Staff	45	44	1
Total	**73**	**70**	**3**

Amortization and depreciation

Amortization of intangible assets amounted to 497.405 euros. The details are provided at the notes to intangible assets herein.

Depreciation of tangible assets, amounted to 270.384 euros, and has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to tangible fixed assets herein.

Other operating costs

These costs included:

(in euros)	2005	2004	Change
Commission expenses on unused portion of loan	112.723	182.295	(69.572)
Donations	20.868	46.260	(25.392)
Deductible and non-deductible taxes and fees	14.580	22.123	(7.543)
Membership expenses	16.258	19.578	(3.320)
Hospitality expenses	54.389	9.500	44.889
Gifts to clients	30.388	8.819	21.569
Magazines and subscriptions	9.787	5.840	3.947
Taxes on automobiles	9.246	6.636	2.610
Miscellaneous expenses	37.043	7.781	29.262
Total	**305.282**	**308.832**	**(3.550)**

C) Financial income and expenses

Detail is as follows:

(in euros)	**2005**	**2004**	**Change**
Dividends	4.200.000	3.499.650	700.350
Gain on securities	119.712	78.115	41.597
Interest income from subsidiaries	1.248.284	953.798	294.486
Interest income on bank accounts	102.684	14.620	88.064
Interest due to banks	(482.949)	(278.740)	(204.209)
Interest charges on taxes from previous years	(25.339)	(105)	(25.234)
Financial losses	-	(10.426)	10.426
Loss/gain on exchange differences	(116)	(1.032)	916
Interest expenses to subsidiaries	(12.208)	-	(12.208)
Other	(5.823)	(9.253)	3.430
Total	**5.144.245**	**4.246.627**	**897.618**

E) Extraordinary income and expenses

Extraordinary income, amounting to 510.193 euros, are related to unexpected gains falling out of the ordinary course of business.

Extraordinary expenses, amounting to 310.006 euros are related to unexpected losses falling out of the ordinary course of business.

Income taxes

Detail of income tax is provided below:

(in euros)	Balance at 31/12/2005	Balance at 31/12/2004	Change
IRES	4.647	(222.212)	226.859
IRAP	259.000	196.000	63.000
Current income taxes:	**263.647**	**(26.212)**	**289.859**
IRES	136.416	(139.364)	275.780
IRAP	(4.642)	(11.501)	6.859
Deferred (prepaid) taxes	**131.774**	**(150.865)**	**282.639**
Total income taxes	**395.421**	**(177.077)**	**572.498**

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

(in euros)	Amount	Tax
Result before taxes	4.816.254	
Theoretical tax rate	**33%**	**1.589.364**
Temporary differences, net	(4.885.360)	
Taxable IRES	**(69.106)**	**-**
Effects of prepaid and deferred tax on prior years	821.093	274.053
Gains on losses brought from consolidation	616.561	(203.465)
Fiscal benefits deriving from adoption of fiscal consolidation		(65.941)
Current IRES tax		**4.647**

Calculation of taxable IRAP

(in euros)	Amount	Tax
Difference between value and cost of production	(471.662)	
Costs not accountable for IRAP purposes	5.804.524	
Revenues not accountable for IRAP purposes	510.191	
	5.843.053	**248.330**
Temporary differences taxable in future years	-	
Temporary differences deductible in future years	115.444	4.906
Reversal of the temporary differences from prior years	(94.090)	(3.999)
Differences that will not be reversed in future years	204.456	8.689
Taxable IRAP	**6.068.863**	**257.927**
Current IRAP tax		**259.000**

Pursuant to art. 2427 point 14 of the Italian Civil Code the information requested concerning deferred and prepaid fiscal items is herein outlined.

Fiscal deferability is expressed through provision against a tax fund for 58.625 euros related to the deductibility of provision for doubtful accounts made solely for fiscal purposes.

Prepaid tax amounting to 193 thousand euros was recorded in relation to temporary differences deriving from future deductible amounts.

Other information

Emoluments to Directors and Statutory Auditors

Emoluments to Directors and Statutory Auditors for the year-ended 2005 amounted to 1.265.000 euros and 65.029 euros respectively. Detail is as follows:

Name	Office	Term of office (days)	Emoluments	
Mario Rizzante	Chairman	365	435.000	
Sergio Ingegnatti	Chief Executive Officer	365	315.000	
Oscar Pepino	Chief Executive Officer	365	315.000	
Marco Mezzalama	Chief Executive Officer	365	20.000	
Paul de Sury	Independent director	210	11.667	
Tatiana Rizzante	Director	365	140.000	(*)
Fausto Forti	Non executive director	365	20.000	
Carlo Alberto Carnevale Maffè	Independent director	155	8.333	
Total			**1.265.000**	
Piergiorgio Re	Chairman of the Board of Statutory auditors	365	27.881	
Tommaso Vallenzasca	Statutory auditor	365	18.574	
Ada A. Garzino Demo	Statutory auditor	365	18.574	
Total			**65.029**	

(*) the amount does not include the remuneration received in capacity of director of Reply S.p.A.

_**Annexed** statements

_Reply S.p.A.

Statement of cash flows

(in euros)	2005	2004
Net result for the year	4.420.833	3.000.006
Depreciation and amortization	767.789	1.904.678
Accrual for employee termination indemnities	223.939	214.843
Accrual for reserve for risks and charges	58.625	42.380
Cash flows from operating activities before change in working capital	**5.471.186**	**5.161.907**
Change in trade receivables	(12.167.128)	(13.774.691)
Collection of dividends from subsidiaries	3.449.650	4.000.000
Change in current assets	(6.611.964)	(10.304.598)
Change in trade payables	21.790.669	15.555.392
Change in other current liabilities	(1.455.629)	6.185.277
Change in reserve for risks and charges	-	(66.000)
Change in employee termination indemnities	(65.598)	(59.139)
Change in working capital	**4.940.000**	**1.536.241**
Cash flows from operating activities (A)	**10.411.186**	**6.698.148**
Investments in intangible assets	(643.076)	(142.007)
Investments in tangible assets, net of disposals	(330.978)	(218.114)
Investments in equity investments as waiver of financial loans	(474.749)	(602.000)
Investments in equity investments	(2.288.026)	(7.300)
Cash flows used in investment activities (B)	**(3.736.829)**	**(969.421)**
Increase in share capital and share premium	545.321	-
Distribution of dividends	(1.255.382)	(973.963)
Distribution of profits to directors	(315.000)	-
Cash flows used in financial activities (C)	**(1.025.061)**	**(973.963)**
Change in net financial position (A + B + C)	**5.649.296**	**4.754.764**
Net financial position at beginning of year	24.019.884	19.265.120
Change in net financial position	5.649.296	4.754.764
NET FINANCIAL POSITION AT YEAR END	**29.669.180**	**24.019.884**

Reclassified balance sheet

(in euros)	**2005**	**2004**
Intangible fixed assets	808.498	662.827
Tangible fixed assets	492.785	432.191
Financial fixed assets	23.676.372	20.913.597
Fixed capital (A)	**24.977.655**	**22.008.615**
Trade receivables	48.384.586	36.217.458
Other current assets	13.292.482	10.130.168
Total current assets (B)	**61.677.068**	**46.347.626**
Trade payables	(31.937.284)	(33.531.361)
Other current liabilities	(4.151.210)	(5.606.839)
Total current liabilities (C)	**(59.473.240)**	**(39.138.200)**
Net working capital (D) (B + C)	**2.203.828**	**7.209.426**
Employee termination indemnities (E)	**(672.121)**	**(513.780)**
Reserve for risks and charges (F)	**(101.005)**	**(42.380)**
NET INVESTED CAPITAL (A + D + E + F)	**26.408.357**	**28.661.881**
Shareholders' equity	56.077.537	52.681.765
Medium/long term net financial position	7.557.243	(16.348.016)
Short term net financial position	(37.226.423)	(7.671.868)
SHAREHOLDERS' EQUITY AND NET FINANCIAL POSITION	**26.408.357**	**28.661.881**

_Reply S.p.A.

Equity investments in subsidiary and associate companies

Company	Registered office	Share capital	Shareholders net equity at 31/12/05	Net result 2005	Interest	Carrying value at 31/12/05
@Logistics Reply S.r.l.	Torino	78.000	193.469	18.128	100,0%	969.167
Action Reply S.r.l.	Torino	10.000	-	-	100,0%	10.000
Aktive Reply S.r.l.	Torino	10.000	859.805	404.651	100,0%	140.692
Atlas Reply S.r.l.	Torino	10.000	725.588	419.861	100,0%	356.575
Blue Reply S.r.l.	Torino	10.000	1.512.877	596.111	100,0%	527.892
Business Reply S.r.l.	Torino	78.000	251.269	(34.495)	100,0%	314.461
Cape Reply S.r.l.	Torino	10.000	270.977	259.828	100,0%	70.000
Cluster Reply S.r.l.	Torino	100.000	1.149.249	786.535	100,0%	539.010
Cluster Reply Padova S.r.l.	Torino	10.000	38.063	12.250	100,0%	54.572
e*finance consulting Reply S.r.l.	Torino	34.000	1.222.657	661.218	100,0%	3.076.385
Eos Reply S.r.l.	Torino	10.000	109.430	99.430	80,0%	8.000
Hermes Reply S.r.l.	Torino	10.000	-	-	100,0%	10.000
IrisCube Reply S.p.A.	Milano	651.735	3.941.177	2.271.277	51,0%	3.610.000
Logistics Reply do Brasil LTDA	San Paolo	286.646	715.627	251.981	80,0%	229.316
Logistics Reply SL	Barcellona	53.010	(50.701)	(140.023)	100,0%	53.010
Open Reply S.r.l.	Torino	10.000	39.376	29.376	100,0%	10.000
Power Reply S.r.l.	Torino	10.000	14.233	(430.767)	67,5%	441.749
Reply Consulting S.r.l.	Torino	10.000	121.831	110.116	51,0%	105.100
Santer S.p.A.	Milano	2.209.500	9.415.204	973.765	49,0%	5.621.021
Spike Reply S.r.l.	Torino	50.000	724.024	550.178	90,0%	55.000
Sysproject Reply S.r.l.	Torino	10.400	448.442	256.643	100,0%	2.071.022
Sytel Reply S.r.l.	Torino	115.046	3.801.192	2.374.912	100,0%	2.153.255
Technology Reply S.r.l.	Torino	79.743	823.687	487.305	100,0%	241.353
Themis Reply SA	Bioggio	64.451	(133.305)	(198.480)	70,0%	45.116
Twice Reply S.r.l.	Torino	10.000	59.624	3.889	70,0%	407.000
XYZ Reply S.r.l.	Torino	12.939	370.764	277.718	100,0%	2.467.019
YH Reply S.r.l.	Torino	21.224	172.488	(37.782)	100,0%	89.657
						23.676.372

_ **Statutory** auditors' report

on the Shareholders' meeting pursuant to art. 153 of Italian legislative decree no. 58/1998 and art. 2429, paragraph 3 of the Italian civil code in relation to the financial statements as at 31 December 2005

To the Shareholders,

Pursuant to art. 153 of the Italian Legislative Decree no. 58/98, and in compliance with the Italian Civil Code, the Board of Statutory Auditors refers to the Shareholders the supervision activities carried out in 2005.

Throughout fiscal year 2005 and in accordance with the Independent Auditors, we have performed supervision activities pursuant to article 149 of Legislative Decree 24/02/1998 no. 58 and in compliance with correct behavior principles set out by the Statutory Auditors and recommended by the National Board of Accountants ("Dottori Commercialisti and Ragionieri") and also by CONSOB resolutions and recommendations. Our activities are summarized below:

1. Significant economic, financial and monetary transactions.

The most significant economic, financial and monetary transactions carried out in 2005 are summarized below:

- Acquisition on March 1, 2005 of a branch of the company Advanced Computer System S.p.A. with headquarters in Rome, for a total amount of 184 thousand euros, by SYTEL REPLY S.R.L. The branch carries out commercial and development activities in the Media Asset Management segment;
- Acquisition on April 28, 2005 of a branch of the company FIAT Gesco S.p.A. and subsequent constitution of the company EOS REPLY S.R.L., 80% of the share capital held by Reply S.p.A., for a total amount of 600 thousand euros. the company will carry out accounting and reporting activities;
- Acquisition, on June 30, 2005 of all the minority shares in E*finance Consulting Reply S.r.l. for a total amount of 1.9 million euros (42% of the share capital);
- On December 30, 2005 a new syndicated term loan was undersigned with SanPaolo IMI S.p.A., pool leader, for a maximum amount of 66 million euros;
- Acquisition of a 63.76% stake of the German company Syskoplan AG, for a total amount of 22,5 million euros of which 5,5 million euros consisted in a share capital increase with share premium against a share swap of 655,583 Syskoplan shares, equal to 15.6% of the company's share capital, resolved on April 11, 2006 by the Board of Directors of Reply S.p.A., in accordance with the delegation given by the General Shareholders Meeting on June 14, 2005.

Such activities carried out have been executed in compliance with the Law and with the Articles of Incorporation.

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

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

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

- Reply S.p.A. has received professional services from group companies in relation to revenues from third parties;
- Reply S.p.A. has granted surety ships and patronage letters on behalf of some subsidiary companies in order to enable them to have adequate financial means for the development of their activities;
- During the accounting year REPLY S.p.A. has granted interest bearing loans to some subsidiaries (with the exception of Reply Consulting S.r.l. and Themis Reply SA), regulated under normal market conditions, with the objective of providing financial support to the subsidiaries' activities;
- REPLY S.p.A. provided the subsidiaries administrative, managerial, and commercial and marketing assistance and assistance related to the managing of Internet within the company, electronic mail and web services. Also in this case all transactions are regulated at normal market conditions;
- Reply S.p.A. has introduced a cash pooling system and activated transaction accounts with the single group companies;
- The Group companies use the "Reply" trademark, which is currently owned by the Parent Company.

Operations carried out with related parties are referred to general services and consulting services invoiced by Alika S.r.l. (indirect Parent company of REPLY S.P.A.) and Axcel S.r.l. (subsidiary of Alika S.r.l.) to the Group companies at normal market conditions. These operations are ongoing at present.

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

The Board of Directors has submitted, within the terms set out by the law, their report on operations in the first half of the fiscal year, made public in accordance to CONSOB regulations.
The Directors' Report on Operations related to the year ended 2005 provides exhaustive information concerning the major economic, financial and monetary transactions and regarding relations with subsidiary and associate companies and other related parties.
Such report does not reveal the existence of any atypical and/or unusual transactions during and following the year end close.

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

Deloitte & Touche S.p.A., the Independent Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of 31 December 2005, issued its report on 9 May 2006, in which it asserts that REPLY S.P.A.'s financial statements as of 31 December 2005 comply with laws governing the criteria for their preparation.

5. Complaints pursuant to art. 2408 Italian Civil Code.

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

6. Petitions.

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

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

During 2005 the following engagements have been assigned to the Auditing firm Deloitte & Touche S.p.A.:

- Complete review of the reconciliation of net income and net equity as at January 1, 2004 as requested by IAS/IFRS;
- Limited accounting controls on the 2004 half year report drawn up in compliance to IAS/IFRS;
- Complete review of the reconciliation of net income and net equity as at December 31, 2004 in compliance with IAS/IFRS;

  Limited accounting controls on the 2005 half year report drawn up in compliance to IAS/IFRS

- The fee amounted to 30.000 euros for approximately 550 work hours.

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

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

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

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

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

During the year the Board of Directors held 8 meetings and the Board of Statutory Auditors met 7 times.

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

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

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

We also inform You that Mr. Rizzante is Chairman of the Supervisory Board of the German subsidiary company Syskoplan AG.

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

During the meetings held with the Auditing firm's representatives, significant matters did not arise.
Maximum collaboration, even during preliminary activities prior to drawing up of the financial statements, was demonstrated.

13. Compliance with the conduct code set out by the Corporate Governance Committee of listed companies.

Since 2000 the Company complies to the conduct code set out by Borsa Italiana S.p.A..
On April 21, 2006 the Board of Directors approved the annual report concerning the Corporate Governance System currently adopted by the Company.
In such regards, the company intends on adopting by December 31, 2006 the new Conduct Code presented on March 14, 2006 by Borsa Italiana S.p.A.

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

We have kept and developed, through meetings and occasions, a systematic relationship with the audit firm Deloitte & Touche S.p.A throughout the year, with the purpose of a reciprocal exchange of information and data.
On such occasions, the Audit firm did not refer reprehensible matters or events worthy of being mentioned.
On the basis of the already mentioned principles and of the information gathered during the supervision pursuant to the law, and on the basis of the meetings with personnel in charge of corporate management and internal control, we have reached the following conclusions:

1) Administration

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

2) Organizational structure

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

3) Internal control system

Within the Board of Directors an Internal Control and Internal Remuneration Committee have been constituted. Their activities are carried out in accordance to a work program in line with the company's needs.
We have met with those in charge of the aforementioned committees, gathering information with respect to the areas in which they intervene and the solutions adopted in order to overcome weak points.
From the controls carried out the internal control system is deemed reliable.

4) Administrative and accounting system

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

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

The Board of Statutory Auditors asserts to have controlled that the drawing up of the financial statements complies to the laws and regulations governing the matter in accordance to article 153 of Legislative Decree 58/98, to article 149 letter a) of the surveillance code and to the agenda of the Shareholders' Meeting.
According to the controls carried out directly and information exchanged with the Audit firm, more specifically according to their report in compliance to ex art. 156 of Legislative Decree 58/1998, that expresses a clean opinion, the Board of Statutory Auditors does not have further observations nor proposals concerning the Financial Statements, the Directors' Report on Operations and the allocation of the net result, subject to Your approval.
With regards to the point on the agenda concerning the purchase and disposal of treasury shares, considering disclosures made by the directors, the Board states that the resolution proposed is in accordance to articles 2357, 2357-ter of the Italian Civil Code and in accordance to article 132 of Legislative Decree 58/98.

With regards to the point on the agenda concerning the increase of share capital excluding pre-emptive rights, for a new stock option plan, considering disclosures made by the directors, the Board asserts that the resolution proposed is in accordance to article 2441, paragraph 4 and in accordance to article 158 of Legislative Decree 58/98.
With regards to the point on the agenda concerning share capital increase through donation in kind of equity investments that have the same social object and therefore excluding pre-emptive rights, considering disclosures made by the directors, the Board asserts that the resolution proposed is in accordance to article 2441, paragraph 5 and in accordance to article 158 of Legislative Decree 58/98.

We would like to take this opportunity to thank you and remind you that our three year office period has come to an end, we kindly ask that provisions be made.

Turin, May 29, 2006

The statutory auditors
(Prof. Piergiorgio Re)
(Dott. Tommaso Vallenzasca)
(Dott.ssa Ada Alessandra Garzino Demo)

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

To the Shareholders of
REPLY S.p.A.

We have audited the financial statements of Reply S.p.A. as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange (CONSOB). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion. For the opinion on the prior year's financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditors' report dated May 18, 2005.

In our opinion, the financial statements of Reply S.p.A. as of and for the year ended December 31, 2005 comply with the Italian statutory provisions governing the criteria for their preparation; accordingly, they give a true and fair view of the company's financial position and results of operations.

DELOITTE & TOUCHE S.p.A.

s/Giuseppe Pedone
Partner

Turin, Italy
May 9, 2006

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

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