Reply

Living network

Annual Financial Report
2011

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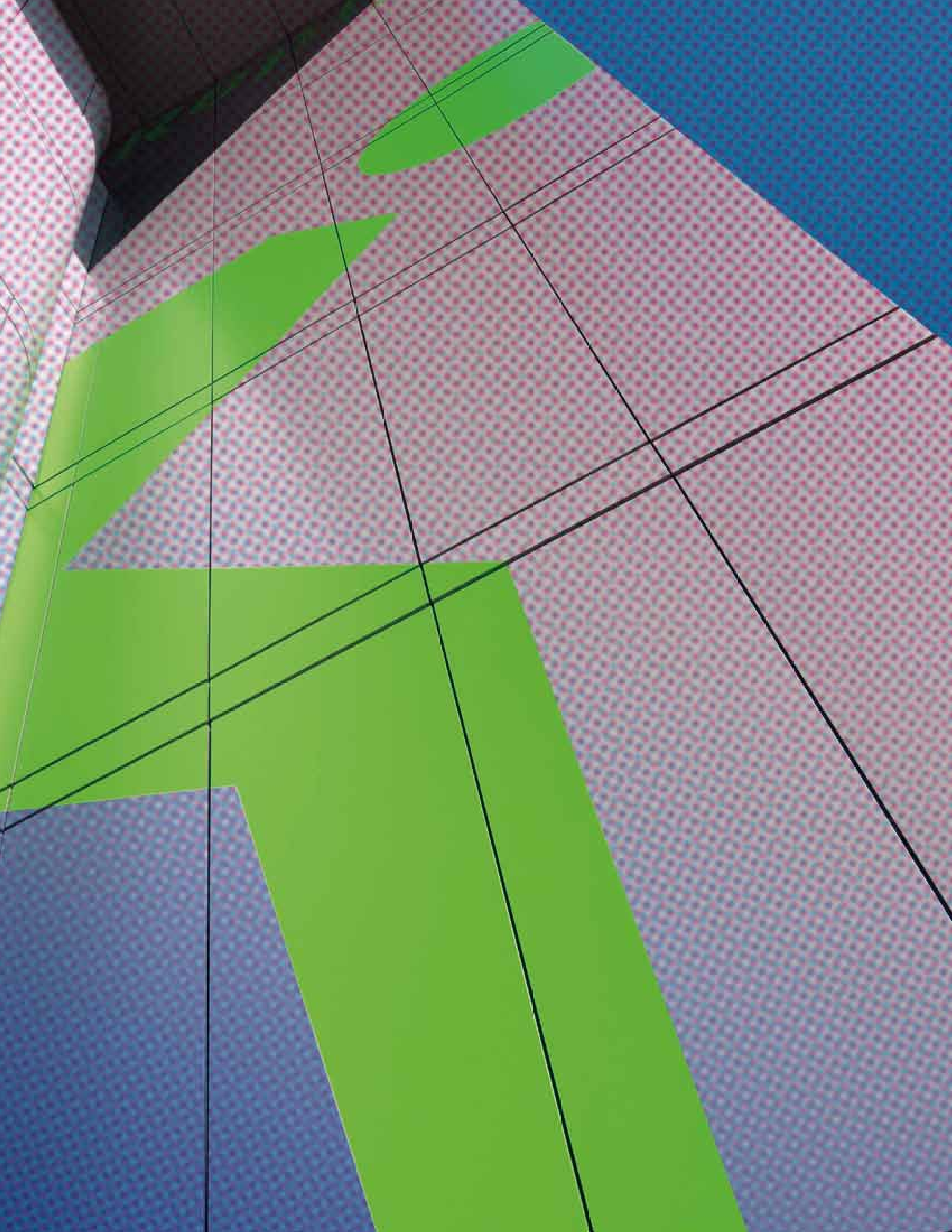
Contents

This Annual Report has been translated into English from the original Italian version. In case of doubt the Italian version shall prevail.



Board of directors and controlling body

Board of directors

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

Statutory Auditors

President
Cristiano Antonelli

Statutory Auditors
Paolo Claretta Assandri
Ada Alessandra Garzino Demo

Independent Auditors

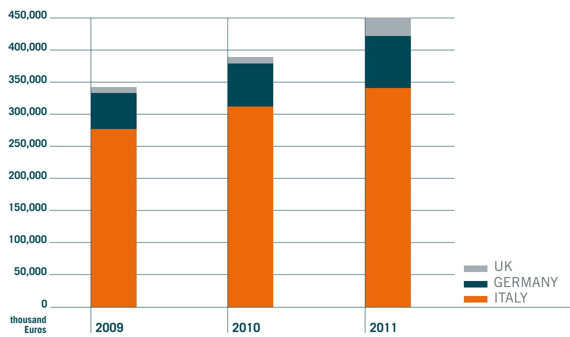
Reconta Ernst & Young S.p.A.

1 Directors not invested with operational proxy;

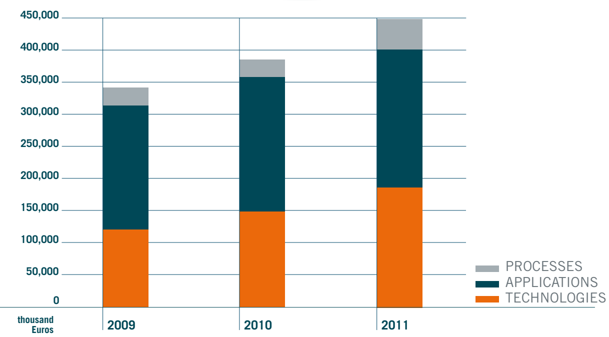
2 Independent directors, according to the Corporate Governance code for public companies;

3 Lead Independent Director.

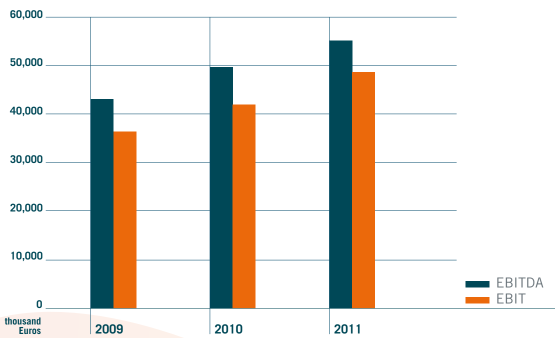
Revenues by geographic area



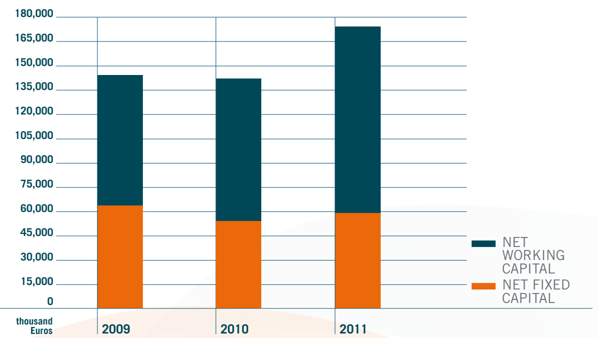
Revenues by business lines



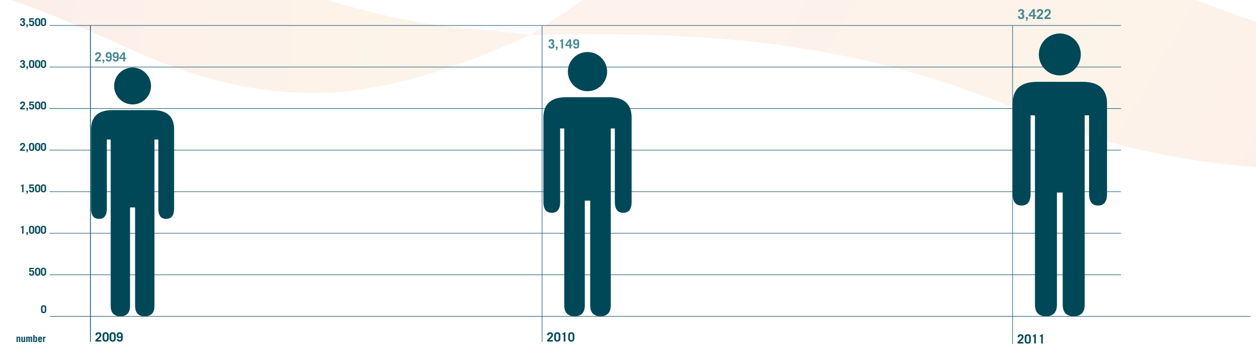
Margins



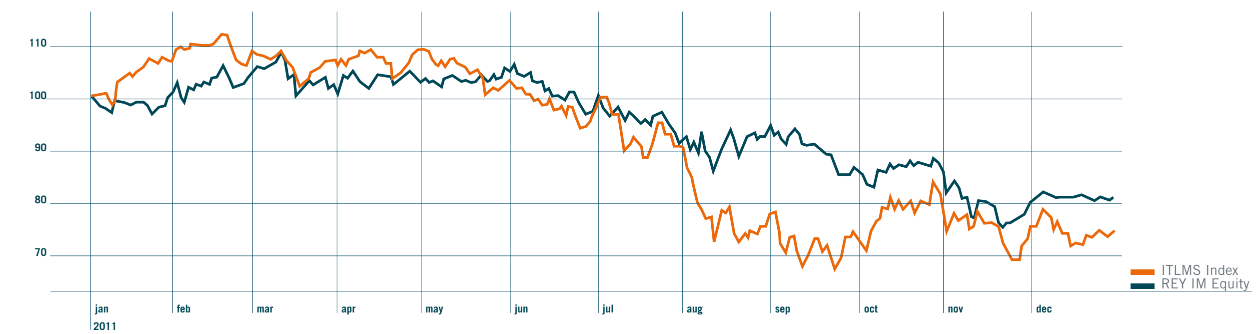
Net invested capital



Employees



Reply share in 2011



Financial Highlights

Economic figures (Euros/000)	2011	%	2010	%	2009	%
Revenues	440,296	100.0%	384,202	100.0%	340,166	100.0%
Gross operating income	54,997	12.5%	49,215	12.8%	42,860	12.6%
Operating income	48,665	11.1%	41,570	10.8%	35,882	10.5%
Income before taxes	46,473	10.6%	40,094	10.4%	33,968	10.0%
Group net income	24,150	5.5%	20,367	5.3%	16,628	4.9%

Financial figures (Euros/000)	2011	2010	2009
Group shareholders' equity	156,100	137,493	123,823
Minority interest	1,917	1,331	6,462
Total assets	423,701	372,204	309,071
Net working capital	116,172	92,655	89,345
Net invested capital	174,731	138,610	140,785
Cash Flow	4,679	25,301	26,022
Net financial position	(16,714)	214	(10,500)

Data per single share (in Euros)	2011	2010	2009
Number of shares	9,222,857	9,222,857	9,222,857
Operating income per share	5,28	4,51	3,89
Net result per share	2,62	2,21	1,80
Cash Flow per share	0,51	2,74	2,82
Shareholders' equity per share	16,93	14,91	13,43

Other information	2011	2010	2009
Number of employees	3,422	3,149	2,994


Reply

Letter to Shareholders

Dear Shareholders,

2011 was a difficult year, marked by a financial crisis which affected all economic sectors and all countries, albeit in different ways. In spite of this, Reply grew by 14.6%, capturing a share in new markets with innovative services, marketed expertly to our customers.

Over the past ten years we have grown from a robust Italian business to a worldwide group.

Today, far-reaching developments are transforming the market in which we operate. Never has it been as essential as it is now for a business like ours to seize the new opportunities provided by technology, and deemed highly innovative for businesses.

Reply finds itself in a good position vis à vis the technologies that will guide business growth in the future: cloud computing, social media, mobile, 'big' data and the 'Internet of Things'; and we are renowned in the market for our excellence and the quality of our solutions.
A new challenge, however, lies before us today.

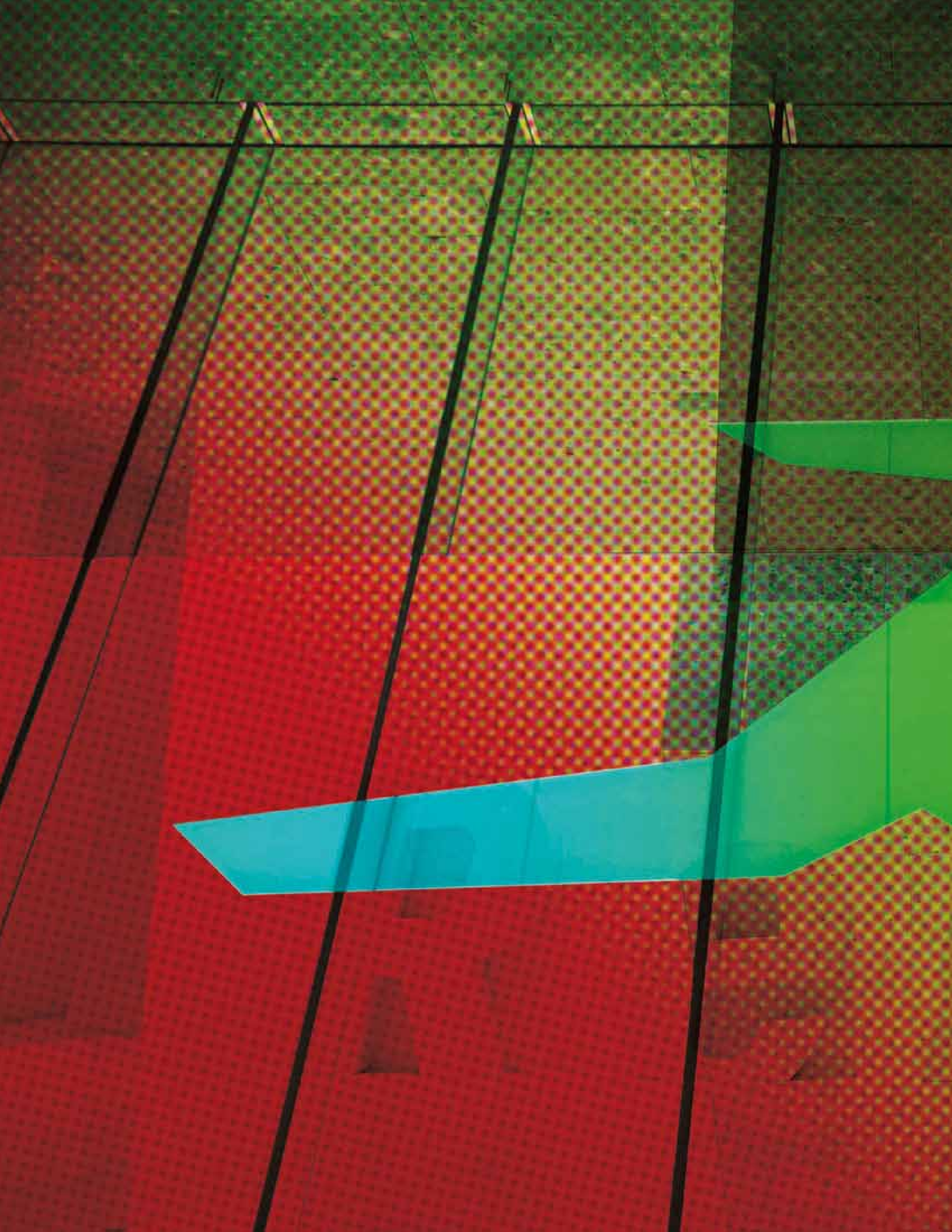
It is the challenge of injecting new drive to enable us to achieve top speed growth, by capitalizing on the resources we have in various countries; tapping into their potential and leveraging the proprietary assets that we have built up in recent years.

Our capacity to exploit our expertise in laying down the building blocks of innovation and in the main application domains (such as CRM, SCM, Risk Management and Digital Payments), together with our ability to create solutions for key business areas that are based on the radical and innovative redesign of business models, operating processes and their underlying application and technology platforms, will be an increasingly decisive factor in our success.

This is why in 2012 not only will we be continuing to invest in the development and growth of specific expertise and in vertical growth, but we have given Reply a new organizational structure designed to bring out our best skills, wherever they may be located within the Group, and pull them together quickly to create distinctive products and services for all of the markets in which we are operating.

Our goal is to propel Reply throughout Europe so that it will secure the levels of visibility and a reputation befitting the distinction that we have always enjoyed in our original markets.

The Chairman
Mario Rizzante




Reply Living network

Reply provides consulting, systems integration, application management and business process outsourcing services, with an emphasis on the design and implementation of solutions for the new communication channels and digital media.

Through its network of specialist companies (the Reply Living Network), Reply is helping some of Europe's leading industrial groups to define and develop business models enabled by new technology and communication-based paradigms (such as social networking, cloud computing and the Internet of Things). With these techniques, organizations are able to optimize and integrate processes, applications and devices.

Working with Reply means gaining a partner with:

- a mindset that is totally focused on technological innovation;
- a flexible structure capable of anticipating market developments and interpreting new technology drivers;
- a 'tried-and-tested' delivery method, offering high scalability;
- a network of specialist businesses for each service offered;
- teams of experts drawn from the leading universities;
- a highly experienced management team;
- a strategy of ongoing investment in research and development;
- long-term relationships with existing clients.

Organisational model

Reply employs more than 3400 people (as at 31st December 2011), but operates as a network composed of individual companies, each of which specializes in specific processes, applications and technologies, and represents a centre of excellence in its respective field of expertise.

- Processes - for Reply, understanding and using technologies means introducing a new enabling factor into processes, as a result of in-depth knowledge of the market and of the specific industrial implementation contexts.
- Applications - Reply designs and implements application solutions aimed at meeting the core business needs of enterprises.
- Technologies - Reply optimizes the use of innovative technologies to create solutions that ensure customers benefit from maximum operational efficiency and flexibility.

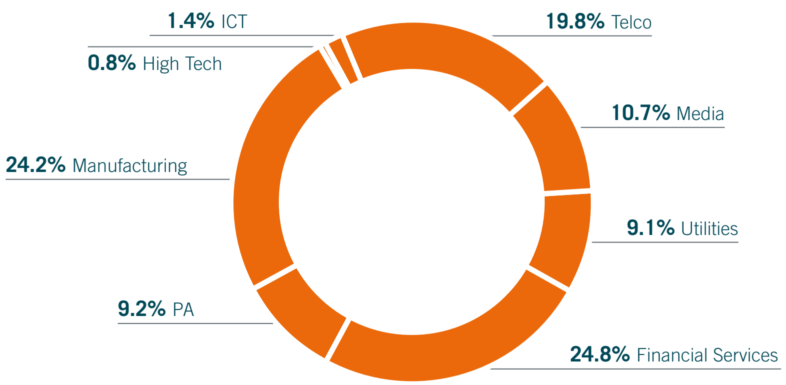
The range of services offered by Reply includes:

- Consulting - strategic, communications, process and technology;
- Systems Integration - taking technology to the highest level, by combining business consulting with high value-added and innovative technology solutions;
- Application Management - management, monitoring and continuous evolution of the application assets.

Market focus

In each of its selected market segments, Reply combines sector skills with a lengthy experience as a service provider and in delivering a wide range of advanced technologies.

In 2011, the Group's turnover for each vertical sector was as follows:



Telco e Media

Reply is one of the leading technology partners selected by companies in the telecommunications and media market; a sector characterized over the last few years by the rapid transformation of operators from connectivity suppliers to providers of innovative services and digital content.

Reply is supporting these operators as they undergo process and service integration across two key fields: business support systems (BSS) and operation support systems (OSS).

Reply has developed methods and processes to specifically help companies to deal with the 'fixed-mobile' convergence issues (which mainly affect CRM and billing systems), via developments to existing systems, or with the implementation of new integrated systems.
In 2011, in line with developments in networks and in fixed and mobile technology, Reply expanded its skills in this area to cover next-generation LTE network and IPv6 requirements.

As a result of its range of integrated consulting, communication and creative services, based on the latest technologies, Reply works with Telco and Media companies to conceive, develop and manage value-added services and applications, designed specifically for latest-generation devices such as smart phones and tablets, to enhance the user experience and facilitate social networking.

Banking, Insurance and Finance Institutions

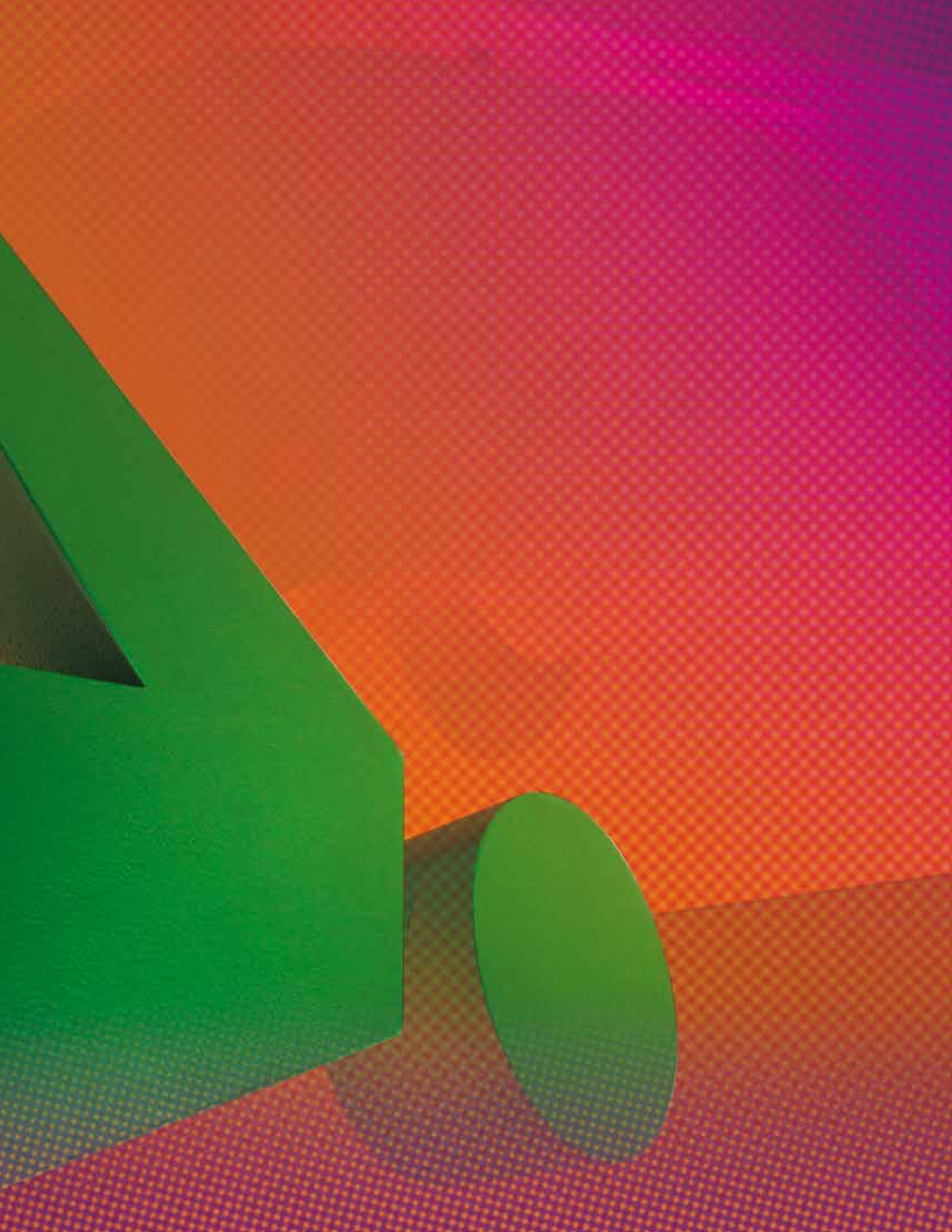
Reply is working with leading banking and insurance companies to deliver innovative solutions addressing key company activities. These projects have involved taking a fresh, in-depth, review of business models, company procedures and the underlying technology platforms.

Examples include:
Multichannel retailing: CRM and segment-oriented marketing solutions; advanced mobile banking and online trading platforms; innovative digital product development; web marketing; the development of a new generation of call centers; and the digitalization of processes.

Wealth management: support for specialists in the field by providing tailored solutions for asset management factories and distribution networks.

Credit, compliance and risk management: Reply has experience in Italy and in Europe, in delivering ground-breaking solutions (which can be applied to both processes and systems) for the allocation of retail credit (mortgages and consumer credit); the creation of business models and systems which measure and control the various types of risk; and the design and implementation of the relevant data systems.

With regards to the mPayment sector, alongside a consultancy service, Reply has developed its own mobile payment solution, based upon the HI Reply™ proprietary platform, which is integrated with bank payment gateways.



Manufacturing and Retail

Reply works with organizations to transform and improve the management of their IT systems and is involved at all stages from the strategic design, to the conception and redefinition of core processes and the implementation of solutions to ensure that applications are integrated within the extended company.

Reply's services, consulting and the development of products have focused on the following main areas in particular: Processes and applications for customer relationship management (CRM); Support for supplier relationship management (SRM) and procurement processes; Design of manufacturing execution systems (MES); Supply chain management (SCM) for the distribution and movement of goods through complex logistics networks.

A depth of experience in working with these core processes is underpinned by solid expertise in budget and management control models. In practice, this involves implementing business performance management (BPM) applications.

For the retail sector, Reply offers tailored products, designed to improve operating efficiency and enhance the customer experience. It does this by fusing ecommerce and multichannel consulting with the design and development of solutions that integrate web, mobile, call centre and in-store platforms.

Energy and Utilities

In recent years, the energy and utilities sector has faced increased competition and deregulation as a result of new EC legislation which effectively split the distribution and sales processes. These developments have helped to heighten interest from investors who, driven by increased pressure on revenues and profit margins as well as the need to continuously provide higher service and safety levels, are increasingly regarding ICT as a means of giving their companies a competitive edge.

Reply supports gas and electricity sales and distribution companies as they implement the operational, organizational and technology changes needed to comply with the new legislation that is driving the move to renewable sources and to compete in the free market.

Reply provides advanced, real-time billing and energy management solutions, designed specifically for the utilities market and carried out in collaboration with leading energy companies, within projects focusing on pricing, forecasting, smart metering and meter data management.

Government and Defence

The requirement within Italy to improve the quality of public services and meet public spending targets, means that the Public Administration has to re-engineer front- and back-office processes and tools. This can be achieved by redesigning infrastructures to achieve greater operational efficiency and flexibility.

Reply is able to transfer experience gained by working with more advanced on-line services to benefit central/local government and the health sectors. It achieves this by 'verticalizing' applications and skills to generate specific solutions that will manage the relationship between the public and businesses.

In the United Kingdom, Reply works with a number of government organizations, including the Ministry of Defence (MoD), whose logistics capabilities it has helped to transform through the implementation of reusable IT architectures, the introduction of software-as-a-service (SaaS), and the delivery of a marked improvement in data management.

Technological innovation

Technological innovation is at the heart of Reply's business.
To succeed in its objective of providing clients with the tools necessary to increase flexibility and efficiency, Reply must constantly seek out, select and promote the innovative solutions that will support and add value to organizations.

Cloud Computing

Cloud computing is currently perceived by the market as a strategic lever to boost competitiveness and improve company standing.

In response to this demand, Reply offers a full range of services: consulting; support in selecting the Cloud model best suited to company needs; the deployment and integration of custom platforms and applications; and easy-to-measure maintenance and management services available on a 'pay as you go' basis.

Reply's cloud computing model is built around four core elements:

- Consulting support (from the process itself through to its operational management) to help customers to understand, choose and develop the best technology and application solutions;
- Reply's own proprietary platform to help organizations to rapidly implement new service provision methods: the Enterprise Private Cloud;

- An end-to-end service provider, backed by partnerships with leading global vendors, including Amazon, Google, Microsoft, Oracle and Salesforce, so customers benefit from solutions tailored to their specific needs, in terms of the model type and technology adopted;
- SaaS services and solutions based on Reply's proprietary application platforms (TamTamy, SideUp Reply, Gaia Reply and Discovery Reply).

Partnerships with some of the world's leading vendors, including Amazon, Google, Microsoft, Oracle and Salesforce, enable Reply to also offer solutions, which meet the diverse requirements of companies, in terms of business models and technologies adopted.

Internet of Things

As telco, media and consumer electronics converge, objects which until now have been totally unconnected are increasingly being considered as 'network devices': electrical appliances, controllers for integrated home automation systems, and so on.

Machine-to-machine (M2M) communication is the basic building block of the Internet of Things. Leading analysts expect the M2M market in Europe to grow by 15% per year between 2012 and 2015, with global value expected to top 213 billion Euros by the end of 2013. The gradual linking up, not only of computers and devices, but also a vast array of material objects, will be one of the biggest developments of the next few years, creating a network that will be increasingly pervasive in and integrated with our daily lives.

The Internet of Things will be applied in many different fields, from industrial applications (production processes), logistics and info-mobility, through to energy efficiency, remote assistance and environmental protection.
In 2011, Reply released HI Reply™, a platform of services, devices and middleware on which specific vertical applications can be based: advanced logistics, environmental safety, contactless payment and product traceability, for instance. HI Reply™ was designed and engineered by Reply's Internet of Things research and development centre, which was established at the beginning of 2009 following Reply's acquisition of the Motorola Research Centre in Turin.

CRM

The increasing integration with new communication technologies, especially mobile communications, 'social' participation and collaboration trends, and the spread of 'multichannel' are key to the creation of CRM solutions that deliver real value.
Companies must now identify and implement a communication strategy that is 'peer-to-peer', rather than 'one-to-many'; an approach based on what drives their clients as well as on the factors which distinguish the company itself.
As a result, Reply has defined the organizational processes and models which, when applied, will ensure an appropriate and efficient level of integration between the framework of the CRM solutions proposed and the existing company structures.
Reply is also helping an increasing number of clients to define CRM system principles, review processes and create CRM technology structures and solutions, by applying the systems to manage their respective operational and organizational processes on an end-to-end basis.
And Reply has identified new techniques and methods which can be used to engage end users, with a view to improving customer loyalty and strengthening the customer relationship itself. 'Gamification' techniques are used in this process.
Thanks to Reply's lengthy experience in markets where end-to-end assistance is a key component of the CRM framework, it is able to integrate sophisticated reporting management models, based on the main technologies available (such as Oracle, Microsoft, Salesforce, SAP and other best-of-breed solutions).

Business Intelligence and Big Data

In 2011, reporting and business intelligence systems continued to be a priority expenditure item in IT budgets, ranking between first and third place among the investment priorities for CTOs, according to leading analysts in Western Europe.

Reply is a market leader in the design and development of business intelligence, data warehouse and corporate performance management solutions.

Its range of services in this area continues to evolve, as with the acquisition of Big Data technology in the second half of 2011, which enhanced Reply's customer analytics expertise for the retail and consumer sectors.

And in response to market developments in the insurance sector, Reply has acquired additional expertise in the development of business intelligence systems for risk management and, more specifically, for compliance with the Solvency II Directive.

Social Media

The increasingly pervasive nature of the social media as a channel of communication, information and interaction between people has given rise to new opportunities for companies to use such media both internally and externally, building on the participation of employees, customers (business-to-consumer) and other stakeholders (business-to-business).

The creation of social networks and professional communities is intended to encourage new forms of collaboration, identify talent and boost innovation, while enabling unstructured knowledge to emerge through tools such as wikis, blogs, forums, bookmarking, multimedia content sharing, idea generations, RSS feeds, and so on.

In addition to specific solutions aimed at maximizing user and stakeholder participation (social engagement) and using tools to monitor and engage conversation and interaction within communities (social listening), Reply bases its range of corporate social networking products on its own TamTamy™ platform, available in 'on-premises' mode or through cloud computing.

In 2011, Reply created a special range of 'crowdsourcing' solutions based on Starbytes™. These targeted businesses interested in outsourcing the development of projects, services or products to 'crowds' of people working in virtual communities.

Mobile

Thanks to a wealth of experience of devices, communication protocols and in delivering a rich user experience, as well as knowledge of the most important processes involved and of the Telco and Media sector, Reply is able to support clients in creating multichannel, interactive set-ups with new collaborative environments that guarantee:

- easy access to services and information, anywhere and anytime;
- wired and wireless device integration;
- an 'always-on' infrastructure to manage and distribute services and content.

The increasing demand for services offering a higher level of user interaction across all mobile platforms, channels and devices (desktop, mobile, Internet, TV) has led Reply to create its own Application Factory, dedicated to the development of mobile applications for businesses and consumers.

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

For this reason, at the end of 2011, Reply designed a mobile gaming product which benefitted from the company's technology skills and experience in digital design. It can be used by the private consumer as well as in the most complex B2B settings.

mPayments

The mobile payments sector is expected to be one of the fastest-growing markets over the next few years. Leading analysts estimate the global value of mobile transactions worldwide to have risen by 75.9% in the last few months alone, growing from 35 billion Euros at the end of 2010 to 61.8 billion Euros at the end of 2011. By 2014, the value of the mPayments market is expected to reach 360 billion Euros, driven by the continuing success of Smartphone and wireless Internet devices. By 2013, mPayments are expected to account for 15% of all credit card transactions.

Reply has developed its own mobile payments solution based on the proprietary HI Reply™ platform, which can be integrated with bank payment gateways.

Moreover, in 2011 Reply worked alongside 3 Italy, Fastweb, Poste Mobile, Tim, Vodafone Italy and Wind as a technology partner in the development of an mPayment platform for payments using residual SIM credit. This was launched simultaneously by all of the mobile service providers.

Digital Communication

In recent years, it has become increasingly important for a brand, product or service to be represented on all of the various digital platforms; a presence which invites the consumer/user to interact. This 'dialogue' is what renders the concept completely different to the traditional 'display only' model used in all markets and by all brands over the past ten to twenty years.

As a result, creative skills (which have always represented the true added value of an effective advertising campaign) must now be accompanied by high levels of technology skills and design. In other words, 'added value' now relies on all of the elements which bring creativity to life and make it interactive on the new channels: Internet and mobile telephones of course, but also digital point-of-sale (P.O.S.), game platforms and others.

This new scenario calls for a more effective integration between creativity and technology, which increasingly needs to be delivered by a single provider of consulting, design and production services.

In response to this call, Reply, together with Armando Testa, has set up Bitmama; a digital creative agency with expertise in multichannel brand marketing.

In addition to the creation and management of all brand-related aspects, using interactive digital media, Bitmama's expertise also extends to the application of creative concepts and technology within important sectors such as mobile telephones, e-commerce and gaming. These sectors are already being targeted by commercial brands, as can be seen within the main international communication markets.

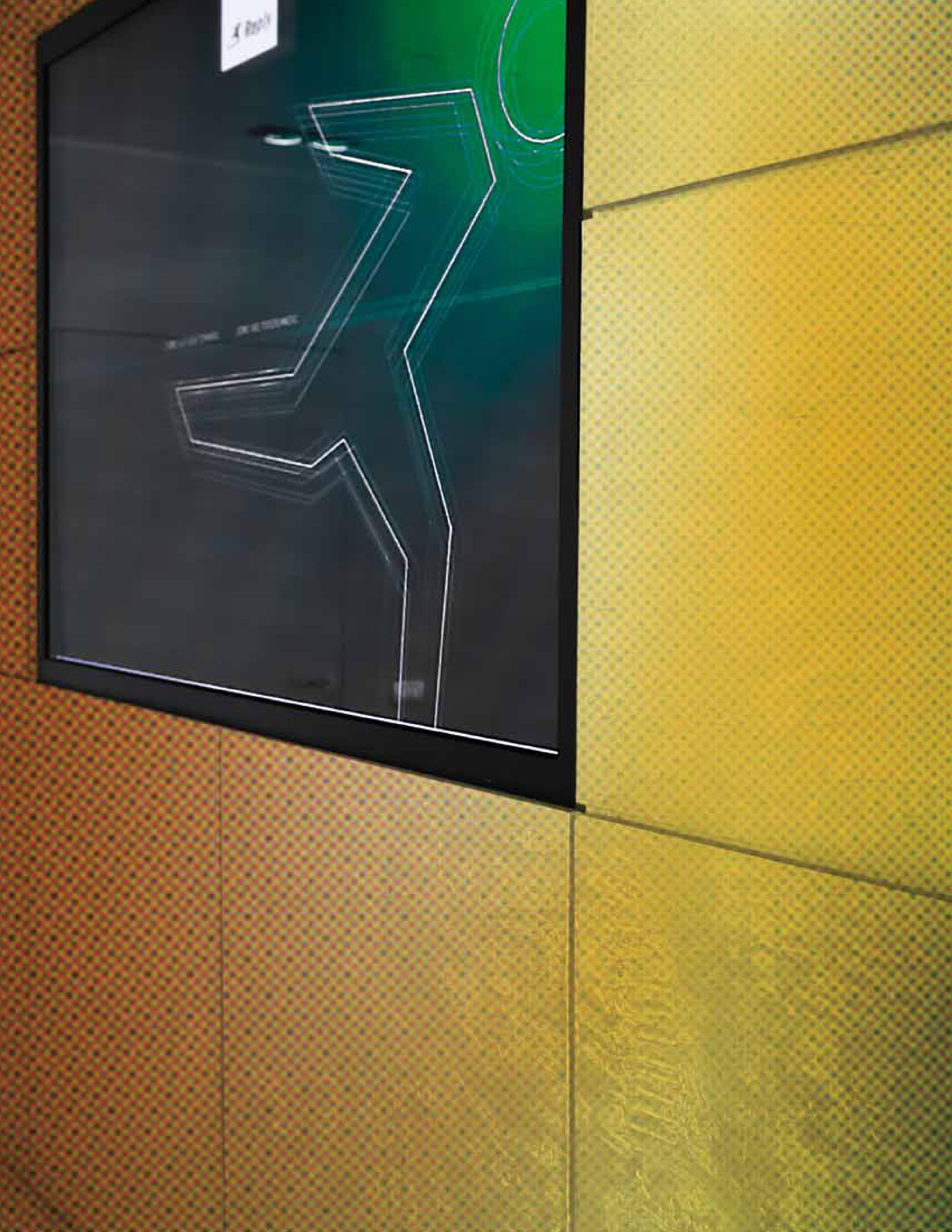
Another key communication sector in which Reply is operating through Bitmama to support business customers is that of social networking; a mainstream phenomenon that has grown exponentially in recent years. Today, more than ever before, social networks have become the undisputed global arena for consumer-brand relationships.

Security

Reply developed its range of business security products and services in 2011, expanding in two directions: the first, consulting on IT risk management, involving the identification of threats and vulnerabilities and the design and implementation of technological, procedural and organizational countermeasures; the second, focusing on the design of new managed security services.

With regard to IT risk management, Reply has developed a series of anti-fraud systems and processes, designed specifically for mobile payments and the main social networks.

For managed security services, Reply has developed products and services through its Security Operation Center (SOC). These focus on: security-as-a-service, anti-fraud services, and smart IT management, with a focus on mobile device management and a cloud security framework.



Reply Services & platforms

Today the Internet is a ‘computerized information base’, through which an increasing volume of data, information and complex content can be accessed by users in real-time. This new way of using the Internet opens up new kinds of competition, based on the approach taken to service delivery which in turn relies on three key elements: the software platforms used; an understanding and command of the processes; and service management.

Reply helps its clients to take advantage of this innovation, by supplying services and platforms designed to maximize the new potential offered by the Internet and by communication technologies.

Click Reply™

Click Reply™, the Reply platform for supply chain execution, enables companies to optimize the management of inventory, warehouse, transportation management and order fulfillment processes. The solution’s architecture, which is entirely service-oriented and based upon open standards, can be integrated with ERP, SCM and MES systems. Click Reply™ can be used with a wide range of devices to enable the reading and writing of tags based on RFID technology, as well as the more traditional devices such as barcode scanners and voice recognition. Having developed a series of generic scenarios for specific markets, Click Reply™ can support critical processes for the automotive and spare parts aftermarket, as well as fashion, grocery, Telco and third-party logistics (3PL) markets.

Definio Reply™

Definio Reply™, the Reply platform for risk management and wealth management, meets the needs of a range of financial companies including banks, asset management companies, insurance companies, pension funds, bank foundations, investment and private banks and family offices. In short, any financial institution with a need to analyze and monitor managed financial activities, both directly and through third parties.

Discovery Reply™

Discovery Reply™, the Reply platform for digital asset management, makes digital assets more efficient over their entire lifecycle, by providing innovative methods for managing workflow, a high level of interoperability with existing company systems and advanced services that facilitate the multichannel distribution of content. Discovery Reply™ supports integrated production models, the use and filing of content via a flexible open platform and provides a simple, easy-to-use interface for acquiring, processing, cataloguing, accessing, searching and distributing digital assets across the various traditional delivery channels, (TV and digital TV); and IP-based channels (IPTV, WebTV, Over-The-Top TV, MobileTV, Connected TV and Digital Signage).

Gaia Reply™

Gaia Reply™ provides a flexible, scalable framework for the development and supply of services and content across various mobile terminals. GAIA Reply™ integrates data coming from any structured source, formats it according to service criteria and makes it available, in a standard format, to any channel or mobile device; the framework also improves display and browsing facilities, making them more user-friendly on each of the various devices used. Highly scalable, the tools available for managing services mean that GAIA Reply™ will meet a variety of company needs; these may relate to the development of particularly complicated services (such as mobile banking) or to the implementation of less complicated services (a mini-MSIT, promotional activities, a landing page and so on).

HI Reply™

HI Reply™, a solution developed for the Internet of Things, comprises a platform of services, devices and middleware on which specific vertical applications can be based. Examples of these are ‘infomobility’, advanced logistics, environmental safety, contactless payment and product traceability. HI Reply™ enables objects that are linked in a network to communicate in a simple, standard way. The solution combines hardware components, with the firmware and software installed on the objects themselves. These range from simple sensors and actuators to more sophisticated systems such as smart phones and minicomputers. Enabled with HI Reply™, these objects become smart devices able to communicate with each other through standard Internet technologies and acquiring a series of basic functions required for them to function seamlessly (auto-configuration, location, discovery and ontology of network services).

SideUp Reply™

SideUp Reply™, the Reply service platform for Warehouse Management, optimizes the management of inventory, warehouse and order management processes. The solution, which is entirely based on the cloud computing model, can be integrated with ERP, SCM and MES systems. SideUp Reply™ is particularly suitable for businesses wishing to implement a warehouse management solution in a short timeframe or for a specific period. Unlike traditional warehouse management systems, SideUp Reply™ is accessible directly via the Internet on a pay-per-use basis; in other words, payment is related to actual consumption.

Starbytes™

Starbytes™ is a 'crowdsourcing' platform developed by Reply using cloud computing architecture. It is designed for businesses wishing to adopt an open enterprise model in which projects, services and products can be developed by tapping into the skills and expertise of a digital community via a direct channel, without the need for intermediaries to match supply and demand. Starbytes™ supports 'crowd' engagement by encouraging interaction through 'gamification' techniques, managing supply and demand through contests and competitions and drawing out the best performers through feedback and ranking systems.

TamTamy™

TamTamy™ is a social network platform developed by Reply to meet the social media needs of businesses by providing them with a series of technologies, functions and tools designed to help them to achieve their strategic goals.

It is typically used to handle internal or external business relationships, in change management and to organize participatory events.

Social networks have transformed communication paradigms, offering companies an excellent new communications too, both within and outside the organization. Seizing this opportunity, TamTamy™ integrates, all of the main online community tools available today (wikis, blogs, forums, bookmarking, multimedia content sharing, idea generation, RSS feeds, and so on) with a series of basic services (such as identity and presence management, categorization, rating, tagging, search, a suggestion engine based on user profiles and real-time messaging) into a single interface that can be configured and customized as desired.

Application Management

Reply has designed an application management model characterized by:

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

Business Process Outsourcing

Reply supplies specialized BPO services in three specific areas:

- Finance and Administration: management of accounting processes, drafting of financial statements and consolidated balance sheets, management of tax obligations, digitization of the accounting documents and associated filing.
- Human Resources: training, enterprise content management (ECM), career profiles, corporate knowledge and management analysis tools.
- Pharmaceutical: management and control of pharmaceutical expenditure.

CFO Services

The need to use complex tools for reporting and simulation in order to receive adequate information on the company's progress and capacity in a timely manner to create value is forcing the CFO to undergo a radical change of role.

Reply has designed specific products within its business performance management services to provide support to CFOs, who increasingly have to come to terms with topics and tasks, that were previously the responsibility of the CEO:

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

Partnership / Research and Development

Partnerships with leading global vendors allow Reply to offer the best solution from each company. In Italy and Germany, for example, Reply boasts the highest level of certification from the three top technology names in the enterprise sector: Microsoft, Oracle and SAP.

Microsoft

One of the most important Microsoft National System Integrators in Italy for technology and Microsoft Business Solutions, in 2011 Reply developed a series of new projects for Microsoft Cloud platforms - Windows Azure and Office 365. Reply also reinforced its position as a leading provider of Microsoft Dynamics CRM/ERP solutions, becoming the leading Dynamics CRM partner in Italy for the third consecutive year.
Reply works regularly with Microsoft Corporation on testing and early adoption programmes for software such as Office 2010, Sharepoint 2010, Microsoft Lync 2010, SQL Server 2012 and Microsoft BizTalk.
With regard to Microsoft operating systems, Reply oversaw the successful mass deployment of Windows for the enterprise market and it is currently testing the forthcoming Windows 8 as a recognized partner in the Microsoft Technology Adoption Program (TAP) for enterprises.
Finally, Reply supplies the rest of the Microsoft range and has processes in place for continuous product update, as evidenced by the fact that Reply is a Gold Certified Partner in nine different areas.

Oracle

An Oracle Platinum Partner, Reply has always followed the development of Oracle services, both in terms of technology and product. It can now boast one of Europe's main Competence Centers, which combines full-stack support with mastery of the application suites and key vertical industry solutions. Reply is now also a leading Oracle partner within the European utilities sector, conducting projects for major market operators in Italy, Ireland, the UK and France. Reply has long been committed to innovating and testing new Oracle technologies and products through its participation in the BetaSite programmes (Database, Middleware) and co-development initiatives. In 2011 Reply launched Exalab, Italy's only DEMOground, at its offices in Milan. Here customers can experience Exadata and Exalogic, Oracle's new engineered systems, consisting of hardware and software solutions, and guaranteeing extreme performance and reliability.

SAP

Reply uses its wide international experience in developing applications based on the SAP product suite, to help businesses to optimize activities and processes. It takes an integrated approach to the design and development of corporate information systems; and its skills cover traditional enterprise processes and functions throughout the extended company, in such areas as: supply chain, customer and supplier relationship and financial services.
In addition, its extensive experience in using SAP business intelligence tools enables Reply to help customers to define and develop reporting structures, control dashboards and simulation and planning activities.
Technology and design skills represent another important area. The SAP Netweaver infrastructure and in-memory SAP HANA technology enable Reply to address application integration and people/knowledge integration issues, using an approach to services based on SOA principles.

The development and evolution of proprietary platforms

Reply has always considered its policy of research and constant innovation to be key in supporting clients when they implement new technologies.
From its inception, Reply has devoted resources and activities to R&D, focusing on two areas: the development and evolution of proprietary platforms; and the definition of a continuous process of scouting, selecting and learning about new technologies, which will enable the company to bring to market innovative solutions, that will in turn support value creation within companies.

Click Reply™

In 2011 product development for Click Reply™ focused on consolidating the solution, with internationalization components, configuration support tools and the design of new modules. An example of the latter is Click Reply™ JVoice, a voice recognition module providing voice support for the most common warehouse processes, based on the business approach underlying Click Reply™ WM (Warehouse Management). New functionality was also added and new tools introduced to configure reporting and flow. At the end of 2011, a study was launched into two potential new modules for the Click Reply™ solution; both designed to optimize logistics and operating processes. The first is the Warehouse Costing module, which as its name suggests helps companies to cost warehouse processes; the second is the Labor Management module, which enables them to analyze execution times for warehouse operations.

Discovery Reply™

In 2011, new features were made available for the management of audiovisual content. This was aimed at the broadcasting industry, which is moving increasingly towards IT-based systems. 2011 was also marked by ramping up the features of Discovery Reply™ to cover content management and digital media used in vertical contexts other than Broadcasting. These verticals include industry and security. In this same year, digital signage and connected TV systems were incorporated into the multichannel delivery layer for Discovery Reply™; while the WebTV channel, video on demand and live streaming were enhanced with user features and interactive options typical of social media. Finally, Discovery Reply™ was enhanced with a speech-to-text system and semantic analysis tool that enables a fast and effective classification of audio-visual content so it can subsequently be identified for retrieval.

Definio Reply™

The Definio Reply™ platform was expanded in 2011, functionally and technologically. The functional coverage of the platform was extended through the development of two new modules: Performance Contribution and Advanced Reporting. The platform's infrastructure was also extended and re-engineered to enable it to be fully used "as a service". A service was also developed to value illiquid, unlisted and structured financial instruments, with the platform implemented and extended as required.

Gaia Reply™

The main purpose of developments in 2011 was to bring the platform even closer to the needs of companies and service users through the introduction of HTML5 support and the optimized management of the browser's default zoom in Alembik image transcoding. The platform is now able to recognize HTML5 mobile devices and exploit features such as embedded audio and video and the advanced management of input fields. HTML5 support is currently enabled on all Apple devices, on Android devices from version 2.0 onwards and on Windows Phone devices from version 7.5 onwards. Finally, to maximize monetization opportunities for companies using Gaia Reply™, connectors to mobile payment platforms have been created facilitating real-time integration with the services provided by the platform itself.

HI Reply™

HI Reply™ was developed by the Reply 'Internet of Things' research and development centre as a platform containing services, devices and middleware on which specific vertical applications could be based. Examples of these are 'infomobility', advanced logistics, environmental safety, contactless payments and product traceability. The scalability of the platform is assured by the use of a family of ARM processors and operating systems, such as the Microsoft .NET Micro Framework. These enable developed software or components to be reused depending on the context and type of device. Finally, flexibility and the use of Internet standards enable Internet of Things applications to be created faster and more easily than with the other solutions currently available; these tend to be proprietary products that are not interoperable. Five vertical applications are already available on HI Reply™ for the automotive, wellness and toy markets, plus mobile location-based advertising and payments. A focus for future developments will be energy efficiency; in particular "how" energy is consumed and not just "how much". The ability to correlate physical parameters with contextual information will be of prime importance to the energy market and power exchange.

SideUp Reply™

Development for SideUp Reply™ in 2011, focused on two main principles: ergonomics and the user experience; and the extension of new logistics services in cloud computing mode. Enhancing the user experience means improving ease of use, reducing training times, increasing self-customization, and thus fast start-up - a critical success factor for SaaS. In 2011, existing services were extended, with the range of SaaS products broadened by the introduction of a new module to manage freight forwarder logistics platforms. At the same time, development began on a new Supplier Visibility module, designed to enable customers to take advantage of the opportunities offered by SaaS for procurement logistics processes.

Starbytes™

Launched in early April 2011 as a Reply service for 'crowdsourcing' ICT and creative projects without the need for intermediaries, by the end of 2011 Starbytes™ boasted approximately 15,000 registered users. Plans for the development of Starbytes™ in 2012 include the integration of a new community dedicated to the 'creative' world, with a view to boosting the take-up of graphic and creative works; and the creation of a service for SMEs. For enterprises and start-ups, Reply acts as a crowdsourcing enabler through Club Starbytes, an end-to-end service based on the Starbytes™ technology platform and on the interaction of large communities.

TamTamy™

In 2011 Reply continued the development of the TamTamy™ platform to extend the 'social' features offered by the solution and to enable it to be used in different contexts. Work focused on improving the flexibility and configurability of the tools available, and on the creation of connectors to link to enterprise tools as well as online services such as Facebook and Twitter. 2011 also saw an increase in use of the 'Dedicated SaaS' (Software as a Service) delivery model. This makes available the latest technologies and online service distribution models on a cloud computing basis. This product has a pricing model that is based on actual use, making it suitable for new business communities by considerably reducing start-up times and running costs.

New investments are planned for 2012, with two major releases that will continue the expansion of the platform, in terms of functionality, services and integration ability. This is in line with the perpetual beta approach adopted by Reply for the development of TamTamy™.

The value of people

Reply's success derives from the excellence of its people – all professionals, drawn from the sector's best universities and institutes of technology. Reply men and women represent the company brand to its customers and partners, and enhance it.

Reply invests in human resources on an ongoing basis. The company has developed privileged and collaborative relationships with several universities to enable it to attract highly skilled personnel.

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

Reply people are characterized by enthusiasm and initiative, a commitment to excellence, a focus on methodology and a sense of team spirit; this together with an ability to understand the business and technology context and to clearly communicate proposed solutions. A continuous drive to conceptualize, experiment and explore new solutions enables staff to pursue new directions effectively.

Joining the Reply world means having the best opportunity to express one's potential, within an organizational model based on trust, honesty and transparency.

These values are indispensable to a culture of continuous improvement and attention to quality.

Reply Group managers work hard every day to maintain the principles which underpin Reply and which have supported the company throughout its growth.

The Reply team

Characterized by:

- Sharing customer objectives
- Professionalism and rapid implementation
- Culture and flexibility

Excellence: the company's fundamental culture, evidenced in analysis, attention to quality, reliability and maximization of results.
Team: characterized by cooperation, the communication of ideas and knowledge, sharing of objectives and results and respect for the individual.
Customer: shared objectives, customer satisfaction, conscientiousness, professionalism, sense of responsibility and integrity.
Innovation: in terms of creativity, experimentation, courage, analysis and the quest for improvement.
Speed: achieved through use of methodologies, project management experience, collaboration, and commitment to achieving results and customer goals.

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Report on Operations

Main risks and uncertainties to which Reply S.p.A. and the Group are exposed

The Reply Group adapts specific procedures in managing risk factors that can have an influence on the group results. Such procedures are a result of an enterprise management that has always aimed at maximizing value for its stakeholders putting into place all necessary measures to prevent risks related to the Group activities.

Reply S.p.A. as Parent Company, is exposed to the same risks and uncertainties as those to which the Group is exposed.

The risk factors described in the paragraphs below must be jointly read with the other information disclosed in the Annual Report.

External risks

Risks associated with general economic conditions

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

Risks associated with evolution in ICT services

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

Risks associated with competition

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

Risks associated with increasing client needs

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

Risks associated with segment regulations

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

Internal risks

Risks associated with key management

The Group's success is largely dependent on the ability of its senior executives and other members of management to manage the Group such as the Chairman and the Executive Directors of the Parent Company Reply S.p.A.
The Group is structured with a group of directors (Senior Partners and Partners) with many years of experience in the segment and have a key role in the management of the Group's business. The loss of any of these key figures without an adequate replacement or the inability to attract and retain new, qualified personnel could therefore have an adverse effect upon the Group's business prospects, earnings and financial position.
Management deems that in any case the Group has a sufficient operational and managerial structure enable to guarantee continuity in the running of business.

Risks associated with relationship with client

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

Risks associated with internationalization

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

Risks associated with contractual obligations

The Group's solutions are rich in technological content and of great value, the underlying related contracts can foresee the application of penalties in relation to timeliness of delivery and qualitative standards.
The application of such penalties could have adverse effects on the Group's economic, financial and earnings position.
The Group has undersigned adequate precautionary insurance contracts against any risk that could arise under professional responsibility for an annual maximum amount deemed to be adequate in respect of the actual risk.
Should the insurance coverage not be adequate and the Group is called to compensate damages greater than the amount covered, the Group's economic, financial and earnings position could be deeply jeopardized.

Financial risks

Credit risk

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

Liquidity risk

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

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

Risks associated with fluctuations in currency and interest rates

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

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

The Group's exposure to interest rate risk is mainly associated to financial loans bearing free float interest rates. The Group has managed this risk with the use of interest rate swaps which allows floating interest rates to be transformed to fixed interest rates.

Financial review of the Group

Foreword

The financial statements commented and illustrated on in the following pages have been prepared on the basis of the company's statutory financial statements at December 31, 2011, to which reference should be made, prepared in compliance to International Financial reporting Standards ("IFRS") issued by the international accounting standards board ("IASB") and adopted by the European Union, and with the provisions implementing article 9 of Legislative Decree no. 38/2005.

Trend of the period

In 2011 the consolidated turnover of the Reply group amounted to 440,3 million Euros with an increase of 14,6% compared to the consolidated turnover of 2010 which amounted to 384,2 million Euros.

EBITDA amounted to 55,0 million Euros (49,2 million Euros in 2010) with EBIT of 48,7 million Euros (41,6 million Euros in 2010). Net result totaled 24,2 million Euros (20,4 million Euros in 2010).

As at December 31, 2011, the Net Financial Position was negative by 16,7 million Euros, a decrease compared to the positive value of 0,2 million Euros as at December 31, 2010. The net financial position would have been a better 10.3 million Euros had the Group not executed acquisitions in the year.

Although 2011 was a very complex year marked by an economic and financial crisis which struck all industrial fields and countries in different ways, the Group recorded a growth. Such results highlight a financially solid industry which has always invested in innovation and has been recognized on the market for its excellencies and quality of its solutions.

Today Reply is an International Group, present not only in the main European countries but also in Brazil and North America. Thanks to the investments made in the last years Reply has a distinct position on the main technologies which is at the base of future developments in areas such as Cloud Computing, Social Media, Mobile, Big Data and Internet of Things. Furthermore Reply's ability to supply clients the best competencies in innovation components and main applications of CRM, multi-channel, SCM, Risk management and Compliance keeps it more involved in the development of solutions for the most relevant business areas.

Reclassified consolidated Income statement

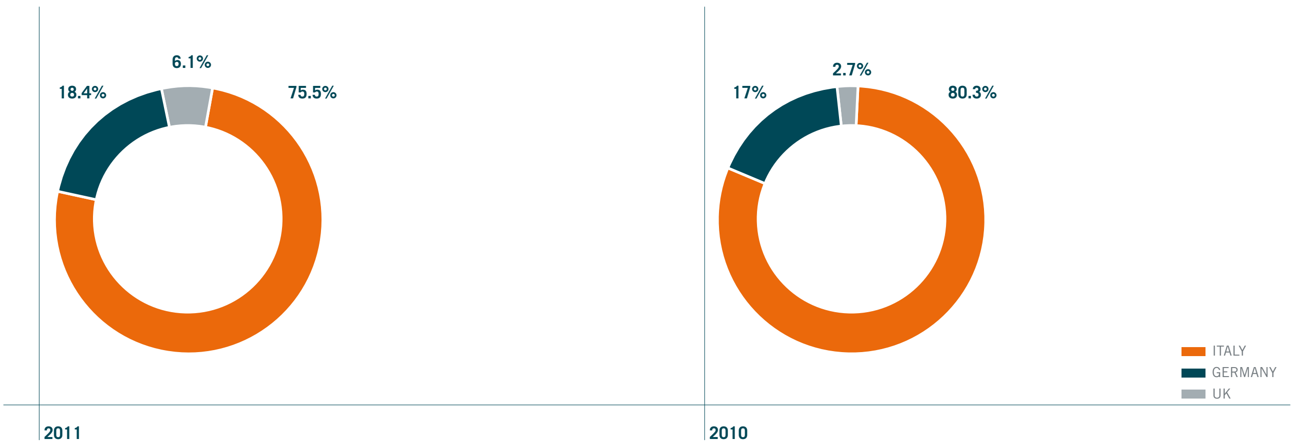
Reply's performance is shown in the following reclassified consolidated statement of income and is compared to corresponding figures of the previous year:

(thousand Euros)	2011	%	2010	%
Revenues	**440,296**	**100.0**	**384,202**	**100.0**
Purchases	(8,703)	(2.0)	(8,652)	(2.3)
Personnel	(215,056)	(48.8)	(194,122)	(50.5)
Services and other costs	(160,435)	(36.4)	(124,444)	(32.4)
Other unusual operating income/(expenses)	(1,105)	(0.3)	(7,769)	(2.0)
Operating costs	**(385,299)**	**(87.5)**	**(334,987)**	**(87.2)**
Gross operating margin (EBITDA)	**54,997**	**12.5**	**49,215**	**12.8**
Amortization, depreciation and write-downs	(6,332)	(1.4)	(7,645)	(2.0)
Operating income (EBIT)	**48,665**	**11.1**	**41,570**	**10.8**
Financial income/(expenses)	(2,192)	(0.5)	(1,476)	(0.4)
Result before tax of continuing operations	**46,473**	**10.6**	**40,094**	**10.4**
Income tax	(21,327)	(4.9)	(19,482)	(5.1)
Net result of continuing operations	**25,146**	**5.7**	**20,612**	**5.4**
Non controlling interests	(996)	(0.2)	(245)	(0.1)
Profit for the period attributable to owners of the Parent	**24,150**	**5.5**	**20,367**	**5.3**

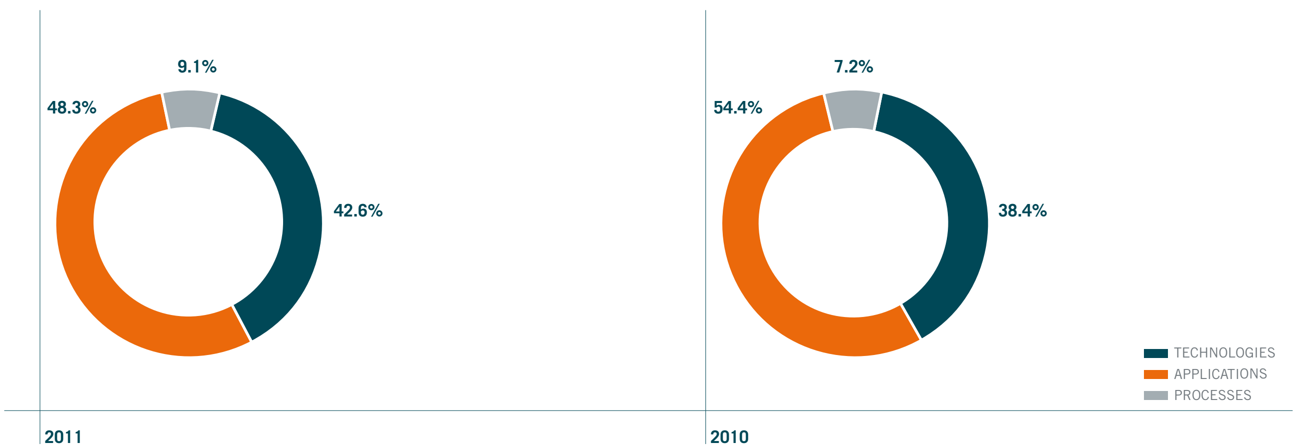
Key events of 2011 are summarized below:

- February 2011: Reply strengthens its presence in Europe with the acquisition of avantage, an English company specializing in the Financial Services market within the areas of risk, regulatory, capital and financial performance management and treasury.
- March 2011: Technology Reply, a Reply Group company specializing in Oracle technologies, inaugurates Exalab, the first skills centre in Italy for Oracle Exadata Database Machine and Oracle Exalogic Elastic Cloud solutions, the Enterprise category of the Oracle product family for the consolidation of grids and private clouds.
- April 2011: Reply launches Starbytes™, an online employment service for freelancers and ICT experts in Italy. In particular, Starbytes™ offers recent graduates in computer science and telecommunications, copywriters, professionals with relevant expertise and specialists in digital technologies the chance to work from home with one of the leading investors in, and believers of, innovation.
- April 2011: in line with its development strategy, Reply created Storm Reply, a company specialized in creating innovative services based on Cloud Computing. In particular, this new company assists businesses in the process of converting applications and infrastructure to Cloud Computing models, with consulting and solutions integration services in the areas of Software as a Service (SaaS), Platform as a Service (PaaS) and virtualization of infrastructure environments (IaaS).
- May 2011: Reply has been chosen by 3 Italia, Fastweb, Poste Mobile, Tim, Vodafone Italia and Wind as its technological partner for the development of the platform for mobile payments using credit left on the SIM (mPayment). The initiative, announced in a joint press release with the 6 mobile operators, introduces a new method of online payment through mobile devices.
- June 2011: Reply enters the world of mobile gaming with Forge Reply, a company specializing in the development of games for mobile devices mobile, smartphones and tablets for the consumer and business market. The creation of Forge Reply is part of Reply's Digital Media and Mobile development strategy.
- June 2011: Reply unveiled HI REPLY, a services, devices and middleware platform for vertical applications such as info-mobility, advanced logistics, environmental safety, contactless payment and product track-and-trace. HI REPLY was designed and built by Concept Reply, the research and development centre of Reply for the Internet of Things (a collection of hardware and software technologies for exchanging information between networked devices for automation of mission-critical processes) which opened early in 2009, following Reply's acquisition of the Motorola research centre in Turin.
- November 2011: Reply introduces HI CREDITS, the Reply solution for remote mobile phone payments integrated with the banking payments network. HI CREDITS is based on Reply's propriety Internet of Things platform, HI REPLY, and is designed to make the buy experience simple and "smart". Thanks to HI CREDITS, users can pay for goods and services by mobile phone in a simple and smart and secure way, as the system is integrated with the banking payment gateway.
- November 2011: Reply strengthens its presence in Europe through the acquisition of 80% Portaltech shares, a Uk company specializing in consulting and implementation of multichannel e-commerce strategies and solutions. Poraltech's chosen technology platform is hybris, a global leader in e-commerce and multi-channel software.

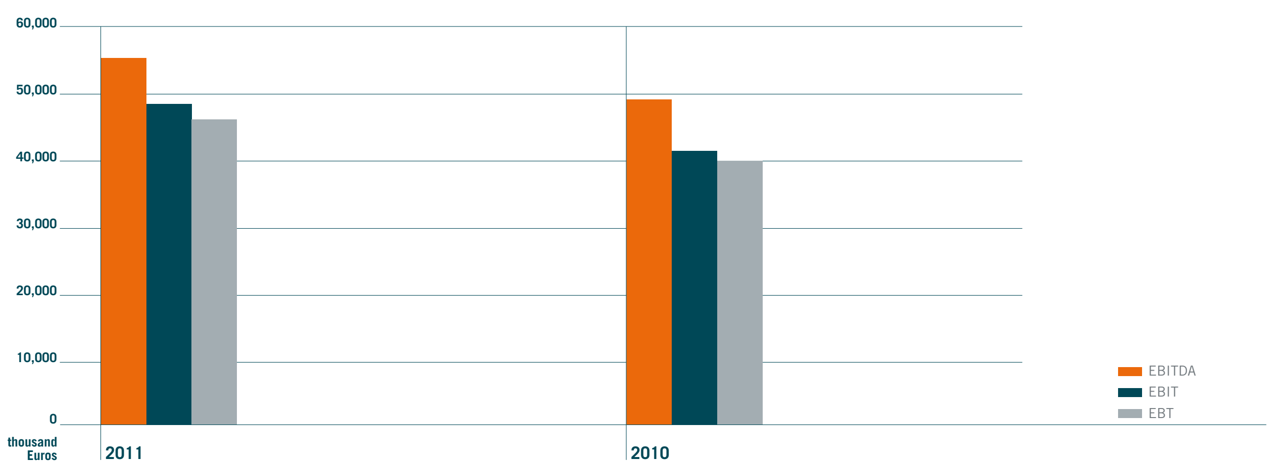
Revenue by geographic area



Revenue by business lines



Trend in the principle economic indicators



Analysis of the financial structure

The table below details the Group's financial structure as at December 31, 2011, compared to December 31, 2010:

(thousand Euros)	31/12/2011	%	31/12/2010	%	Change
Current operating assets	255,722		220,762		34,960
Current operating liabilities	(139,550)		(128,107)		(11,443)
Net working capital (A)	**116,172**		**92,655**		**23,517**
Non current assets	126,254		99,727		26,527
Non current liabilities	(67,695)		(53,772)		(13,923)
Net fixed capital (B)	**58,559**		**45,955**		**12,604**
Net invested capital (A+B)	**174,731**	**100.0**	**138,610**	**100.0**	**36,121**
Shareholders' equity (C)	158,017	90.4	138,824	100.2	19,193
NET FINANCIAL POSITION (A+B-C)	**16,714**	**9.6**	**(214)**	**(0.2)**	**16,928**

Net invested capital as at December 31, 2011, amounted to 174,731 thousand Euros and was financed by Shareholders' equity for 158,017 thousand Euros, with a net financial position of 16,714 thousand Euros,

The following table provides a breakdown of net working capital:

(thousand Euros)	31/12/2011	31/12/2010	Change
Inventories	10,184	15,971	(5,787)
Trade receivables	219,764	189,145	30,619
Other operating assets	25,774	15,646	10,128
Current operating assets (A)	**255,722**	**220,762**	**34,960**
Trade payables	48,005	37,702	10,303
Other current liabilities	91,545	90,405	1,140
Current operating liabilities (B)	**139,550**	**128,107**	**11,443**
Net working capital (A-B)	**116,172**	**92,655**	**23,517**
% return on revenues	*26.4%*	*24.1%*	

Net financial position and cash flows statement

(thousand Euros)	31/12/2011	31/12/2010	Change
Cash and cash equivalents, net	6,394	26,332	(19,938)
Current financial assets	345	647	(302)
Due to banks	(7,798)	(16,854)	9,056
Other providers of finance	(177)	(347)	170
Short term financial position	**(1,236)**	**9,778**	**(11,014)**
Non current financial assets	936	943	(7)
Due to banks	(16,141)	(10,323)	(5,818)
Other providers of finance	(273)	(184)	(89)
M/L term financial position	**(15,478)**	**(9,564)**	**(5,914)**
Total net financial position	**(16,714)**	**214**	**(16,928)**

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

(thousand Euros)	31/12/2011
Cash flows from operating activities (A)	4,679
Cash flows from investment activities (B)	(15,569)
Cash flows from financial activities (C)	(9,048)
Change in cash and cash equivalents (D) = (A+B+C)	**(19,938)**
Cash and cash equivalents at beginning of period (*)	26,332
Cash and cash equivalents at year end (*)	6,394
Total change in cash and cash equivalents (D)	**(19,938)**

(*) Cash and cash equivalents are net of bank overdrafts

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

Significant operations in 2011

Acquisition of avantage Ltd.

On February 4, 2011 Reply S.p.A. acquired 51% of the shares and 90% of the voting rights of avantage, a United Kingdom company specialized in the Financial Service market within the areas of risk, regulatory, capital and financial performance management and treasury.

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

The total value of the purchase price for 51% of the shares and 90% voting right amounted to GBP£ 7.1 million, of which GBP£ 4.8 million paid in cash on signing the Sale & Purchase Agreement and a further GBP£ 2.3 million paid in three years' time.

Reply also has the option to exercise the right to purchase the remaining 49% of the capital at the end of 2013 and the non controlling interest having the sale option.

avantage adds to Reply's product and service offering in the Risk Management and Regulatory Compliance segment; areas in which thanks to synergies with other Group companies, Reply now boosts one of the leading centers of competence in Europe.

Acquisition of Portaltech Ltd.

In the month of November Reply, through its subsidiary Reply Ltd., acquired the 80% Portaltech shares, a Uk company specializing in consulting and implementation of multichannel e-commerce strategies and solutions. Portaltech's chosen technology platform is hybris, a global leader in e-commerce and multichannel software.

Portaltech, with headquarters in London, counts among its clients some of the more significant English and European companies active on online retail, of which Monsoon & Accessorize, L.K. Bennett, Bunzl Group, Long Tall Sally, Royal Mail Group, Premier Farnell and Thompson & Morgan.

The total value of the purchase price for 80% of Portaltech's shares is 1.6 million pounds, paid in cash, with further options for Reply to acquire the remaining 20%. Furthermore an Earn out is foreseen subordinated to predetermined parameters which will be paid in 2012 and 2013.

With this acquisition Reply strengthens its digital media position and multichannel e-commerce solutions. Portaltech is an acknowledged market leader in online retail and e-business, having implemented 65% of hybris based technology projects in the UK.

The acquisition of Portaltech confirms Reply's interest in expanding in UK where it is already operating through a network of highly specialist companies in the fields of Mobile, Digital Media, Supply Chain Execution, Risk Management and Regulatory Compliance.

Reply on the Stock Market

Financial communication

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

In 2011 Reply reached a growth in European countries continuing investor relations with the market, notwithstanding the peculiar situation and the volatility of the Italian market and the consequent caution of the local investors in respect of companies having a low capitalization. In fact in the past year Reply participated and organized numerous roadshows and conferences in the major European financial markets.

These activities led to the admission of a new German fund within the relevant shareholders, supported by the trust fund BNY Mellon Service Kapitalanlage alongside the all-time institutional investors exceeding the 2% threshold: Kairos Partners, Highclere International Investors Limited and Anima SGR. Such mix of shareholders confirms the interest in the Reply share by Italian and foreign institutes.

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

Trend of the Reply Share

In 2011 the Italian Stock market lost over 25% closing with the worst performance in the European markets.

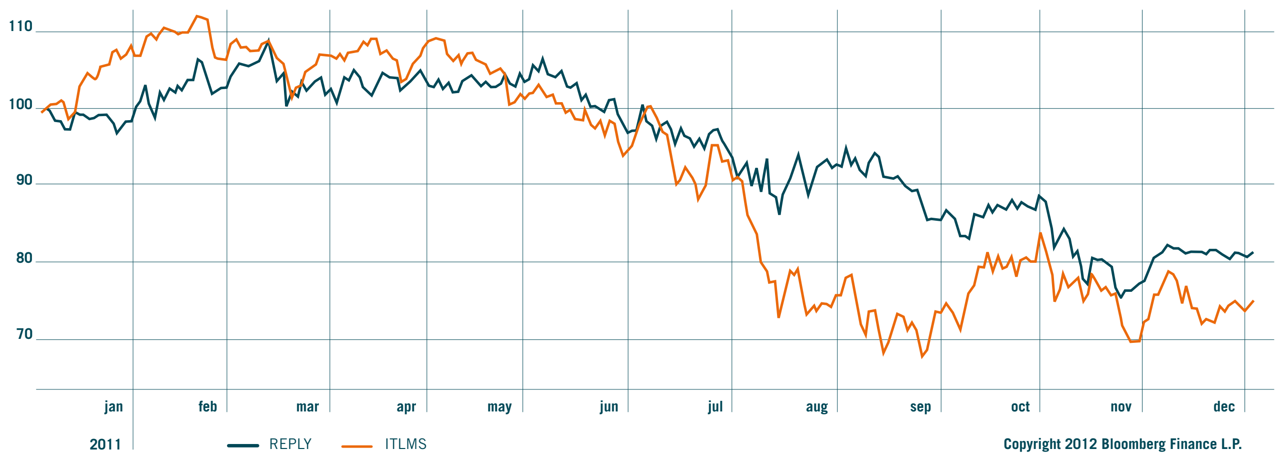
At the end of the year listed companies as a whole totaled 333.3 billion Euros, equal to 20.7% of the Gross Domestic Product (429.9 billion Euros, equal to 27.6% of the GDP in 2010).

At year end, there were 328 listed companies on the Italian stock market, of which 304 on the major one, four less in respect of 2010. Initial Public Offerings (IPO) have also decreased, only nine in 2011 (10 in 2010 and 7 in 2009), of which only Ferragamo on the Electronic share market (MTA). Among the newly listed, Fiat Industrial must be added, founded in January as a result of the spin-off from Fiat Group. Another three companies were deemed admissible whereas 14 were countermanded.

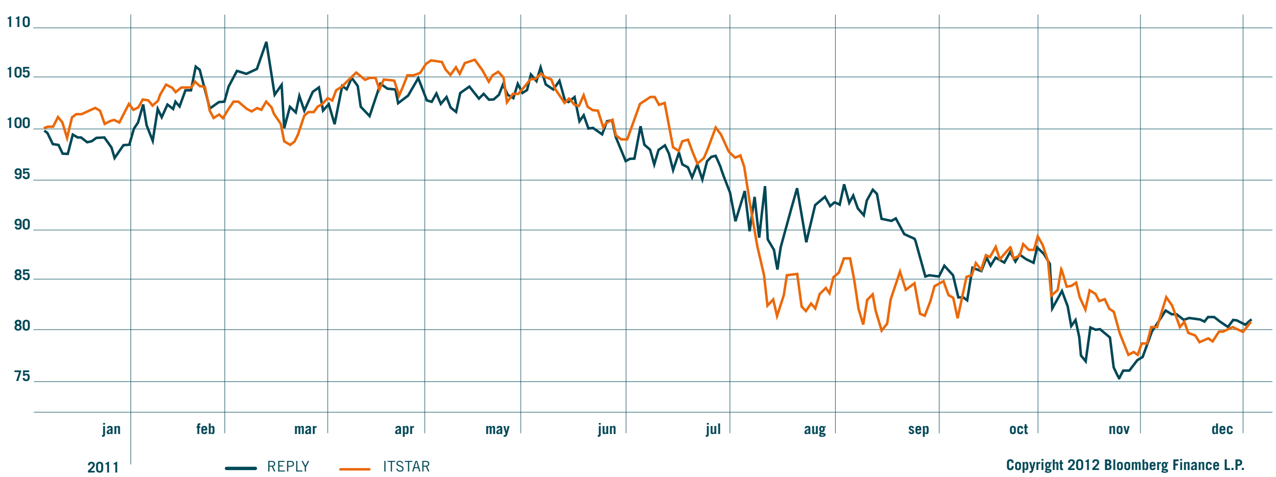
More specifically, the FTSE MIB index dropped by 25.28% reaching an annual high of 23,178 points on February 17 and a minimum low of 13,474 points on September 12. The FTSE Italia All Share was down by 24.48% compared to year ended 2010 (annual high of 23.741 points on February 17 and annual minimum of 14,320 points on September 22). Looking back, only 2008 was a worse year, at the dawn of the financial crisis in connection to the Lehamn Brothers crack.

Within the stock market, special mention is to be made to the PMI division and more specifically to the STAR segment, that over-performed the major indexes: the FTSE Italia STAR index dropped by an annual 19.52% (annual max 12,380 on May 12, 2011; min 8,988 on November 25, 2011).

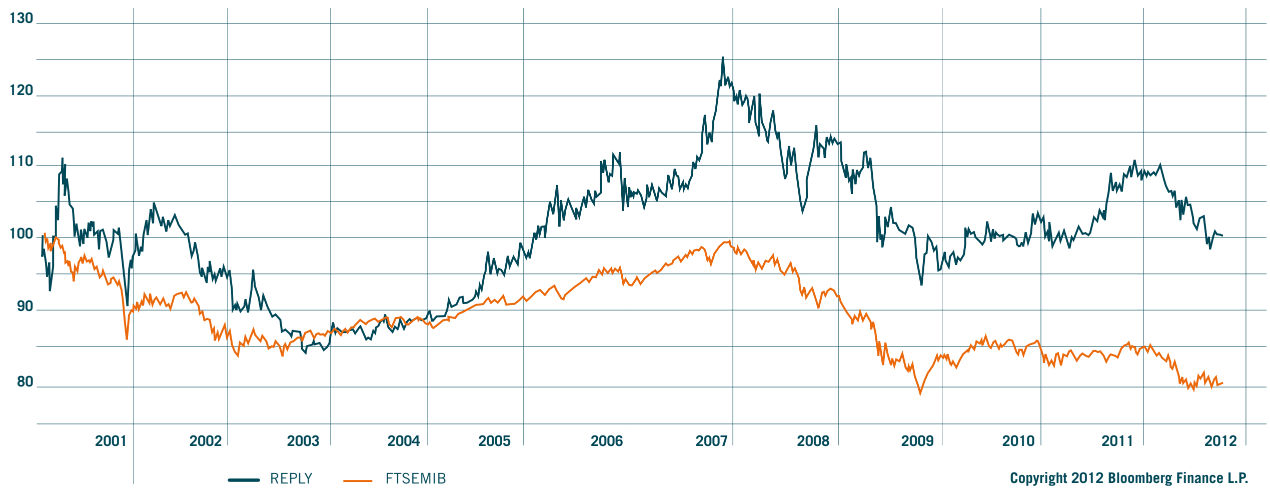
In such a critical frame work, the Reply share put in act a better trend compared to the overall market prices, marking an annual decrease of 18.9% (passing from 19.77 Euros to 16.92 Euros per share). Following the first seven months in which the share was substantially in line with the market, Reply was able to contrast the abrupt fall of the prices that took place in the month of August, diverging positively until the end of November (on November 21 the share witnessed its lowest price at 14.86 Euros) and further diverging at the end of the year.



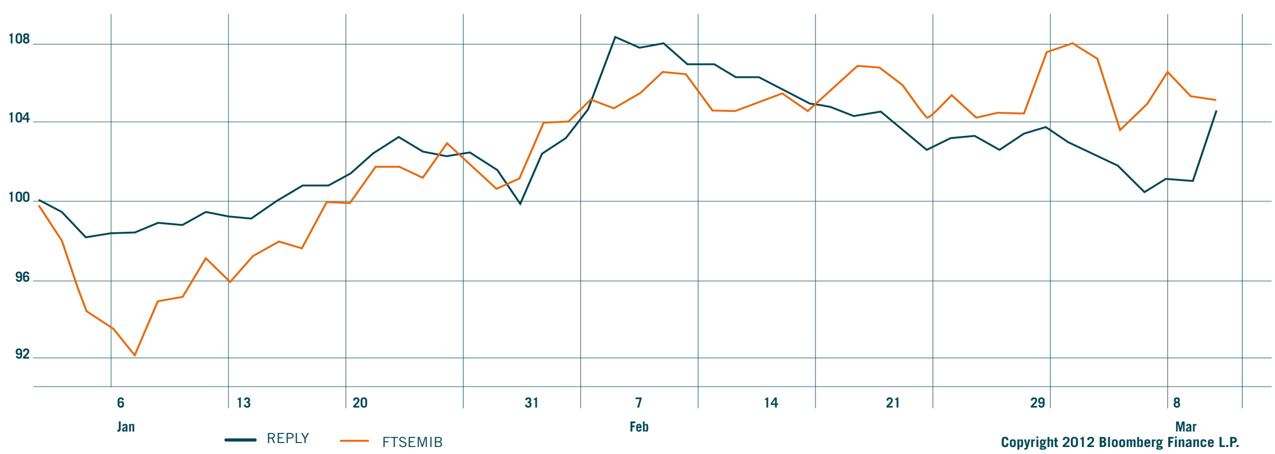
The Reply share performance was more stable in respect of the STAR segment, although witnessing an abnormal positive summer trend, it closed perfectly in line with the STAR index, signing the inclination of large investors and traders to follow the trends in macroeconomic variables and not those of the single shares.



Moreover, expanding the performance analysis of the share since it was listed, compared to the entire Italian stock market, Reply has over performed in the last eleven years Piazza Affari with a gap of nearly 67 percentage points.



In the first months of 2012, the Reply share has recorded a +4.57% since the beginning of the year, with an increase in the number of shares being traded daily, exceeding 10 thousand pieces compared to an average of 2-3 thousand pieces in 2011.



The Parent Company Reply S.p.A.

Foreword

The following review is based on the 2011 financial statements prepared in accordance with the International Financial Reporting Principles ("IFRS") issued by the International Accounting Standard Board ("IASB") and adopted by the European union and with regulations implementing Article 9 do Legislative Decree no. 38/2005.

Reclassified income statement

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

As at December 31, 2011 the Parent Company had 98 employees (91 employees in 2010).

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

The company's income statement is summarized as follows:

(thousand Euros)	**2011**	**2010**	**Change**
Revenues from operating activities	33,057	29,981	3,076
Other revenue	196,518	183,143	13,375
Purchases, services and other costs	(220,709)	(201,958)	(18,751)
Other unusual operating income/(expenses)	(13,652)	(11,464)	(2,188)
Gross operating margin	**(4,786)**	**(298)**	**(4,488)**
Amortization, depreciation and write-downs	(799)	(817)	18
Operating income	**(5,585)**	**(1,114)**	**(4,470)**
Financial income, net	(251)	(422)	171
Income from equity investments	21,668	18,763	2,905
Loss on equity investments	(3,555)	(2,465)	(1,090)
Result before tax	**12,277**	**14,762**	**(2,484)**
Income tax	872	(718)	1,590
NET RESULT	**13,149**	**14,043**	**(894)**

Revenues from operational activities are mainly related to:

- Royalties on the Reply trademark for 10,307 thousand Euros (9.234 thousand Euros in 2010);
- Activities carried out centrally for the subsidiary companies for 17,219 thousand Euros (16,419 thousand Euros in 2010);
- Management services for 5,531 thousand Euros (4,327 thousand Euros in 2010).

Operating income 2011 marked a negative result of 5,585 thousand Euros after having deducted amortization expenses of 799 thousand Euros of which 601 thousand Euros referred to intangible assets and 198 thousand Euros to tangible assets.

The item Financial income net, amounting to negative 251 thousand Euros includes interest income for 2,133 thousand Euros and interest expenses for 1,755 thousand Euros connected to the utilization of the credit facility for M&A operations, and also includes losses on exchange rate differences amounting to 636 thousand Euros.

Income from equity investments are related to dividends distributed in 2011 by the subsidiary companies for a total of 21,668 thousand Euros.

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

Net income for year ended 2011, amounted to 13,149 thousand Euros after income taxes worth 872 thousand Euros.

Financial structure

The financial structure of Reply S.p.A. at December 31, 2011, with comparative figures at December 31, 2010, is provided below:

(thousand Euros)	**31/12/2011**	**31/12/2010**	**Change**
Tangible assets	203	303	(99)
Intangible assets	1,258	1,262	(4)
Equity investments	124,022	107,026	16,996
Other intangible assets	1,196	863	333
Non current liabilities	(23,948)	(13,706)	(10,243)
Fixed capital	**102,731**	**95,748**	**6,983**
Net working capital	**11,384**	**1,109**	**14,070**
NET INVESTED CAPITAL	**114,115**	**96,857**	**10,811**
Total shareholders' equity	112,932	104,055	(4,272)
Net financial position	1,183	(7,198)	8,382
TOTAL FUNDS	**114,115**	**96,857**	**10,811**

Net invested capital as at December 31, 2011, totaling 114,115 thousand Euros was funded by Shareholders' Net Equity for 112,932 thousand Euros and by the net financial position amounting to 1,183 thousand Euros.

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

Financial position

The table below details the Parent company's net financial position as at December 31, 2011, compared to December 31, 2010, detail is as follows:

(thousand Euros)	31/12/2011	31/12/2010	Change
Cash and cash equivalents	(17,712)	896	(18,608)
Loans to subsidiaries	45,612	36,182	9,430
Due to banks	(7,654)	(11,487)	3,832
Due to subsidiaries	(12,108)	(12,191)	83
Short-term financial position	**8,137**	**13,400**	**(11,604)**
Loans to subsidiaries	10,910	3,066	7,844
Due to banks	(20,231)	(9,267)	(10,963)
Non current financial position	**(9,321)**	**(6,201)**	**(3,133)**
Total net financial position	**(1,183)**	**7,198**	**(14,737)**

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

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

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

	31/12/2011		31/12/2010	
(thousand Euros)	**Net equity**	**Result**	**Net equity**	**Result**
Reply S.p.A.'s separate financial statements	**112,932**	**13,149**	**104,055**	**14,043**
Results of the subsidiary companies	104,109	36,481	93,797	29,497
Carrying value of investments in consolidated companies	(58,454)		(56,444)	-
Elimination of dividends from subsidiary companies	-	(22,083)	-	(18,907)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(570)	(2,401)	(2,584)	(4,021)
Non controlling interests	(1,917)	(996)	(1,331)	(245)
Net Group consolidated financial statement	**156,100**	**24,150**	**137,493**	**20,367**

Corporate Governance

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

During the meeting held in March 2012, The Board of Directors, at the proposal of the Remuneration Committee, established a Remuneration Policy which incorporates the recommendations of the Corporate Governance Code and regulations issued by Consob which took effect on 31 December 2011. That remuneration Policy forms the first part of the Report on Remuneration and will be submitted to Shareholders for approval at the General Meeting called to approve the 2011 financial statements.

In accordance with legal and regulatory requirements, the Company prepares an "Annual Report on Corporate Governance" which provides a general description of the Group's corporate governance system together with information on its ownership structure and adherence to the provisions of the Corporate Governance Code, including key governance practices and the principal characteristics of the system of internal control and risk management including in relation to financial reporting.

The Report is available in the Corporate Governance section of the Group website www.reply.eu.

The Corporate Governance Code is available on the website of Borsa Italiana S.p.A. www.borsaitaliana.it

Other information

Research and development activities

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

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

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

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

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

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

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

Human resources

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

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

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

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

At year ended 2011 the number of employees of the Group were 3,422 compared to 3,149 in 2010. During 663 were employed and approximately 489, left the Group, while change in consolidation counts for 99 employees.

Security Planning Document

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

Transactions with related parties and group companies

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

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

Treasury shares

At the balance sheet date, the Parent Company holds no. 210,914 treasury shares, amounting to 3,182,949 Euros, nominal value of 109,675 Euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same amount. During 2011 Reply S.p.A. acquired no. 74,264 treasury shares for a total out payment amounting to 1,252,067 Euros and disposed of no. 41,876 shares.

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

Financial instruments

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

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

Events subsequent to December 31, 2011

No significant events have occurred subsequent to December 31, 2011.

Outlook on operations

2012 can be defined as a period of financial, economic and industrial discontinuity. Despite this Reply will continue to invest to develop and expand its specific competences and to strengthen its vertical offers. The main objective is to bring the Reply brand to reach excellent levels of visibility and reputation in all Europe which has always accompanied and distinguished the company.

Motion for the approval of the Financial statements and allocation of the net result

The financial statements at year end 2011 of Reply S.p.A. prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 13,148,710 Euros and shareholders' equity amounted to 112,931,785:

(in Euros)	**31/12/2011**
Share capital	4,795,886
Share premium reserve	20,622,992
Legal reserve	959,177
Reserve for treasury shares on hand	3,182,950
Other reserves	70,222,070
Total share capital and reserves	**99,783,075**
Net result	13,148,710
Total	**112,931,785**

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at December 31, 2011 showing a net result of 13,148,710 Euros, proposes that the shareholders resolve:

- To approve Reply S.p.A.'s separate statements recording a net result of 13,148,710 Euros;
- To approve the motion to allocate the net result of 13,148,710 Euros as follows:
- Dividends to the shareholders', in the amount of 0.50 Euros per ordinary share- excluding treasury shares in which the dividend will be assigned to Extraordinary reserve excluding any treasury shares which dividend will be brought forward - having the right and that are in circulation as at – May 28, 2012, with fixed payment date set on May 31, 2012;
- The residual amount, that is variable in relation to the treasury shares acquired and the floating shares at the time of dividend yield date, brought forward and stated at Extraordinary reserve as the Legal Reserve has already reached one fifth of the share capital limit in accordance with the Article 2430 of the Civil Code.
- To approve, in accordance with article 22 of the Company's by-laws, even explicitly, the motion to allocate to directors with operating functions a dividend in the profits of the parent amounting to 1,488,000.00, corresponding to 2.6% of the 2011 consolidated gross operating margin (prior to the distribution of dividends to Director's with operating functions), amounting to 56,484 thousand Euros; that will be paid taking into account the provision made in accordance to IAS/IFRS.

Turin, March 15, 2012

/s/ Mario Rizzante
For the Board of Directors
The Chairman
Mario Rizzante

Consolidated financial statements as at December 31, 2011

Reply Consolidated income statement(*)

(thousand Euros)	Note	2011	2010
Revenues	5	440,296	384,202
Other revenues		7,171	6,646
Purchases	6	(8,703)	(8,652)
Personnel	7	(215,056)	(194,122)
Services and other costs	8	(167,606)	(131,090)
Amortization, depreciation and write-downs	9	(6,332)	(7,645)
Other unusual operating income/(expenses)	10	(1,105)	(7,769)
Operating income		**48,665**	**41,570**
Financial income/(expenses)	11	(2,192)	(1,476)
Result before tax of continuing operations		**46,473**	**40,094**
Income tax	12	(21,327)	(19,482)
Net result of continuing operations		**25,146**	**20,612**
Non controlling interest		(996)	(245)
Profit for the period attributable to owners of the Parent		**24,150**	**20,367**
Net result per share	*14*	*2.67*	*2.25*
Diluted net result per share	*14*	*2.63*	*2.20*

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

Reply Consolidated statement of comprehensive income

(thousand Euros)	Note	2011	2010
Profit of the period (A)		**25,146**	**20,612**
Gain/(Losses) on cash flow hedges	24	237	308
Gain/(Losses) on exchange differences on translating foreign operations	24	(240)	154
Actuarial gains/(losses) from employee benefit plans	24	(377)	789
Total other comprehensive net of tax (B)		**(380)**	**1,251**
Total comprehensive income (A)+(B)		**24,766**	**21,863**
Total comprehensive income attributable to:			
Owners of the parent		23,787	21,596
Non-controlling interests		979	267

Reply Consolidated statement of financial position(*)

(thousand Euros)	Note	31/12/2011	31/12/2010 Restated	01/01/2010 Restated
Tangible assets	14	10,361	8,437	9,823
Goodwill	15	96,646	72,794	66,047
Other intangible assets	16	6,180	6,244	6,645
Equity investments	17	58	92	8
Other financial assets	18	4,430	4,814	3,685
Deferred tax assets	19	9,519	8,855	6,024
Non Current assets		**127,194**	**101,236**	**92,232**
Inventories	20	10,184	15,971	25,600
Trade receivables	21	219,764	189,145	153,725
Other receivables and current assets	22	25,774	15,646	14,868
Financial assets	18	341	81	-
Cash and cash equivalents	23	40,444	50,125	33,163
Current assets		**296,507**	**270,968**	**227,357**
TOTAL ASSETS		**423,701**	**372,204**	**319,589**
Share capital		4,796	4,796	4,796
Other reserves		127,154	112,330	102,399
Group net result		24,150	20,367	16,628
Group shareholders' equity	**24**	**156,100**	**137,493**	**123,823**
Non controlling interest	24	1,917	1,331	6,462
SHAREHOLDERS' EQUITY		**158,017**	**138,824**	**130,285**
Payables to minority shareholders	25	32,307	15,798	4,768
Financial liabilities	26	16,414	10,507	22,831
Employee benefits	27	15,740	15,318	15,492
Deferred tax liabilities	28	8,404	7,663	8,584
Provisions	29	11,244	14,993	13,023
Non current liabilities		**84,109**	**64,279**	**64,698**
Financial liabilities	26	42,025	40,994	21,637
Trade payables	30	48,005	37,702	36,184
Other current liabilities	31	90,868	88,663	65,159
Provisions	29	677	1,742	1,625
Current liabilities		**181,575**	**169,101**	**124,605**
TOTAL LIABILITIES		**265,684**	**233,380**	**189,303**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**423,701**	**372,204**	**319,589**

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

Reply Statement of changes in consolidated equity

(thousand Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for cash flow hedges	Cumulative translation adjustment reserve	Reserve for actuarial gains/(losses)	Non-controlling interest	Total
Balance at January 1, 2010	**4,796**	**(1,472)**	**48,843**	**71,885**	**(545)**	**(5)**	**321**	**6,462**	**130,285**
Share capital increase	-	-	-	-	-	-	-	-	-
Dividends distributed	-	-	-	(3,170)	-	-	-	(150)	(3,320)
Change in treasury shares	-	(1,051)	-	-	-	-	-	-	(1,051)
Total comprehensive income for the period	-	-	-	20,367	308	154	767	267	21,863
Other changes	-	-	695	(4,400)	-	-	-	(5,248)	(8,953)
Balance at December 31, 2010	**4,796**	**(2,523)**	**49,538**	**84,682**	**(237)**	**149**	**1,088**	**1,331**	**138,824**
Balance at January 1, 2011	**4,796**	**(2,523)**	**49,538**	**84,682**	**(237)**	**149**	**1,088**	**1,331**	**138,824**
Share capital increase									-
Dividends distributed	-	-	-	(4,070)	-	-	-	(420)	(4,490)
Change in treasury shares	-	(660)	-	-	-	-	-	-	(660)
Total comprehensive income for the period	-	-	-	23,787	237	(240)	(360)	979	24,403
Other changes	-	-	(354)	267	-	-	-	27	(60)
Balance at December 31, 2011	**4,796**	**(3,183)**	**49,184**	**104,666**	**-**	**(91)**	**728**	**1,917**	**158,017**

Reply Consolidated statement of cash flows

(thousand Euros)	**2011**	**2010**
Net result for the year	24,150	20,367
Income tax	21,503	19,482
Depreciation and amortization	5,972	7,645
Impairment of intangible assets	484	759
Change in inventories	5,787	10,022
Change in trade receivables	(27,667)	(33,364)
Change in trade payables	9,056	(1,229)
Change in other assets and liabilities	(2,995)	16,572
Income tax paid	(30,284)	(13,498)
Interest paid	(1,756)	(1,663)
Interest collected	429	208
Net Cash flows from operating activities (A)	**4,679**	**25,301**
Payments for tangible and intangible assets	(7,768)	(5,768)
Payments for financial assets	221	(1,122)
Payments for the acquisition of subsidiaries net of cash acquired	(8,022)	(4,088)
Net cash flows from investment activities (B)	**(15,569)**	**(10,978)**
Dividends paid	(4,490)	(3,320)
Payments for acquisition of treasury shares	(660)	(1,051)
In payments from financial loans	13,552	4,500
Payment of installments	(16,601)	(16,559)
Other changes	(849)	(824)
Net Cash flows from financing activities (C)	**(9,048)**	**(17,254)**
Net cash flows (D) = (A+B+C)	**(19,939)**	**(2,931)**
Cash and cash equivalents at beginning of year	26,332	29,263
Cash and cash equivalents at year end	6,394	26,332
Total change in cash and cash equivalents (D)	**(19,938)**	**(2,931)**

Detail of net cash and cash equivalents

(thousand Euros)	**2011**	**2010**
Cash and cash equivalents at the beginning of the year:	**26,332**	**29,263**
Cash and cash equivalents	50,125	33,163
Bank overdrafts	(23,793)	(3,900)
Cash and cash equivalents at the end of the year:	**6,394**	**26,332**
Cash and cash equivalents	40,444	50,125
Bank overdrafts	(34,050)	(23,793)

Notes to the consolidated financial statements

Note 1 - General Information

Reply [MTA, STAR: REY] is specialized in the implementation of solutions based on new communication and digital media.

Reply, consisting of a network of specialized companies, assists important European industries belonging to Telco & Media, Manufacturing & Retail, Bank & Insurances and Public Administration sectors, in defining and developing new business models utilizing Big Data, Cloud Computing, CRM, Mobile, Social Media and Internet of Things paradigms. Reply offers consulting, system integration, application management and business process outsourcing www.reply.eu

Note 2 - Accounting principles and basis of consolidation

Compliance with International accounting principles

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

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

General principles

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

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

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

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

Financial statements

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

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

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

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

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

Basis of consolidation

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements as at December 31, of each year. Control exists when the Group has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.
The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.
Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting principles used into line with those used by other members of the Group.
All significant intercompany transactions and balances between group companies are eliminated on consolidation.
Non controlling interest is stated separately with respect to the Group's net equity. Such Non controlling interest is determined according to the percentage of the shares held of the fair values of the identifiable assets and liabilities of the company at the date of acquisition and post acquisition adjustments. According to IAS 27, overall loss (including the profit/(loss) for the year) is attributed to the owners of the Parent and minority interest also when net equity attributable to minority interests has a negative balance.
Difference arising from translation of equity at historical exchange rates and year end exchange rates are recorded at an appropriate reserve of the consolidated shareholders' equity.

Business combinations

Acquisition of subsidiary companies is recognized according to the purchase method of accounting. The acquisition cost is determined by the sum of the fair value, at the trading date, of all the assets transferred, liabilities settled and the financial instruments issued by the group in exchange of control of the acquired company, plus any cost directly attributable to the acquisition.
The identifiable assets, liabilities and contingent liabilities of the company acquired that respect the conditions to be recognized according to IFRS 3 are stated at their fair value at the date of acquisition with the exception of those non current assets (or groups in discontinued operations) that are held for sale in accordance to IFRS 5, which are recognized and measured at fair value less selling costs.
The positive difference between the acquisition costs and Group interest of the reported assets and liabilities is recorded as goodwill and classified as an intangible asset having an indefinite life.
Minority interest in the company acquired is initially measured to the extent of their shares in the fair value of the assets, liabilities and contingent liabilities recognized.
The accounting of the put and call options on the minority shareholdings of the subsidiary company are recorded according to IAS 32, taking into account therefore, depending on the case, the existence and the determinability of the consideration to the minority shareholders if the option was exercised.

Investments in associate companies

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

Transactions eliminated on consolidation

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

Foreign currency transactions

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

Consolidation of foreign entities

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

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

	Average 2011	At December 31, 2011	Average 2010	At December 31, 2010
GBP	0,867884	0,8353	0,857844	0,86075
CHF	1,23261	1,2156	1,38034	1,2504
Real	2,32651	2,4159	-	-
Polish Zloty	4,12061	4,458	-	-

Tangible fixed assets

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

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

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

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

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

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

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

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

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

Goodwill

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

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

Impairment losses are recognized immediately as expenses that cannot be recovered in the future
On disposal of a subsidiary or associate, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Intangible fixed assets are those lacking an identifiable physical aspect, are controlled by the company and are capable of generating future economic benefits.

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

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

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

In case of intangible fixed assets purchased for which availability for use and relevant payments are deferred beyond normal terms, the purchase value and the relevant liabilities are discounted by recording the implicit financial charges in their original price.

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

Development costs can be capitalized on condition that they can be measured reliably and that evidence is provided that the asset will generate future economic benefits.

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

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

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

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

Intangible assets with indefinite useful lives

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

Intangible assets with indefinite useful lives consist principally of acquired trademarks which have no legal, contractual, competitive, economic, or other factors that limit their useful lives. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired.
Any impairment losses are not subject to subsequent reversals.

Impairment

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

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

The recoverable amount of an asset is the higher of fair value less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets (Cash generating unit). With reference to goodwill, management assesses return on investment with reference to the smallest Cash generating unit including goodwill.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

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

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

Equity investments

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

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

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

Current and non current financial assets

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

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

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

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

This item is stated in the current financial assets.

Work in progress

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

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

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

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.
Any advance payments are subtracted from the value of work in progress within the limits of the contract revenues accrued, the exceeding amounts are accounted as liabilities.

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

Trade payables and receivables and other current assets and liabilities

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

Write-downs are determined to the extent of the difference of the carrying value of the receivables and the present value of the estimated future cash flows.

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

Cash and cash equivalents

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

Treasury shares

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

Financial liabilities and equity investments

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

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

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

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

→ Non current financial liabilities
Liabilities are stated according to the amortization cost.

Derivative financial instruments and other hedging transactions

In accordance to IAS 39, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and documentation of the hedging relationship, the hedge is expected to be highly effective, its effectiveness can be reliably measured and it is highly effective throughout the financial reporting periods for which the hedge is designated.

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

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to company commitments and forecasted transactions are recognized directly in equity, any ineffective amounts are recognized immediately to the income statement.

If the hedged company commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognized, associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability.

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

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

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

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

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

Employee benefits

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

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

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

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

Pension plans

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

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

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

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

Share-based payment plans ("Stock options")

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

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

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

Provisions and reserves for risks

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

Revenue recognition

Revenue is recognized if it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.

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

Government grants

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

Taxation

Income tax represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit defers from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

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

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

Dividends

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

Earnings per share

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

Use of estimations

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

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

Changes in accounting principles

There have been no changes in the accounting principles

Changes in accounting estimates and reclassifications

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

As to clarify the comprehension of the financial statements, certain data which was considered more representative as liabilities has been reclassified as Other payables and liabilities respectively from Provisions. The reclassification was also carried out in the financial statement of 2010 as to allow comparison and it was carried out in accordance to IAS1.39.

Furthermore, contract work in progress has also been represented differently through a different representation of the net value between work in progress and the prepayments received, in order to properly represent the activities. This representation was also carried out in the financial statement of 2010 as to allow comparison and it was carried out in accordance to IAS1.39.

Accounting principles, amendments and interpretations adopted from January 1, 2011

On November 4, 2009, the IASB issued a revised version of IAS 24 - Related Party Disclosures that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. The adoption of such amendment has not had any effect on the evaluation of the financial statements. Further information is disclosed in Note 34 of the present annual report.

In May 2010 the IASB issued a third set of improvements to eliminate existing inconsistencies and to clarify terminology. The adoption of such improvements has brought changes to accounting principles but has not had any impact on the financial position and result of the Group.

- IFRS 3 Business Combinations: The *improvement* clarifies that the measurement of non-controlling interests at fair value, or in proportion to their interest in the net identifiable assets of the acquired entity, is limited solely to instruments giving them current rights equivalent to those of ordinary shares including, in particular, the right to obtain a proportionate share of its net assets on liquidation.

  All the other components have to be evaluated at fair value on the date of acquisition (see Note 15).
- Changes in IFRS 3 are effective as July 1, 2011. The group adopted the changes as January 1, 2011 and, as a consequence, changed its accounting principles, in which the changes were emitted to eliminate consequences that could arise from such adoption.
- IFRS 7 - *Financial instruments: disclosures:* this amendment emphasizes the interaction between the qualitative and quantitative disclosures required by the standard concerning the nature and extent of risks arising from financial instruments. The modifications have been fully explained in Notes 18 and 26.
- IAS 1 Presentation of financial statements: Clarifies that an entity may present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements. The Group presents this analysis in Note 5.

The following accounting principles, which have undergone improvements by IFRS, have not had any impact on the accounting principles, financial position or result of the Group:

- IFRS 3 Business combinations (Transitional requirements for contingent consideration from a business combination that occurred before the effective date of IFRS 3 (revised in 2008).
- IFRS 3 Business combinations (Un-replaced and voluntary replaced share-based payment awards)
- IAS 27 Consolidated and separate financial statements
- IAS 34 Interim financial reporting

Accounting principles, amendments and interpretations effective from January 1, 2011 but not applicable to the group

The following amendments, improvements and interpretations have also been issued and are effective from January 1, 2011; these relate to matters that were not applicable to the Group at the date of this Annual Report but which may affect the accounting for future transactions or arrangements:

- Amendments to IAS 32 – Financial instruments: presentation, classification of rights issue;
- Amendment IFRIC 14 – Prepayments of a Minimum Funding Requirement;
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments;
- Improvements to IAS/IFRS (2010).

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

On 12 November 2009, the IASB issued a new standard IFRS 9 – Financial Instruments that was amended on 28 October 2010. The new standard, having an effective date for mandatory adoption of 1 January 2013, represents the completion of the first part of a project to replace IAS 39 and introduces new requirements for the classification and measurement of financial assets and financial liabilities and for the derecognition of financial assets. The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. The most significant effect of the standard regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss. Under the new standard these changes are recognized in Other comprehensive income and are not subsequently reclassified to the Income statement.

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

On 20 December 2010, the IASB issued amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards. The first amendment replaces references to a fixed date of "1 January 2004" with the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. These amendments are effective from 1 July 2011.

On 20 December 2010, the IASB issued amendments to IAS 12 – Income Taxes that require an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. As a result of the amendments, SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets no longer applies. These amendments are effective from 1 January 2012.

On 12 May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements to replace SIC-12 – Consolidation- Special Purpose Entities and parts of IAS 27 – Consolidated and Separate Financial Statements, which has now been renamed Separate Financial Statements and provides the accounting and disclosure requirements for investments when an entity prepares separate financial statements. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard is effective retrospectively on or after 1 January 2013.

On 12 May 2011, the IASB issued IFRS 11 – Joint Arrangements superseding IAS 31 – Interests in Joint Ventures and SIC-13 – Jointly Controlled Entities-Non-monetary Contributions by Venturers. The new standard provides the criteria for identifying joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form and requires a single method to account for interests in jointly controlled entities, the equity method. The standard is effective retrospectively from 1 January 2013. Following the issue of the IFRS 11, IAS 28 – Investments in Associates has been amended to include accounting for investments in jointly controlled entities in its scope of application and been renamed IAS 28 – Investments in Associates and Joint Ventures.

On 12 May 2011, the IASB issued IFRS 12 – Disclosure of Interests in Other Entities which contains specific disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is effective for annual periods beginning on or after 1 January 2013; earlier application is permitted.

On 12 May 2011, the IASB issued IFRS 13 – Fair Value Measurement, clarifying the determination of the fair value for the purpose of the financial statements and applying to all principles permitting or requiring a fair value measurement or the presentation of disclosures based on fair value. The standard is effective prospectively from 1 January 2013.

On 16 June 2011, the IASB issued an amendment to IAS 1 – Presentation of Financial Statements requiring companies to group together items within Other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendment is applicable from periods beginning on or after 1 July 2012.

On 16 June 2011, the IASB issued an amended version of IAS 19 – Employee Benefits. The amendments make improvements to the previous version by eliminating the option to defer the recognition of gains and losses, known as the “corridor method”, and by requiring the fund’s deficit or surplus to be presented in the statement of financial position, the components of cost relating to service and net interest to be recognized in profit or loss and actuarial gains and losses arising from the remeasurement of assets and liabilities to be recognized in other comprehensive income. In addition, the return on assets included in net interest must now be calculated using the discount rate applicable to liabilities and no longer the expected return on the assets. The amendments also introduce the requirement for additional disclosures to be provided in the notes. The amended version of IAS 19 is applicable on a retrospective basis from 1 January 2013.

The European Union had not yet completed its endorsement process for these standards and amendments at the date of these financial statements.

Note 3 - Risk management

Credit risk

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

Liquidity risk

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

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

The difficulties both in the markets in which the Group operates and in the financial markets need special attention to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing up to 2012, which promises to be a difficult year. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Currency risk and interest rate risk

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

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

Note 4 - Consolidation

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

Change in consolidation compared to December 31, 2010 is as follows:

- Avantage Ltd. acquired in the month of February 2011 of which Reply holds 51% of the share capital and 90% of voting right;
- Portaltech Ltd. acquired in the month of November 2011 by Reply, through the holding Reply Ltd., which acquired 80% of the share capital, a UK company specializing in consultancy and multichannel e-commerce strategies and solutions.

Change in consolidation in 2011 affects the Group's revenues and Net profit by 3.0% and 6.7%.

Note 5 - Revenue

Revenues from sales and services, including change in work in progress, amounted to 440,296 thousand Euros (384,202 thousand Euros in 2010).

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

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

Country	**2011**	**2010**
Italy	75.5%	80.3%
Germany	18.4%	17.0%
UK	6.1%	2.7%
	100.0%	**100.0%**

Disclosure required by IFRS 8 (“Operating segment”) is provided in Note 32 herein.

Note 6 - Purchases

Detail is as follows:

(thousand Euros)	**2011**	**2010**	**Change**
Software licenses for resale	3,845	3,947	(102)
Hardware for resale	1,609	1,839	(230)
Other	3,249	2,866	383
Total	**8,703**	**8,652**	**51**

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

The item *Other* mainly includes the acquisition of fuel amounting to 2,151 thousand Euros and office material amounting to 427 thousand Euros.

Note 7 - Personnel

Detail is as follows:

(thousand Euros)	2011	2010	Change
Payroll employees	193,641	173,398	20,243
Executive Directors	16,827	17,342	(515)
Project collaborators	4,588	3,382	1,206
Total	**215,056**	**194,122**	**20,934**

The increase in personnel expenses amounting to 20,934 thousand Euros refers to the overall increase of the Group's business and to the number of employees.

The average number of personnel at year end 2011 amounted to 3,282, compared to 3,062 in 2010.

Detail of personnel by category is provided below:

(number)	2011	2010	Change
Directors	260	236	24
Managers	489	477	12
Staff	2,673	2,436	237
Total	**3,422**	**3,149**	**273**

At December 31, 2011 the number of employees of the Group were 3,422, compared to 3,149 at December 31, 2010.

The acquisition of avantage Ltd. and Portaltech Ltd. brought an increase of 82 employees.

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

Note 8 - Services and other costs

Service and other costs comprised the following:

(thousand Euros)	2011	2010	Change
Commercial and technical consulting	91,427	63,537	27,890
Travelling and professional training expenses	19,873	19,204	669
Other service costs	35,892	30,328	5,564
Office expenses	10,096	8,412	1,684
Lease and rentals	6,335	6,269	66
Other	3,983	3,340	643
Total	**167,606**	**131,090**	**36,516**

Change in *Services and other costs* amounted to 36,516 thousand Euros and owes to an overall increase in the Group's activities.

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

Office expenses include charges from related parties in connection to service contracts for the use of premises and centralized secretarial services amounting to 5,366 thousand Euros.

Note 9 - Amortization, depreciation and write downs

Depreciation of tangible assets, amounting to 3,746 thousand Euros at December 31, 2011, has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to tangible assets. This item also includes the government grant established by the Regional laws 34/2004 and 4/2006 in relation to the financed research projects amounting to 1,045 thousand Euros.

Amortization of intangible assets for the year ended 2011 amounted to 3,214 thousand Euros. The details are provided at the notes to intangible assets herein.

An impairment of 360 thousand Euros was booked as the assumptions underlying the initial recognition of the goodwill were lacking.

Note 10 - Other unusual operating income/(expenses)

Other unusual operating income/(expenses) amounting to 1,105 thousand Euros (7,769 thousand Euros in 2010) is related to events falling out of the ordinary course of business.

Note 11 - Financial income/(expenses)

Detail is as follows:

(thousand Euros)	**2011**	**2010**	**Change**
Financial gains	435	207	228
Interest expenses	(1,977)	(1,797)	(180)
Other	(650)	114	(764)
Total	**(2,192)**	**(1,476)**	**(716)**

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

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

The item *Other* includes a gain on Exchange differences from the translation of balance sheet items not stated in Euros amounting to 636 thousand Euros.

Note 12 - Income taxes

Income taxes for financial year ended 2011 amounted to 21,327 and are detailed as follows:

(thousand Euros)	**2011**	**2010**	**Change**
IRES and other	16,022	16,781	(759)
IRAP	7,054	6,483	571
Current taxes	**23,076**	**23,264**	**(188)**
Deferred tax liabilities	428	(961)	1,389
Deferred tax assets	(2,177)	(2,821)	644
Deferred taxes	**(1,749)**	**(3,782)**	**2,033**
Total income taxes	**21,327**	**19,482**	**1,845**

The tax burden was equivalent to 45.9% (48.6% in 2010).

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

Profit/(loss) before taxes from continuing operations	**46,473**	
Theoretical income taxes	12,780	27.5%
Tax effect of permanent differences	922	
Effect of difference between foreign tax rates and the theoretical Italian tax rate	(219)	
Other differences	791	
Current and deferred income tax recognized in the financial statements, excluding IRAP	**14,274**	**30.7%**
IRAP (current and deferred)	7,054	
Current and deferred income tax recognized in the financial statements	**21,327**	**45.9%**

Since the IRAP tax has a taxable basis that is different from income before taxes, it generates distortions between one year and another. Accordingly, in order to render the reconciliation between income taxes recognized and theoretical income taxes more meaningful, IRAP tax is not taken into consideration; theoretical income taxes are determined by applying only the tax rate in effect in Italy (IRES equal to 27.5% in 2011 and in 2010) to profit/(loss) before taxes from Continuing operations.

Note 13 - Earnings per share

Basic earnings per share

Diluted earnings per share at December 31, 2011 was calculated with reference to the profit for the period of the Group which amounted to 24,150 thousand Euros (20,367 thousand Euros at December 31, 2010) divided by the weighted average number of shares outstanding at December 31, 2011 which amounted to 9,050,205 (9,071,664 al at December 31, 2010).

(in Euros)	2011	2010
Net profit for the year	24,150,000	20,367,000
Weighted average number of shares	9,050,205	9,071,664
Basic earnings per share	2.67	2.25

Diluted earnings per share

Diluted earnings per share at December 31, 2011 was calculated with reference to the profit for the period of the Group which amounted to 24,150 thousand Euros divided by the weighted average number of shares outstanding at December 31, 2011, taking in consideration the diluting effect which could derive from hypothetical exercising of financial instruments potentially convertible in shares (stock options).

(in Euros)	2011	2010
Net profit for the year	24,150,000	20,367,000
Weighted average number of shares	9,050,205	9,071,664
Diluting effect	145,000	168,400
Weighted number of diluted shares	9,195,205	9,240,064
Diluted earnings per share	2.63	2.20

Note 14 - Tangible assets

Tangible assets as at December 31, 2011 amounted to 10,361 thousand Euros and are detailed as follows:

(thousand Euros)	31/12/2011	31/12/2010	Change
Buildings	2,474	2,616	(142)
Plant and machinery	974	1,331	(357)
Hardware	3,182	2,362	820
Other	3,731	2,128	1,603
Total	**10,361**	**8,437**	**1,924**

Change in tangible assets during 2011 is summarized in the table below:

(thousand Euros)	Buildings	Plant and machinery	Hardware	Other	Total
Historical cost	4,023	5,644	16,747	5,882	32,296
Accumulated depreciation	(1,407)	(4,313)	(14,385)	(3,754)	(23,859)
Balance at 31/12/2010	**2,616**	**1,331**	**2,362**	**2,128**	**8,437**
Historical cost					
Additions	-	402	2,791	2,337	5,530
Disposals	-	(59)	(338)	(102)	(499)
Other changes	-	15	286	148	449
Accumulated depreciation					
Depreciation	(142)	(772)	(2,042)	(790)	(3,746)
Utilization	-	57	309	53	419
Other changes	-		(186)	(43)	(229)
Historical cost	4,023	6,002	19,486	8,265	37,776
Accumulated depreciation	(1,549)	(5,028)	(16,304)	(4,534)	(27,415)
Balance at 31/12/2011	**2,474**	**974**	**3,182**	**3,731**	**10,361**

In 2011 the Group carried out investments amounting to 5,530 thousand Euros.

The item *Buildings* includes a building belonging to Reply Group company Deutschland AG, located in Gutersloh Germany, amounting to 2,468 thousand Euros.

Change in *Hardware* owes to investments made by the Italian subsidiaries for 2,087 thousand Euros and 495 thousand Euros to purchases made by the German companies. Furthermore this item includes financial leases for 299 thousand Euros (338 at December 31, 2010).

The item *Other* at December 31, 2011 includes improvements to third party assets (3,060 thousand Euros) and office furniture (475 thousand Euros). The increase of 2,337 thousand Euros includes 1,840 thousand Euros for improvements carried out to new offices located in London.

The item Other changes refers to first time consolidation of avantage Reply Ltd and Portaltech Reply Ltd.

At December 31, 2011 72.6% of tangible assets have been depreciated compared to 73.9% in 2010.

Note 15 - Goodwill

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

Goodwill in 2011 developed as follows:

(thousand Euros)	
Balance at December 31, 2010	**72,794**
Increase	24,277
Decrease	(425)
Balance at December 31, 2011	**96,646**

Increase in 2011 refers to:

- Avantage Ltd.

On February 4, 2011 Reply S.p.A. acquired 51% of the shares and 90% of the voting rights of avantage, a United Kingdom company specialized in the Financial Service market within the areas of risk, regulatory, capital and financial performance management and treasury.
avantage, with offices in London, Edinburgh, Amsterdam and Luxembourg, counts among its clients some of the world's most significant financial groups and it closed its last financial year (figure as of September 30, 2010) with a turnover of GBP£ 10.7 million and an EBT of GBP£ 2.4 million, which is 24% of revenue.
The total value of the purchase price for 51% of the shares and 90% voting right amounted to GBP£ 7.1 million, of which GBP£ 4.8 million paid in cash on signing the Sale & Purchase Agreement and a further GBP£ 2.3 million paid in three years' time.

Reply also has the option to exercise the right to purchase the remaining 49% of the capital at the end of 2013 and the minority shareholders having the right to sell.

- Portaltech Ltd.

In the month of November Reply, through the subsidiary Reply Ltd., acquired the 80% Portaltech shares, a UK company specializing in consulting and implementation of multichannel e-commerce strategies and solutions.
Portaltech, with headquarters in London, counts among its clients some of the more significant English and European companies active on online retail, of which Monsoon & Accessorize, L.K. Bennett, Bunzl Group, Long Tall Sally, Royal Mail Group, Premier Farnell and Thompson & Morgan.
The total value of the purchase price for 80% of Portaltech's shares is 1.6 million pounds, paid in cash, with further options for Reply to acquire the remaining 20%. Furthermore an Earn out is foreseen subordinated to predetermined parameters which will be paid in 2012 and 2013.

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

(thousand Euros)	Fair value (*)
Tangible and intangible goods	118
Financial assets	7
Trade receivables and other	5,273
Cash and cash equivalents	2,863
Trade payables and other	(6,702)
Net assets acquired	**1,558**
Compensation	25,835
Goodwill	**24,277**

(*) book value is equal to fair value.

Goodwill related to the CGU EOS was totally impaired (360 thousand Euros) as the assumptions underlying the initial recognition were lacking, mostly due to the termination of contracts with some clients.

In 2011 Reply revised the method of allocation of Goodwill to Cash Generating Units as to be in line with the organizational and internal decision making and in order to be coherent with segment reporting in accordance to IFRS 8.

Goodwill is allocated to the Group's cash-generating units is now identified in the countries in which the Group operates and detail is as follows:

CGU	Euro/000
Italy	35,004.1
Germany	26,592.3
UK	35,049.2
Total	**96,645.6**

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

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

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

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

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

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

Assumption	Italy	Germany	UK
Terminal value growth rates:	1.0%	1.0%	1.0%
Discount rate, net of taxes:	10.71%	7.89%	8.95%
Discount rate, before taxes:	14.77%	10.88%	12.35%
Multiple of EBIT	6.8%	6.8%	6.8%

As to all CGUs subject to impairment at December 31, 2011, no indications emerged that such businesses may have been subject to impairment apart from what has been indicated herein.

Had the impairment test been carried out on the former CGU reported in the 2010 Annual Report, no indications of impairment would have emerged with the exception of what has been reported in 2011.

Reply has also developed a sensitivity analysis of the estimated recoverable value. The Group considers that the discount rate is a key indicator in estimating the fair value and has therefore determined that:

- A decrease of up to 30% of the revenue growth;
- an increase of 100 basis points in the discount rate

would not lead to an excess of the carrying value of the CGU compared to its recoverable value, which tends to be significantly higher.

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

Note 16 - Other intangible assets

Intangible assets as at December 31, 2011 amounted to 6,180 thousand Euros (6,244 thousand Euros at December 31, 2010) and detail is as follows:

(thousand Euros)	Historical cost	Accumulated amortization	Net book value at 31/12/2011
Development costs	12,210	(8,395)	3,815
Software	12,728	(11,864)	864
Trademarks	535	-	535
Other intangible assets	3,150	(2,184)	966
Total	**28,623**	**(22,443)**	**6,180**

Change in intangible assets during 2011 is summarized in the table below:

(thousand Euros)	Net book value at 31/12/2010	Increases	Accumulated amortization	Net book value at 31/12/2011
Development costs	3,430	2,000	(1,615)	3,815
Software	919	947	(1,002)	864
Trademarks	532	3	-	535
Other intangible assets	1,363	200	(597)	966
Total	**6,244**	**3,150**	**(3,214)**	**6,180**

Development costs are related to software products and are accounted for in accordance with provisions of IAS 38.

The item *Software* is related mainly to software licenses purchased and used internally by the Group companies. This item also includes work in progress of internally developed software for 253 thousand Euros of which 40 thousand Euros refers to activity in progress.

The item *Trademarks* expresses the value of the “Reply” trademark granted on June 9, 2000 to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) in connection to the Company’s share capital increase that was resolved and undersigned by the Parent Company Alister Holding SA. Such amount is not subject to systematic amortization.

Other intangible assets is mainly related to Know-how of the *Security Operation Center,* a specific activity which supplies *Managed Security Services* to avoid and individualize real or potential threats to which complex IT infrastructures are exposed, apart from proposing and carrying out adequate counter-measures to limit or void such dangers. It also reflects the allocation process related to the acquisition of Communication Valley, business unit of Security Reply S.r.l.

The increase refers to the know-how which was completely transferred related to a package in logistic environment.

Note 17 - Equity investments

This item amounting to 58 thousand Euros refers to investments in the company NextNext S.r.l. of which Bitmama S.r.l. holds 24% of the share capital and investments in the company Tach Controller of which Lem Reply S.r.l. holds 35% of the share capital.

Note 18 - Financial assets

Other financial assets amounted to 4,771 thousand Euros compared to 4,895 thousand Euros at December 31,2010.

Detail is as follows:

(thousand Euros)	31/12/2011	31/12/2010	Change
Receivables from insurance companies	2,978	2,733	245
Guarantee deposits	501	561	(60)
Loans to non consolidated companies	-	500	(500)
Long term securities	936	943	(7)
Other financial assets	15	77	(62)
Short term securities	341	81	260
Total	**4,771**	**4,895**	**(124)**

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

The item *Long term securities* is related mainly to long term investments to hedge pension obligations of the Reply Deutschland AG and are evaluated at fair value.

The item S*hort term securities* refers to Time deposit investments carried out by the Brazilian subsidiary.

In accordance to IFRS 7 the fair value used by the Group is classified as a hierarchy of Level 1 (prices available on active markets for the assets or liabilities being measured). As at December 31, 2011 there have not been any transfers within the hierarchy levels.

Note 19 - Deferred tax assets

This item amounted to 9,519 thousand Euros at December 31, 2011 (8,855 thousand Euros at December 31, 2010), and includes the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.

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

(thousand Euros)	31/12/2010	Accruals 2011	Utilization 2011	31/12/2011
Prepaid tax on costs that will become deductible in future years	5,311	1,802	(1,564)	5,549
Prepaid tax on greater provision for doubtful accounts	197	662	(98)	761
Deferred fiscal deductibility of amortization	1,099	622	(56)	1,666
Consolidation adjustments and other items	2,248	958	(1,663)	1,543
Total	**8,855**	**4,046**	**(3,382)**	**9,519**

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

There are no deferred tax assets on losses carried forward.

Note 20 - Inventories

The item inventories amounted to 10,184 thousand Euros and is detailed below:

(thousand Euros)	31/12/2011	31/12/2010	Change
Contract work in progress	37,980	45,850	(7,870)
Finished products and goods for resale	134	52	82
Advance payments from customers	(27,930)	(29,931)	2,001
Total	**10,184**	**15,971**	**(5,787)**

It is to be noted that since 2011, prepayments made by customers exceeding the value of the work in progress has been posted to current liabilities.

This representation was also applied retrospectively to the 2010 amounts for 8,663 thousand Euros.

Note 21 - Trade receivables

Trade receivables at December 31, 2011 amounted to 219,764 thousand Euros with an increase of 30,619 thousand Euros.

Trade receivables are shown net of allowances for doubtful accounts amounting to 2,529 thousand Euros at December 31, 2011 (2,107 thousand Euros at December 31, 2010).

(thousand Euros)	31/12/2011	31/12/2010	Change
Domestic receivables	189,843	164,164	25,679
Foreign trade receivables	32,502	27,485	5,017
Credit notes to be issued	(52)	(397)	345
Total	**222,293**	**191,252**	**31,041**
Allowance for doubtful accounts	(2,529)	(2,107)	(422)
Total trade receivables	**219,764**	**189,145**	**30,619**

The *Allowance for doubtful accounts* in 2011 developed as follows:

(thousand Euros)	31/12/2010	Accrual	Write-off	Utilized	31/12/2011
Allowance for doubtful accounts	2,107	708	(228)	(58)	2,529

Trade receivables are all collectible within one year.

Over-due trade receivables and the corresponding allowance for doubtful accounts, compared to 2010, is summarized in the tables below:

Aging at December 31, 2011 (thousand Euros)	Trade receivables	Current	1-90 days	91-180 days	181-360 days	over 360 days	Total overdue
Trade receivables	222,293	178,324	28,041	7,966	3,095	4,867	43,969
Allowance for doubtful accounts	(2,529)	-	(356)	(204)	(492)	(1,477)	(2,529)
Total trade receivables	**219,764**	**178,324**	**27,685**	**7,762**	**2,603**	**3,390**	**41,440**

Aging at December 31, 2010 (thousand Euros)	Trade receivables	Current	1-90 days	91-180 days	181-360 days	over 360 days	Total overdue
Trade receivables	191,252	164,795	15,571	2,632	874	1,668	20,745
Allowance for doubtful accounts	(2,107)	-	(179)	(216)	(249)	(1,463)	(2,107)
Total trade receivables	**189,145**	**164,795**	**15,392**	**2,416**	**625**	**205**	**18,638**

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

Note 22 - Other receivables and current assets

Detail is as follows:

(thousand Euros)	31/12/2011	31/12/2010	Change
Tax receivables	10,722	6,455	4,267
Advances to employees	50	102	(52)
Other receivables	10,272	6,226	4,046
Accrued income and prepaid expenses	4,730	2,863	1,867
Total	**25,774**	**15,646**	**10,128**

The item tax receivables mainly includes:

- Vat tax receivables (4,427 thousand Euros);
- Advance payment on income tax for some Italian companies 5,086 thousand Euros);
- Receivables for withholding tax (306 thousand Euros).

Other receivables include a capital contribution amounting to 8,026 thousand Euros (5.012 thousand Euros at December 31, 2010) Euros in accordance to the Regional laws 34/2004 and 4/2006 with reference to the research projects.

Note 23 - Cash and cash equivalents

This item amounted to 40,444 thousand Euros, with a decrease of 9,681 thousand Euros compared to December 31,2010, and reflects the amount of cash at banks and on hand at the balance sheet date.
Change in cash and cash equivalents is fully detailed in the consolidated statement of cash flow.

Note 24 - Shareholders' equity

Share capital

As at December 31, 2011 the fully subscribed paid-in share capital of the Parent Company Reply S.p.A. amounted to 4,795,885.64 Euros and is made up of 9,222,857 ordinary shares, par value 0.52 Euros per share.

Treasury shares

Treasury shares on hand amounting to 3,183 thousand Euros is related to shares held by the Parent company that as at December 31, 2011 were equal in number to 210,914. During 2011 Reply S.p.A. acquired no. 74,264 ordinary shares while 41,876 ordinary shares were disposed for the acquisition of the minority shares in subsidiaries.
The accounting effects of these operations were entirely recorded in equity.

Capital reserve

At December 31, 2011 Capital reserve amounted to 49,184 thousand Euros and is summarized as follows:

- *Share premium reserve* amounting to 20,429 thousand Euros.
- *Reserve for treasury shares on hand* amounting to 3,183 thousand Euros is related to shares held by Reply.
- *Reserve for purchase of treasury shares*, amounting to 26,817 thousand Euros, was constituted through withdrawal from the *Reserve for treasury shares on hand*, following the resolution made by the General Shareholders Meeting of Reply S.p.A. on 29 April 2010 which authorized, pursuant to art. 2357 of the Italian Civil Code, the purchase of a maximum of 30 million Euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

Revenue reserve

Revenue reserves amounted to 104,666 thousand Euros and comprise the following:

- Legal reserve of Reply S.p.A. amounting to 959 thousand Euros;
- Retained earnings of 79,557 thousand Euros (retained earnings of 63, thousand Euros at December 31, 2010);
- Income attributable to owners of the parent of 24,150 thousand Euros (20,367 thousand Euros at December 31, 2010).

Other comprehensive income

Other comprehensive income can be analyzed as follows:

(thousand Euros)	**31/12/2011**	**31/12/2010**
Gains/(losses) on cash flow hedges arising during the period	237	308
Reclassification adjustment for gains/(losses) on cash flow hedges included in income statement	-	-
Gains/(Losses) on cash flow hedges	**237**	**308**
Exchange gains/(losses) on translating foreign operations arising during the year	(240)	154
Exchange gains/(losses) on translating foreign operations reclassified to profit or loss	-	-
Exchange gains/(losses) on translating foreign operations	**(240)**	**154**
Other comprehensive income generated during the period	(377)	789
Other comprehensive income generated during the period reclassified to profit or loss	-	-
Share of other comprehensive income	**(377)**	**789**
Income tax relating to components of Other comprehensive income	-	-
Total Other comprehensive income, net of tax	**(380)**	**1.251**

Non-controlling interest

The non-controlling interest of 1,917 thousand Euros at December 31, 2011 (1,331 thousand Euros at December 31, 2010), refers mainly to the following companies consolidated on a line-by line basis:

(thousand Euros)	31/12/2011	31/12/2010
Italian companies		
Bitmama S.r.l.	196	201
Bridge Reply	39	34
Forge Reply S.r.l.	(44)	
Open Reply S.r.l.		37
Ringmaster Reply S.r.l.	146	-
Storm Reply S.r.l.		-
Tender Reply	-	(16)
Twice Reply S.r.l.	170	122
Foreign companies		
Reply Deutschland AG	659	443
is4 GmbH & Co. KG	28	25
Riverland Solutions GmbH	723	485
Total	**1,917**	**1,331**

Share based payment plans

The company has share based payment plans for its employees.

The stock option plans have the following purposes:

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

As mentioned in Note 2 referring to share-based payment plans the Company has applied the standard set out by IFRS 2 "Share-based payment" and has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005 and are related to the stock options plans of 2004 and 2006. With reference to these plans, no costs were incurred for Reply S.p.A. share-based payments in 2011 (10 thousand Euros in 2010).

Stock option plans linked to Reply Group ordinary shares

The Extraordinary Shareholders' Meeting of Reply S.p.A. resolved the increase of the share capital with exclusion of stock option rights in compliance with art. 2441, paragraph 8 and art. 2441 paragraph 5 of the Italian Civil Code.

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

As at December 31, 2011 the number of stock options were 145,000 and can be summarized as follows:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2004	11/06/2004	12/05/2006	9	21.339	12/05/2009 – 12/05/2014	135,000
2006	15/06/2006	08/08/2006	1	18.662	08/08/2009 – 08/08/2014	10,000

During 2011 23,400 shares expired and no stock options were exercised nor assigned in reference to the existing plans.

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

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

Stock option plans linked to Reply Deutschland AG ordinary shares

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

As at December 31, 2011 4,892 stock options were exercised while the remaining 18,589 cannot be exercised as they result expired at the balance sheet date.

Note 25 - Payables to minority shareholders

Payables to minority shareholders at December 31, 2011 amounted to 32,307 thousand Euros (15,798 thousand Euros at December 31, 2010).

(thousand Euros)	31/12/2011	31/12/2010	Change
Reply Deutschland AG	7,417	7,957	(540)
Riverland Reply GmbH	2,496	3,770	(1,274)
Is4 GmbH & Co. KG	2,860	2,664	196
Other Germany	64	239	(175)
Other Italy	652	1,168	(516)
Avantage Ltd.	11,995	-	11,995
Portaltech Ltd	6,823	-	6,823
Total	**32,307**	**15,798**	**16,509**

Payables to minority shareholders of Reply Deutschland AG, for 7,417 refers to Reply's obligation, in accordance to the Domination Agreement, to acquire shares upon the request of minority shareholders. The amount represents the fair value of the liability at the balance sheet date.

It is to be noted that at present the exercise period for such option is still valid as the term has been suspended in anticipation of the competent court's ruling following the minority shareholders' request of verification of the adequacy of the exercise price of the option.

The decrease of such liability at December 31, 2011 is related to:

- the exercise of the option by some minority shareholders;
- the acquisition on the market of. no. 61,614 shares, by Reply S.p.A, for a value of 583 thousand Euros, of which 505 thousand Euros against the liability to minority shareholders.

Payables to minority shareholders of Riverland Reply GmbH, for 2,496 thousand Euros, which refers to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of 75.016% of the share capital. In the first half of 2011 such liability decreased by 1,274 thousand Euros as a partial payment was made to the minority shareholders.

Payables to the minority shareholders of is4 GmbH & Co. KG. For 2,860 thousand Euros and represents the fair value of 49% of is4, a Reply Deutschland AG group company. This amount has been stated according to IAS 32 as Reply Deutschland AG has signed a put option agreement with the minority shareholders to be exercised with a 12 months' notice.

Payables Other Germany is referred to the Earn-out component for the acquisition of a Reply Deutschland AG subsidiary amounting to 64 thousand Euros (239 thousand Euros at December 31, 2010).

Payables Other Italy for 652 thousand Euros was referred to liabilities to some minority shareholders in relation to options held and that were exercised in the first months of 2012 (1,168 thousand Euros in 2011).

Payables to minority shareholders of avantage Ltd. amounting to 11,995 thousand Euros is related to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of the remaining 49% of the share capital and payment of the second tranches of the initial consideration. In accordance to the provisions outlined by the contract, the 100% share capital was considered to be acquired.

Payables to minority shareholders of Portaltech Ltd., amounting to 6,823 thousand Euros referred to the Earn-out which reflects the estimated variable compensation to be paid in two years, subordinated to achieving determined economic parameters, for the acquisition of the remaining 80% of the share capital and the option to acquire the remaining 20%.

Note 26 - Financial liabilities

Detail is as follows:

	31/12/2011			31/12/2010		
(thousand Euros)	**Current**	**Non current**	**Total**	**Current**	**Non current**	**Total**
Bank overdrafts	34,050	-	34,050	23,793	-	23,793
Bank loans	7,798	16,141	23,939	16,854	10,323	27,177
Total due to banks	**41,848**	**16,141**	**57,989**	**40,647**	**10,323**	**50,970**
Other financial borrowings	177	273	450	347	184	531
Total financial liabilities	**42,025**	**16,414**	**58,439**	**40,994**	**10,507**	**51,501**

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

	31/12/2011				31/12/2010			
(thousand Euros)	**Due in 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**	**Due in 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Bank overdrafts	34,050	-	-	34,050	23,793	-	-	23,793
Syndicated loan	-	-	-	-	16,443	-	-	16,443
Stand-by credit line	7,654	15,309		22,963	-	9,411	-	9,411
Carispe Bank	29	48	-	77	30	78	-	108
Credito Bergamasco	-	-	-	-	12	-	-	12
Commerzbank	115	581	281	977	115	581	397	1,093
Other financial borrowings	177	273	-	450	347	184	-	531
Other	-	(78)	-	(78)	254	(144)	-	110
Total	**42,025**	**16,133**	**281**	**58,439**	**40,994**	**10,110**	**397**	**51,501**

The *Syndicated loan* is referred to the contract undersigned on December 30, 2005 by Reply S.p.A. with Intesa SanPaolo for a line of credit amounting to 50,000,000 Euros. The loan will be reimbursed on a half-year basis (Euribor 6 months + spread 2.5%) commencing June 30, 2012 and expires December 31, 2014.

The total amount utilized was 22,963 thousand Euros.

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

As contractually defined, such ratios are as follows:

- Net financial indebtedness / Equity ≤ 1.5
- Net financial indebtedness / EBITDA ≤ 3.0

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

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

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

The loan with *Commerzbank* is referred to a loan undersigned by syskotool, a Reply Deutschland AG Group company, for the acquisition of the building in which the parent company has its registered office. Installments are paid on a half year basis (at a rate of 4.28%) and expire on September 30, 2019.

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

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

Net financial position

In compliance with Consob regulation issued on July 28, 2006 and in accordance with CESR's *Recommendations for the consistent implementation of the European's regulation on Prospectuses* issued on February 10, 2005, the Net financial position at December 31, 2011 was as follows:

(thousand Euros)	**31/12/2011**	**31/12/2010**	**Change**
Cash and cash equivalents	40,444	50,125	(9,681)
Current financial assets	345	647	(302)
Non-current financial assets	936	943	(7)
Total financial assets	**41,725**	**51,715**	**(9,990)**
Current financial liabilities	(42,025)	(40,994)	(1,031)
Non-current financial liabilities	(16,414)	(10,507)	(5,907)
Total financial liabilities	**(58,439)**	**(51,501)**	**(6,938)**
Total net financial position	**(16,714)**	**214**	**(16,928)**

For further details with regards to the above table see Notes 18 and 23 as well as Note 26.

Note 27 - Employee benefits

(thousand Euros)	**31/12/2011**	**31/12/2010**	**Change**
Employee severance indemnities	11,925	11,794	131
Employee pension funds	2,658	2,487	171
Directors severance indemnities	1,114	994	120
Other	43	43	-
Total	**15,740**	**15,318**	**422**

Employee severance indemnities

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

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

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

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

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

The assumptions adopted can be summarized as follows:

Demographic assumptions

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfillment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: frequency of advances in 2011: 2.50% frequency of turnover in 2011: 10%

Economic and financial assumptions

Annual discount rate	Average annual rate of 2.0%
Annual growth rate of the Employee severance indemnities	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2011 was 4.25%
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

In accordance to IAS 19, Employment severance indemnities at December 31, 2011 is summarized in the table below:

(thousand Euros)	
Balance at 31/12/2010	**11,794**
Service cost	1,535
Actuarial gain/loss	339
Interest cost	517
Indemnities paid during the year	(2,260)
Balance at 31/12/2011	**11,925**

Pension fund

The item Pension funds is related to the liability for defined benefit plans for Reply Deutschland AG Group and is as follows:

(thousand Euros)	**31/12/2011**	**31/12/2010**
Present value of liability	4,163	3,783
Fair value of plan assets	937	924
Net liability	**3,226**	**2,859**
Actuarial gains/(losses)	(568)	(372)
Liability for pension plans and defined benefit plans	**2,658**	**2,487**

The amounts recognized for defined benefit plans is summarized as follows:

(thousand Euros)	**31/12/2011**	**31/12/2010**
Present value at beginning of 2011	**3,783**	**3,362**
Service cost	30	25
Interest cost	184	170
Actuarial gain/loss	224	274
Indemnities paid during the year	(58)	(48)
Present value at year end	4,163	3,783

Director’s severance indemnities

This amount is related to Directors severance indemnities paid during the year.
Change amounting to 120 thousand Euros refers to the resolution made by the Shareholders Meeting of several subsidiary companies to pay an additional indemnity to some Members of the Board in 2011.

Note 28 - Deferred tax liabilities

Deferred tax liabilities at December 31, 2011 amounted to 8,404 thousand Euros 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)	31/12/2011	31/12/2010
Deductible items off the books	1,040	1,007
Other	7,364	6,656
Total	**8,404**	**7,663**

The item Other mainly includes the measurement of contract work in progress, employee benefits, capitalization of development costs and reversal of amortization of intangible assets.

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

Note 29 - Provisions

Provisions amounted to 11,921 thousand Euros (of which 11,244 thousand Euros non current).

Change in 2011 is summarized in the table below.

(thousand Euros)	Balance at 31/12/2010	Accruals	Utilization	Write-off	Balance at 31/12/2011
Fidelity provisions	1,360	324	(522)	(50)	1,112
Other provisions	1,907	1,166	(1,287)	(13)	1,773
Provision for Motorola research center	13,469	-	(4,433)	-	9,036
Total	**16,736**	**1,490**	**(6,242)**	**(63)**	**11,921**

Fidelity provisions are referred mainly to provisions made for Reply Deutschland AG employees in relation to anniversary bonuses. The liability is determined through actuarial calculations applying a 5.5% rate.

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

The *Provision for Motorola Research center* originates from the acquisition of the business branch Motorola Electronics S.p.A. in 2009 and reflects the best estimate of the residual costs to incur in relation to the agreements reached with the parties involved in the transaction to implement research and development projects, in accordance to IAS 37. This provision will be used on the basis of the progression of the abovementioned research activities.

Acquisition of the Motorola Research Center was carried out as a consequence of agreements reached with Motorola Electronics S.p.A, Trade Unions and the region of Piedmont and the commitment to carry out research activities on agreed upon themes.

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

It must be noted that certain data which was considered more representative as liabilities has been reclassified as Other payables and liabilities respectively from Provisions. The reclassification was also carried out in the financial statements of 2010 and amounted to 4,603 thousand Euros.

Note 30 - Trade payables

Trade payables as at December 31, 2011 amounted to 48,005 thousand Euros with a change of 10,303 thousand Euros compared to December 31, 2010.

Detail is as follows:

(thousand Euros)	31/12/2011	31/12/2010	Change
Domestic suppliers	47,885	34,799	13,086
Foreign suppliers	3,332	5,479	(2,147)
Advances to suppliers	(3,212)	(2,576)	(636)
Total	**48,005**	**37,702**	**10,303**

Note 31 - Other current liabilities

Other current liabilities as at December 31, 2011 amounted to 90,868 thousand Euros and with an increase of 2,205 thousand Euros compared to December 31, 2010.

Details are provided below:

(thousand Euros)	31/12/2011	31/12/2010	Change
Income tax payable	3,207	12,195	(8,988)
VAT payable	6,151	2,633	3,518
Withholding tax and other	4,385	3,963	422
Total due to tax authorities	**13,743**	**18,791**	**(5,048)**
INPS	12,305	11,441	864
Other	1,035	1,063	(28)
Total due to social securities	**13,340**	**12,504**	**836**
Employee accruals	25,799	22,642	3,157
Other payables	26,469	28,734	(2,265)
Accrued expenses and deferred income	11,514	5,987	5,527
Total other payables	**63,782**	**57,363**	**6,419**
Total other payables and current liabilities	**90,868**	**88,663**	**2,205**

Due to tax authorities amounting to 13,743 thousand Euros, mainly refers to payables due to tax authorities for withholding tax on employees and professionals' compensation.
Due to social security authorities amounting to 13,340 thousand Euros, is related to both Company and employees contribution payables.

Other payables at June December 31, 2011 amounted to 63,782 thousand Euros and included:

- Amounts due to employees that at the balance sheet date had not yet been paid;
- Amounts due to directors.
- Advances received from customers exceeding the value of the work in progress amounting to 8,786 thousand Euros (8,663 thousand Euros at December 31, 2010).

Note 32 - Segment Reporting

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

Economic figures (thousand Euros)	**Italy**	**%**	**Germany**	**%**	**UK**	**%**	**Intersegment**	**Total 2011**	**%**
Revenues	**339,387**	**100**	**82,660**	**100**	**27,653**	**100**	**(9,404)**	**440,296**	**100**
Operating costs	(296,362)	(87.3)	(72,722)	(88.0)	(25,620)	(92.6)	9,404	(385,299)	(87.5)
Gross operating income	**43,025**	**12.7**	**9,938**	**12.0**	**2,033**	**7.4**	**-**	**54,997**	**12.5**
Amortization, depreciation and write- downs	(5,124)	(1.5)	(1,145)	(1.4)	(63)	(0.2)	-	(6,332)	(1.4)
Operating income	**37,901**	**11.2**	**8,793**	**10.6**	**1,970**	**7.1**	**-**	**48,665**	**11.1**

(thousand Euros)	**Italy**	**%**	**Germany**	**%**	**UK**	**%**	**Intersegment**	**Total 2010**	**%**
Revenues	**310,229**	**100**	**65,457**	**100**	**10,599**	**100**	**(2,083)**	**384,202**	**100**
Operating costs	(267,013)	(86.1)	(58,580)	(89.5)	(11,477)	(108.3)	2,083	(334,987)	(87.2)
Gross operating income	**43,216**	**13.9**	**6,877**	**10.5**	**(878)**	**(8.3)**	**-**	**49,215**	**12.8**
Amortization, depreciation and write- downs	(5,136)	(1.7)	(2,480)	(3.8)	(29)	(0.3)	-	(7,645)	(2.0)
Operating income									
Revenues	**38,080**	**12.3**	**4,397**	**6.7**	**(907)**	**(8.6)**	**-**	**41,570**	**10.8**

Financial figures (thousand Euros)	**31/12/2011**					**31/12/2010**				
	Italy	**Germany**	**UK**	**sect**	**Total**	**Italy**	**Germany**	**UK**	**sect**	**Total**
Current operating assets	233,123	18,459	13,422	(9,282)	255,722	190,664	17,833	4,112	(1,718)	210,891
Current operating liabilities	(124,693)	(15,734)	(8,404)	9,282	(139,550)	(100,405)	(17,687)	(3,592)	3,209	(118,475)
Net working assets (A)	**108,430**	**2,725**	**5,018**		**116,172**	**90,259**	**145**	**521**	**1,491**	**92,416**
Non current assets	98,303	16,348	11,604	-	126,254	84,999	16,099	120	(1,491)	99,727
Non current liabilities	(54,247)	(6,236)	(7,213)	-	(67,695)	(47,395)	(6,138)	-	-	(53,533)
Net fixed assets (B)	**44,056**	**10,112**	**4,391**		**58,560**	**37,604**	**9,961**	**120**	**(1,491)**	**46,194**
Net invested capital (A+B)	**152,487**	**12,837**	**9,409**	**-**	**174,731**	**127,863**	**10,106**	**641**	**-**	**138,610**

Breakdown of employees by country is as follows:

Country	**2011**	**2010**	**Change**
Italy	2,784	2,622	162
Germany	483	457	26
UK	155	70	85
Total	**3,422**	**3,149**	**273**

Note 33 - Additional disclosures to financial instruments and risk management policies

Types of financial risks and corresponding hedging activities

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

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

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

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

Credit risk

The maximum credit risk to which the company is theoretically exposed at December 31, 2011 is represented by the carrying amounts stated for financial assets in the balance sheet.

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

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

Liquidity risk

Reply S.p.A. is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.

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

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

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

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

Currency risk

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

Interest rate risk

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

Sensitivity analysis

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

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

A hypothetical, unfavorable and instantaneous change of 50 basis points in short-term interest rates at December 31, 2011 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 240 thousand Euros (11 thousand Euros at December 31, 2010).

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

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

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

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

Note 34 - Transactions with Related parties

In accordance to IAS 24 Related parties are Group companies and persons that are able to exercise control, joint control or have significant influence on the Group and its subsidiaries.

Transactions carried out by the group companies with related parties that as of the reporting date

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

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

Reply Group Main economic and financial transactions

(thousand Euros)

Financial transactions	**31/12/2011**	**31/12/2010**	**Nature of transactions**
Trade receivables and other	233	620	Receivables from professional services
Trade payables and other	574	1,771	Payables for professional services and office rental
Other payables	3,594	3,893	Payables to Directors, Key Management and Board of Statutory Auditors

Economic transactions	**2011**	**2010**	**Nature of transactions**
Revenues from professional services	156	491	Receivables from professional services
Services from Parent company and related parties	5,498	4,763	Services related to office rental and office of the secretary
Personnel	6,708	6,726	Emoluments to Directors and Key Management
Services and other costs	106	98	Emoluments to Statutory Auditors

In accordance to IAS 24, emoluments to Directors, Statutory Auditors and Key Management are also included in transactions with related parties.

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

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

Note 35 - Emoluments to Directors, Statutory Auditors and Key Management

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

(thousand Euros)	2011	2010
Directors	3,335	4,014
Statutory Auditors	106	98
Total	**3,441**	**4,112**

Emoluments to Key management amounted to approximately 3,373 thousand Euros (2,692 thousand Euros at December 31, 2010).

Note 36 – Guarantees, commitments and contingent liabilities

Guarantees

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

Commitments

On April 14, 2010 the Board of Directors of Reply S.p.A. and the Management Board and Supervisory Board of Reply Deutschland AG resolved the finalization of a Domination Agreement between Reply Deutschland AG, dominated company and Reply S.p.A., dominating company, by which Reply S.p.A. can exercise the operational control of the company through the Management Board that will respond to Reply S.p.A.'s Board of Directors.

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

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

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

(iii) upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration (8.19 Euros), within the term of three months after the date on which the commercial register of Reply Deutschland AG has been announced in accordance with Sec 10 of the German Commercial Code (HGB). It is to be noted that at present, in accordance to German law, the exercise period for such option is still valid as the competent court has not yet ruled in relation to the adequacy of the exercise price of the option.

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

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

(i) annual dividend integration for a maximum amount of 441 thousand Euros;

(ii) obligation to acquire the Minority Shareholders' shares for a maximum amount of 8.1 million Euros, equivalent to the fair value of non controlling interest;

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

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

Contigent liabilities

As an international company , the Group is exposed to numerous legal risks, particularly in the area of product liability, environmental risks and tax matters. The outcome of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurers' compensation payments and could affect the Group financial position and results.

Instead, when it is probable that an overflow of resources embodying economic benefits will be required to settle obligations and this amount can be reliably estimated, the Group recognizes specific provision for this purpose.

Note 37 - Events subsequent to December 31, 2011

No significant events have occurred subsequent to December 31, 2011.

Annexed tables

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

(thousand Euros)	2011	Of which related parties	%	2010	Of which related parties	%
Revenues	440,296	156	0.0%	384,202	491	0.1%
Other revenues	7,171	-	0.0%	6,646	-	0.0%
Purchases	(8,703)	-	0.0%	(8,652)	-	0.0%
Personnel expenses	(215,056)	(6,708)	3.1%	(194,122)	(6,726)	3.5%
Services and other costs	(167,606)	(5,604)	3.3%	(131,090)	(4,861)	3.7%
Amortization and write-offs	(6,332)	-	0.0%	(7,645)	-	0.0%
Other unusual operating income/(expenses)	(1,105)	-	0.0%	(7,769)	-	0.0%
Operating income	**48,665**			**41,570**		
Financial income/(expenses)	(2,192)	-	0.0%	(1,476)	-	0.0%
Result before tax of continuing operations	**46,473**			**40,094**		
Income taxes	(21,327)	-	0.0%	(19,482)	-	0.0%
Net result of continuing operations	**25,146**			**20,612**		
Profit for the period attributable to non-controlling interest	(996)	-	0.0%	(245)	-	0.0%
Profit for the period attributable to owners of the parent	**24,150**			**20,367**		
Earnings per share	*2.67*			*2.25*		
Diluted earnings per share	*2.63*			*2.20*		

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

(thousand Euros)	31/12/2011	Of which related parties	%	31/12/2010	Of which related parties	%
Tangible fixed assets	10,361	-	0.0%	8,437	-	0.0%
Goodwill	96,646	-	0.0%	72,794	-	0.0%
Other intangible assets	6,180	-	0.0%	6,244	-	0.0%
Equity investments	58	-	0.0%	92	-	0.0%
Other financial assets	4,430	-	0.0%	4,814	-	0.0%
Deferred tax assets	9,519	-	0.0%	8,855	-	0.0%
Non current assets	**127,194**			**101,236**		
Inventories	10,184	-	0.0%	15,971	-	0.0%
Trade receivables	219,764	233	0.1%	189,145	620	0.3%
Other receivables and current assets	25,774	-	0.0%	15,646	-	0.0%
Financial assets	341	-	0.0%	81	-	0.0%
Cash and cash equivalents	40,444	-	0.0%	50,125	-	0.0%
Current assets	**296,507**			**270,968**		
TOTAL ASSETS	**423,701**			**372,204**		
Share capital	4,796	-	0.0%	4,796	-	0.0%
Other reserves	127,154	-	0.0%	112,330	-	0.0%
Net result	24,150	-	0.0%	20,367	-	0.0%
Group Shareholders' equity	**156,100**			**137,493**		
Non-controlling interest	1,917	-	0.0%	1,331	-	0.0%
TOTAL SHAREHOLDERS' EQUITY	**158,017**			**138,824**		
Payables to minority shareholders	32,307	-	0.0%	15,798	-	0.0%
Financial liabilities	16,414	-	0.0%	10,507	-	0.0%
Employee benefits	15,740	-	0.0%	15,318	-	0.0%
Deferred tax liabilities	8,404	-	0.0%	7,663	-	0.0%
Other provisions	11,244	-	0.0%	14,993	-	0.0%
Non current liabilities	**84,109**			**64,279**		
Financial liabilities	42,025	-	0.0%	40,994	-	0.0%
Trade payables	48,005	574	1.2%	37,702	1,771	4.7%
Other payables and current liabilities	90,868	3,594	4.0%	88,663	3,893	4.4%
Other provisions	677	-	0.0%	1,742	-	0.0%
Current liabilities	**181,575**			**169,101**		
Total liabilities	**265,684**			**233,380**		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**423,701**			**372,204**		

Reply Companies included in consolidation and subsidiaries evaluated at cost at December 31, 2011.

PARENT COMPANY

Company name	Registered office		Share capital	Group interest
Reply S.p.A.	Torino - Corso Francia, 110	€	4.795.886	-

SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Company name	Registered office		Share capital	Group interest
@logistics Reply S.r.l.	Turin - Corso Francia, 110	€	78,000	100.00%
4cust Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Aktive Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Atlas Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
avantage Reply Ltd. (*)	London - United Kingdom	GBP	6,165	51.00%
Bitmama S.r.l.	Turin - Corso Francia, 110	€	29,407	51.00%
Blue Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Bridge Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	60.00%
Business Reply S.r.l.	Turin - Corso Francia, 110	€	78,000	100.00%
Cluster Reply S.r.l.	Turin - Corso Francia, 110	€	139,116	100.00%
Consorzio Reply Public Sector	Turin - Corso Francia, 110	€	47,000	100.00%
Discovery Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
e*finance consulting Reply S.r.l.	Turin - Corso Francia, 110	€	34,000	100.00%
Ekip Reply S.r.l.	Turin - Corso Francia, 110	€	10,400	100.00%
EOS Reply S.r.l.	Turin - Corso Francia, 110	€	14,000	100.00%
Forge Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	90.00%
Hermes Reply Polska zo.o.	Katowice - Poland	Zlt	40,000	100.00%
Hermes Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
IrisCube Reply S.p.A.	Turin - Corso Francia, 110	€	651,735	100.00%
Iriscube Reply SA	Savosa - Switzerland	CHF	100,000	100.00%
Lem Reply S.r.l.	Turin - Corso Francia, 110	€	47,370	100.00%
Live Reply GmbH	Düsseldorf, Germany	€	25,000	100.00%
Open Reply S.r.l.(*)	Turin - Corso Francia, 110	€	10,000	85.00%
Portaltech Reply Ltd. (*)	London - United Kingdom	GBP	14,516	80.00%
Power Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Reply Consulting S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Reply Deutschland AG and subsidiaries	Gutersloh, Germany	€	4,745,669	80.83%
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte - Brazil	R$	50,000	100.00%
Reply Ltd.	London - Old Baily, 16	GBP	54,175	100.00%
Reply Services Ltd.	London - Old Baily, 16	GBP	1	100.00%

SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Company name	Registered office		Share capital	Group interest
Reply Services S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Ringmaster S.r.l.	Turin - Corso Francia, 110	€	10,000	50.00%
Riverland Reply GmbH (*)	Munich - Germany	€	25,000	75.02%
Santer Reply S.p.A.	Milan - Via Durando, 38	€	2,209,500	100.00%
Security Reply S.r.l.	Turin - Corso Francia, 110	€	50,000	100.00%
Square Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Storm Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	80.00%
Syskoplan Reply S.r.l.	Turin - Corso Francia, 110	€	32,942	100.00%
Sytel Reply Roma S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Sytel Reply S.r.l.	Turin - Corso Francia, 110	€	115,046	100.00%
Target Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Technology Reply S.r.l.	Turin - Corso Francia, 110	€	79,743	100.00%
Tender Reply S.r.l. (*)	Turin - Corso Francia, 110	€	10,000	80.00%
Twice Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	94.00%
Whitehall Reply S.r.l.	Turin - Corso Francia, 110	€	21,224	100.00%

SUBSIDIARIES VALUED AT COST

Company name	Registered office		Share capital	Group interest
NextNext S.r.l.	Turin - Corso Sommellier, 23	€	10,000	24.00%
Portaltech Reply S.r.l.	Turin - Corso Francia, 110	€	10,000	100.00%
Reply GmbH	Munich - Germany	€	25,000	100.00%
Tach Controller S.r.l.	Rome	€	60,000	35.00%

(*) For these companies an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. The accounting of such options reflects management's best estimate at the closing date.

Information requested by Art. 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-duodecies of the *Regolamento Emittenti* issued by Consob, reports the amount of fees charged in 2011 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network.

(thousand Euros)	Service provider	Group entity	2011 fees
Audit	Reconta Ernst & Young S.p.A.	Parent Company - Reply S.p.A.	26
	Reconta Ernst & Young S.p.A.	Subsidiaries	143
	Ernst & Young GmbH	Subsidiaries	256
	Ernst & Young LLP	Subsidiaries	53
Audit related services	Reconta Ernst & Young S.p.A.	Parent Company - Reply S.p.A.(1)	1
	Reconta Ernst & Young S.p.A.	Subsidiaries (1)	8
Other services	Reconta Ernst & Young S.p.A.	Parent Company - Reply S.p.A.(2)	21
Total			507

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

(2) Examination of specific accounting treatments

Attestation in respect of the consolidated financial statements
under Article 154-bis of Legislative Decree 58/98

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

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

→ the effective application,

of the administration and accounting procedures applied in the preparation of the Consolidated financial statements for the year ended 2011.

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the consolidated financial statements at December 31, 2011 was based on a process defined by Reply in accordance with the *Internal Control – Integrated Framework model* issued by the *Committee of Sponsoring Organizations of the Treadway Commission*, an internationally-accepted reference framework.

3. The undersigned also certify that:

3.1 the consolidated financial statements at December 31, 2011

→ have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002 as implemented in Italy by Article 9 of Legislative Decree no. 38 of 2005;

→ correspond to the amounts shown in the Company's accounts, books and records; and

→ provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries as of December 31, 2011 and for the year then ended.

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

Turin, March 15, 2012

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

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

Statutory Auditors' report
on the consolidated financial statements at 31 December 2011

To the Shareholders,

The consolidated financial statements as at December 31, 2011 comply with the International Financial Reporting Standards as issued by the International Accounting Standards and includes statement of income, statement of comprehensive income, statement of financial position, statement of changes in shareholders' equity, statement of cash flows and explanatory notes.

The consolidated financial statements as at December 31, 2011 shows Group net equity amounting 156.1 million Euros including net income of 24.15 million Euros.

The Report on Operations fairly presents the economic, financial and earnings position, even at a consolidated level, of Reply S.p.A and its subsidiaries, of operations in 2011 and the events that have occurred since the end of the fiscal year, as well as revenues by business line and consolidated results.

As at December 31, 2011 consolidation includes, a part from the Parent Company, forty-four companies and a consortium consolidated on a line-by-line basis.

The audit carried out by Reconta Ernst & Young S.p.A. has led to certify that the amounts included in the 2011 consolidated financial statements are consistent with the accounting records of the Parent Company and its Subsidiaries and consistent with the financial statements provided by said subsidiaries.

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

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

Reconta Ernst & Young S.p.A., the Independent Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of December 31, 2011 issued its report in which it asserts that Reply S.p.A.'s financial statements as of December 31, 2011 comply with the International Financial Reporting Standards adopted by the European Union as well with the art. 9 of the Legislative Decree no. 38 of 2005 and provide a fair and correct representation of the financial conditions, results of operations and cash flows at December 31, 2011. Furthermore the Report on Operations and the information in paragraph 2 letters c), d), f), l), m) and paragraph 2 letter b) of Article 123-bis of the Legislative Decree 58 of 1998 disclosed in the Corporate Governance are in compliance to the Financial Statements.

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

- the consolidation scope was determined correctly;
- the consolidation procedures adopted are in accordance with the disciplining laws and applied correctly;
- the Report on operations is consistent with the consolidated financial statements;
- all the information used for consolidation is referred to the entire accounting period of 2011;
- the accounting principles applied are the same used in the previous accounting year;
- change in consolidation compared to December 31, 2010 owes to the inclusion of the following companies:
  - Storm Reply S.r.l.;
  - avantage Reply Ltd.;
  - Forge Reply S.r.l.;
  - Ringmaster S.r.l.;
  - Portaltech Reply Ltd.;
  - Sytel Reply Roma S.r.l. (in 2010 stated at cost);
  - Reply Services Ltd (in 2010 stated at cost);
  - Reply do Brasil Sistemas de Informatica Ltda (in 2010 stated at cost);
  - Hermes Reply Polska zo.o (in 2010 stated at cost);
  - And the liquidated company Plus Reply S.r.l

To conclude we would like to inform You that our three year mandate has expired and would like to thank You for the trust You have placed in us and would like to invite You to provide for.

Turin, 26 March 2012

STATUTORY AUDITORS

(Prof. Cristiano Antonelli)

(Dott.ssa Ada Alessandra Garzino Demo)

(Dott. Paolo Claretta Assandri)

ERNST & YOUNG

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

To the Shareholders of
Reply S.p.A.

1. We have audited the consolidated financial statements of Reply S.p.A. and its subsidiaries, (the "Reply Group") as of and for the year ended December 31, 2011, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Reply S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

   The consolidated financial statements of the prior year and the statement of financial position at January 1st, 2010 are presented for comparative purposes. As described in the explanatory notes, management has reclassified certain comparative data related to the prior year and to the statement of financial position as of January 1st, 2010, derived from the consolidated financial statements as of December 31, 2009, with respect to the data previously presented. For the opinion on the consolidated financial statements of the prior year reference should be made to our report dated March 28, 2011; for the opinion on the consolidated financial statements as of December 31, 2009, from which the statement of financial position as of January 1st, 2010 derives, reference should be made to the report issued by another auditor dated April 8, 2010. We have examined the method used to reclassify the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of expressing our opinion on the consolidated financial statements as of and for the year ended December 31, 2011.

Reconta Ernst & Young S.p.A.
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Capitale Sociale € 1.402.500,00 i.v.
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Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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3. In our opinion, the consolidated financial statements of the Reply Group at December 31, 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Reply Group for the year then ended.

4. The management of Reply S.p.A. is responsible for the preparation, in accordance with the applicable laws and regulations, of the Report on Operations and the Report on Corporate Governance and Ownership Structure. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and Ownership Structure, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) included in the Report on Corporate Governance and Ownership Structure, are consistent with the consolidated financial statements of the Reply Group as of 31 December 2011.

Turin, March 26, 2012

Reconta Ernst & Young S.p.A.
Signed by: Luigi Conti, Partner

Statutory financial statements at December 31, 2011

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

(in Euros)	Note	2011	2010
Revenues	5	224,080,770	207,418,143
Other revenue	6	6,443,738	6,211,592
Purchases	7	(2,405,713)	(2,033,976)
Personnel expenses	8	(13,651,591)	(11,464,167)
Services and other costs	9	(218,303,279)	(199,923,938)
Amortization, depreciation and write-downs	10	(799,022)	(816,711)
Other unusual operating income/(expenses)	11	(950,189)	(505,189)
Operating income		**(5,585,286)**	**(1,114,246)**
Profit/(loss) on equity investments	12	18,113,233	16,297,943
Financial income/(expenses)	13	(251,042)	(421,933)
Result before tax		**12,276,905**	**14,761,764**
Income taxes	14	871,805	(718,349)
Net result		**13,148,710**	**14,043,415**
Earnings per share	*15*	*1.45*	*1.55*
Diluted earnings per share	*15*	*1.43*	*1.52*

Reply S.p.A. Statement of comprehensive income

(in Euros)	Note	2011	2010
Profit of the period (A)		**13,148,710**	**14,043,415**
Gain/(losses) on cash flow hedges	26	198,449	346,886
Actuarial gains/(losses) from employees benefit plans	26	(8,150)	31,913
Total other comprehensive net of tax (B)		**190,299**	**378,799**
Total comprehensive income (A)+(B)		**13,339,009**	**14,422,214**

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

Reply S.p.A. Statement of financial position(*)

(in Euros)	Note	31/12/2011	31/12/2010
Tangible fixed assets	16	203,205	302,688
Goodwill	17	86,765	86,765
Other intangible assets	18	1,171,196	1,174,776
Equity investments	19	124,020,663	107,025,969
Other financial assets	20	10,988,989	3,157,059
Deferred tax assets	21	1,118,249	771,725
Non current assets		**137,589,067**	**112,518,982**
Trade receivables	22	150,106,208	118,780,312
Other receivables and current assets	23	26,434,922	31,011,598
Financial assets	24	45,611,867	36,182,079
Cash and cash equivalents	25	16,336,864	24,687,731
Current assets		**238,489,861**	**210,661,720**
TOTAL ASSETS		**376,078,928**	**323,180,702**
Share capital		4,795,886	4,795,886
Other reserves		94,987,189	85,216,130
Net result		13,148,710	14,043,415
TOTAL SHAREHOLDERS' EQUITY	**26**	**112,931,785**	**104,055,431**
Payables to minority shareholders	27	22,190,836	12,895,016
Financial liabilities	28	20,230,811	9,267,486
Employee benefits	29	454,406	490,741
Deferred tax liabilities	30	352,894	319,879
Provisions	33	950,000	-
Non current liabilities		**44,178,947**	**22,973,122**
Financial liabilities	28	53,811,470	47,469,873
Trade payables	31	150,343,616	127,560,467
Other payables and current liabilities	32	14,813,110	20,621,809
Provisions	33	-	500,000
Current liabilities		**218,968,196**	**196,152,149**
TOTAL LIABILITIES		**263,147,143**	**219,125,271**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**376,078,928**	**323,180,702**

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

Reply S.p.A. Statement of changes in equity

(in Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for cash flow hedges	Reserve for actuarial gains/(losses)	Total
Balance at January 1, 2010	**4,795,886**	**(1,471,658)**	**49,379,496**	**41,342,801**	**(545,335)**	**23,881**	**93,525,071**
Capital increase	-	-	-	-	-	-	-
Dividends distributed	-	-	-	(3,169,838)	-	-	(3,169,838)
Change in treasury shares	-	(1,050,938)	-	-	-	-	(1,050,938)
Total comprehensive income for the period	-	-	-	14,043,415	346,886	31,913	14,422,214
Other changes	-	-	328,922		-	-	328,922
Balance at December 31, 2010	**4,795,886**	**(2,522,596)**	**49,708,418**	**52,216,378**	**(198,449)**	**55,794**	**104,055,431**
Balance at January 1, 2011	**4,795,886**	**(2,522,596)**	**49,708,418**	**52,216,378**	**(198,449)**	**55,794**	**104,055,431**
Capital increase	-	-	-	-	-	-	-
Dividends distributed	-	-	-	(4,069,949)	-	-	(4,069,949)
Change in treasury shares	-	(660,354)	-	-	-	-	(660,354)
Total comprehensive income for the period	-	-	-	13,148,710	198,449	(8,150)	13,339,009
Other changes	-	-	263,637	4,011	-	-	267,648
Balance at December 31, 2011	**4,795,886**	**(3,182,950)**	**49,972,055**	**61,299,150**	**-**	**47,644**	**112,931,785**

Reply S.p.A. Statement of cash flow

(in Euros)	2011	2010
Net result for the year	13,148,709	14,043,415
Income tax	(871,805)	718,349
Depreciation and amortization	799,022	816,711
Change in trade receivables	(18,541,748)	(2,681,823)
Change in trade payables	23,669,984	9,695,912
Change in other assets and liabilities	(14,609,542)	6,416,096
Income tax paid	(595,451)	(7,005,725)
Interest paid	(1,249,683)	(325,938)
Other non-monetary income and expenses, net	3,550,000	2,917,555
Net Cash flows from operating activities (A)	**5,299,488**	**24,594,552**
Payments for tangible and intangible assets	(695,963)	(420,884)
Payments for financial assets	(7,830,431)	(1,621,486)
Payments for the investments in subsidiaries	(8,726,751)	(11,716,190)
Net cash flows from investment activities (B)	**(17,253,144)**	**(13,758,560)**
Dividends paid	(4,069,949)	(3,169,838)
Loans	18,552,043	4,500,000
Payment of installments	(11,276,752)	(11,276,752)
Payments for purchase of treasury shares	(660,354)	(1,050,938)
Other changes	314,005	(16,828)
Net Cash flows from financing activities (C)	**2,858,993**	**(11,014,356)**
Net cash flows (D) = (A+B+C)	**(9,094,664)**	**(178,364)**
Cash and equivalents at beginning of year	24,886,401	25,064,765
Cash and cash equivalents at year end	15,791,737	24,886,401
Total change in cash and cash equivalents (D)	**(9,094,664)**	**(178,364)**

Detail of net cash and cash equivalents

(in Euros)	2011	2010
Cash and cash equivalents at the beginning of the year:	**24,886,401**	**25,064,765**
Cash and cash equivalents	24,687,731	10,758,268
Transaction accounts - surplus	36,182,079	37,699,565
Transaction accounts - overdraft	(12,191,362)	(19,519,133)
Bank overdrafts	(23,792,047)	(3,873,935)
Cash and cash equivalents at the end of the year:	**15,791,738**	**24,886,401**
Cash and cash equivalents	16,336,864	24,687,731
Transaction accounts - surplus	45,611,866	36,182,079
Transaction accounts - overdraft	(12,108,008)	(12,191,362)
Bank overdrafts	(34,048,984)	(23,792,047)

Notes to the financial statements

Note 1 - General Information

Reply [MTA, STAR: REY] is specialized in the implementation of solutions based on new communication and digital media.

Reply, consisting of a network of specialized companies, assists important European industries belonging to Telco & Media, Manufacturing & Retail, Bank & Insurances and Public Administration sectors, in defining and developing new business models utilizing Big Data, Cloud Computing, CRM, Mobile, Social Media and Internet of Things paradigms. Reply offers consulting, system integration, application management and business process outsourcing www.reply.eu.

The company mainly carries out the operational coordination and technical management of the group and also the administration, financial assistance and some purchase and marketing activities.
Reply S.p.A. also carries out "fronting" activities with primary clients as the sole manager of the processes that are ISO 9001 compliant.

Note 2 - Accounting principles and basis of consolidation

Compliance with International accounting principles

The year ended 2011 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union and with the provisions implementing Article 9 of legislative Decree 38/2005.
The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

In compliance with European Regulation 1606 of 19 July 2002, beginning in 2005 the Reply Group adopted the International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), for the preparation of its consolidated financial statements. On the basis of national legislation implementing that Regulation, those accounting standards were also used to prepare the separate financial statements of the Parent Company, Reply S.p.A., for the first time for the year ended 31 December 2006.

General principles

The financial statements are prepared under the historical cost convention, modified as required for the valuation of certain financial instruments. The criteria of fair value is adopted as defined by IAS 39.
The financial statements have been prepared on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Group's assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist about its ability to continue as a going concern. These financial statements are expressed in Euros and are compared to the financial statements of the previous year prepared in accordance with the same principles.

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

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

Financial statements

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

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

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

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

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

Tangible fixed assets

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

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

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

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

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

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

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

Goodwill

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognized using the purchase method, and is recorded to reflect the positive difference between purchase cost and the Company's interest at the time of acquisition, after having recognized all assets, liabilities and identifiable contingent liabilities attributable to both the Company and third parties at their fair value.
Goodwill is not amortized, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

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

Other intangible assets

Intangible fixed assets are those lacking an identifiable physical aspect, are controlled by the company and are capable of generating future economic benefits.

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

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

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

In case of intangible fixed assets purchased for which availability for use and relevant payments are deferred beyond normal terms, the purchase value and the relevant liabilities are discounted by recording the implicit financial charges in their original price.

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

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

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

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

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

Intangible assets with indefinite useful lives

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

Intangible assets with indefinite useful lives consist principally of acquired trademarks which have no legal, contractual, competitive, economic, or other factors that limit their useful lives. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently whenever there is an indication that the asset may be impaired.

Any impairment losses are not subject to subsequent reversals.

Impairment

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

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

The recoverable amount of an asset is the higher of fair value less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The assessment is carried out for the individual asset or for the smallest identifiable group of cash generating assets (Cash generating unit). With reference to goodwill, management assesses return on investment with reference to the smallest Cash generating unit including goodwill.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

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

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

Equity investments

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

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

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

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

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

Current and non current financial assets

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

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

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

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

Trade payables and receivables and other current assets and liabilities

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

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

Cash and cash equivalents

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

Treasury shares

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

Financial liabilities and equity investments

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

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

- Bank borrowings

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

  Equity instruments issued by the Group are stated at the proceeds received, net of direct issuance costs.
- Non current financial liabilities

  Liabilities are stated according to the amortization cost.

Derivative financial instruments and other hedging transactions

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

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

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

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

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

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

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

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

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

Employee benefits

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

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

Share based payment plans ("Stock options")

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

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

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

Provisions and reserves for risks

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

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

Revenue recognition

Revenue from sales and services is recognized when the transfer of all the risks and benefits arising from the passage of title takes place or upon execution of a service.

Revenues from services also include the activities that the Company carries out as sole manager of the procedures that comply to quality standards. These activities are also executed by incurring expenses by other group companies and such expenses are recognized in the income statement as "*Other service costs*".

Revenues from sales of products are recognized when the risks and rewards of ownership of goods are transferred to the customer. Revenues are recorded net of discounts, allowances, settlement discounts and rebates and charged against profit for the period in which the corresponding sales are recognized.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable that represents the discounted interest rate of the future estimated proceeds estimated over the expected life of the financial asset in order to bring them to the accounting value of the same asset.

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

Financial income and expenses

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

Taxation

Income tax represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit defers from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current income tax is entered for each individual company based on an estimate of taxable income in compliance with existing legislation and tax rates or as substantially approved at the period closing date in each country, considering applicable exemptions and tax credit.

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

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

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

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

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

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

Earnings per share

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

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

Use of estimations

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

Changes in accounting estimates and reclassifications

In accordance to IAS 8 changes in accounting estimated and reclassifications are recorded at profit and loss in the year in which adopted.

Accounting principles, amendments and interpretations adopted from January 1, 2011

On November 4, 2009, the IASB issued a revised version of IAS 24 - *Related Party Disclosures* that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. The adoption of such amendment has not had any effect on the evaluation of the financial statements. Further information is disclosed in Note 34 of the present annual report.

On May 6, 2010 the IASB issued a set of amendments to IFRSs ("Improvements to IFRSs") and included the improvement to IAS 34 – Interim financial reporting. With the adoption of this improvement further information has been integrated in the explanatory notes of the present annual report.

Accounting principles, amendments and interpretations effective from January 1, 2011 but not applicable to the Company

The following amendments, improvements and interpretations have also been issued and are effective from January 1, 2011; these relate to matters that were not applicable to the Company at the date of these financial statements but which may affect the accounting for future transactions or arrangements:

- Amendments to IAS 32 – *Financial instruments: presentation, classification of rights issue;*
- Amendment IFRIC 14 – *Prepayments of a Minimum Funding Requirement;*
- IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments;*
- *Improvements* to IAS/IFRS (2010).

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

On 12 November 2009, the IASB issued a new standard IFRS 9 – Financial Instruments that was amended on 28 October 2010. The new standard, having an effective date for mandatory adoption of 1 January 2013, represents the completion of the first part of a project to replace IAS 39 and introduces new requirements for the classification and measurement of financial assets and financial liabilities and for the derecognition of financial assets.

The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. The most significant effect of the standard regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss. Under the new standard these changes are recognized in Other comprehensive income and are not subsequently reclassified to the Income statement.

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

On 20 December 2010, the IASB issued amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards. The first amendment replaces references to a fixed date of "1 January 2004" with the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. These amendments are effective from 1 July 2011.

On 20 December 2010, the IASB issued amendments to IAS 12 – Income Taxes that require an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. As a result of the amendments, SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets no longer applies. These amendments are effective from 1 January 2012.

On 12 May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements to replace SIC-12 – Consolidation-Special Purpose Entities and parts of IAS 27 – Consolidated and Separate Financial Statements, which has now been renamed Separate Financial Statements and provides the accounting and disclosure requirements for investments when an entity prepares separate financial statements. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard is effective retrospectively on or after 1 January 2013.

On 12 May 2011, the IASB issued IFRS 11 – Joint Arrangements superseding IAS 31 – Interests in Joint Ventures and SIC-13 – Jointly Controlled Entities-Non-monetary Contributions by Venturers. The new standard provides the criteria for identifying joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form and requires a single method to account for interests in jointly controlled entities, the equity method. The standard is effective retrospectively from 1 January 2013. Following the issue of the IFRS 11, IAS 28 – Investments in Associates has been amended to include accounting for investments in jointly controlled entities in its scope of application and been renamed IAS 28 – Investments in Associates and Joint Ventures.

On 12 May 2011, the IASB issued IFRS 12 – Disclosure of Interests in Other Entities which contains specific disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is effective for annual periods beginning on or after 1 January 2013; earlier application is permitted.

On 12 May 2011, the IASB issued IFRS 13 – Fair Value Measurement, clarifying the determination of the fair value for the purpose of the financial statements and applying to all principles permitting or requiring a fair value measurement or the presentation of disclosures based on fair value. The standard is effective prospectively from 1 January 2013.

On 16 June 2011, the IASB issued an amendment to IAS 1 – Presentation of Financial Statements requiring companies to group together items within Other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendment is applicable from periods beginning on or after 1 July 2012.

On 16 June 2011, the IASB issued an amended version of IAS 19 – Employee Benefits. The amendments make improvements to the previous version by eliminating the option to defer the recognition of gains and losses, known as the "corridor method", and by requiring the fund's deficit or surplus to be presented in the statement of financial position, the components of cost relating to service and net interest to be recognized in profit or loss and actuarial gains and losses arising from the remeasurement of assets and liabilities to be recognized in other comprehensive income. In addition, the return on assets included in net interest must now be calculated using the discount rate applicable to liabilities and no longer the expected return on the assets. The amendments also introduce the requirement for additional disclosures to be provided in the notes. The amended version of IAS 19 is applicable on a retrospective basis from 1 January 2013.

The European Union had not yet completed its endorsement process for these standards and amendments at the date of these financial statements.

Note 3 - Risk management

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

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

Credit risk

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

For newly acquired clients, the Company accurately verifies their capability of facing financial commitments. Transactions of a financial nature are undersigned only with primary financial institutions.

Liquidity risk

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

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

The difficulties both in the markets in which the Group operates and in the financial markets require special attention to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing up to 2012, which promises to be a difficult year. The Company therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Currency risk and interest rate risk

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

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

Note 4 - Other information

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

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

Fiscal consolidation

The Company has decided to enter into the National Fiscal Consolidation pursuant to articles 117/129 of the TUIR. Reply S.p.A., Parent Company, acts as the consolidating company and determines just one taxable income for the Group companies that adhere to the Fiscal Consolidation, and will benefit from the possibility of compensating taxable income having fiscal losses in just one tax return.

Each adhering company transfers to Reply S.p.A. its taxable income recording a payable to the company corresponding to IRES payable, companies having fiscal losses can record a receivable from Reply, equal to IRES, on the part of the loss compensated at a Group level and remunerated according to the consolidation terms established among the Group companies.

Note 5 - Revenues

Revenues amounted to 224,080,770 Euros and are detailed as follows:

(in Euros)	2011	2010	Change
Revenues from services	195,493,607	181,845,906	13,647,701
Royalties on “Reply” trademark	10,306,542	9,234,291	1,072,251
Intercompany services	12,737,480	11,814,736	922,744
Other intercompany revenues	5,543,141	4,523,210	1,019,931
Total	**224,080,770**	**207,418,143**	**16,662,627**

Reply has developed fronting activities concerning relations with primary clients also in capacity of sole manager of procedures compliant to ISO 9001 quality standards. Such activities were recorded in the item *Revenues from services* and in 2011 amounted to 13,647,701 Euros.

Royalties on “Reply” trademark refer to charges to subsidiaries, equal to 3% of the subsidiaries’ revenues to third parties.

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

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

Note 6 - Other revenues

Other revenues at December 31, 2011 amounted to 6,443,738 Euros (6,211,592 Euros at December 31, 2010) and mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies. They include expenses for social events, telephone and training courses.

Note 7 - Purchases

Detail is as follows:

(in Euros)	2011	2010	Change
Software licenses	1,738,391	1,612,651	125,740
Hardware for resale	204,829	-	204,829
Other	462,493	421,325	41,168
Total	**2,405,713**	**2,033,976**	**371,737**

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

The item *Other* mainly includes office equipment material (269 thousand Euros) and fuel (174 thousand Euros).

Note 8 - Personnel

Personnel costs amounted to 13,651,591 Euros, with an increase of 2,187,424 Euros and are detailed in the table below:

(in Euros)	2011	2010	Change
Payroll employees	10,569,179	8,338,581	2,230,598
Executive Directors	2,991,425	3,068,846	(77,421)
Project collaborators	90,987	56,740	34,247
Total	**13,651,591**	**11,464,167**	**2,187,424**

Detail of personnel by category is provided below:

(number)	31/12/2011	31/12/2010	Change
Directors	43	34	9
Managers	9	9	-
Staff	46	48	(2)
Total	**98**	**91**	**7**

The average number of employees in 2011 was 98 (no. 93 in 2010).

Note 9 - Services and other costs

Service and other costs comprised the following:

(in Euros)	2011	2011	Change
Commercial and technical consulting	8,392,405	5,838,387	2,554,018
Professional services from group companies	192,940,097	178,368,389	14,571,708
Travelling and training expenses	1,262,748	1,070,291	192,457
Marketing expenses	1,479,252	1,245,319	233,933
Administrative and legal services	1,706,095	1,475,912	230,183
Statutory auditors and independent auditors	154,043	133,867	20,176
Lease and rentals	647,666	517,348	130,318
Office expenses	2,523,797	2,320,642	203,155
Services to be recharged to group companies	4,391,402	4,434,309	(42,907)
Other	4,805,774	4,519,474	286,300
Total	**218,303,279**	**199,923,938**	**18,379,341**

Change in *Services from Group companies* amounting to 14,571,708 Euros are co-related to revenues from services to third parties.

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

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

Note 10 - Amortization, depreciation and write-downs

In 2011 depreciation of tangible assets, amounting to 198,613 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 2011 amounted to 600,409 Euros. The details are provided at the notes to intangible assets herein.

Note 11 - Other unusual operating income/(expenses)

Other unusual operating income/(expenses) amounting to 950,189 Euros refers mainly to provisions for risks.

Note 12 - Gain/(losses) on equity investments

Detail is as follows:

(in Euros)	2011	2010	Change
Dividends	21,668,233	18,762,943	2,905,290
Loss on equity investments	(3,555,000)	(2,465,000)	(1,090,000)
Total	**18,113,233**	**16,297,943**	**1,815,290**

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

Detail is as follows:

(in Euros)	31/12/2011
@logistics Reply S.r.l.	1,100,000
4cust Reply S.r.l.	250,000
Aktive Reply S.r.l.	1,000,000
Atlas Reply S.r.l.	900,000
Blue Reply S.r.l.	2,150,000
Business Reply S.r.l.	1,100,000
Cluster Reply S.r.l.	3,850,000
E*finance Consulting S.r.l.	50,000
Hermes Reply S.r.l.	600,000
Iriscube Reply S.p.A.	300,000
Reply Deutschland AG	1,718,233
Syskoplan Reply S.r.l.	200,000
Sytel Reply S.r.l	5,750,000
Target Reply S.r.l.	750,000
Technology Reply S.r.l.	1,950,000
Total	**21,688,233**

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

Note 13 - Financial income/(expenses)

Detail is as follows:

(in Euros)	2011	2010	Change
Interest income from subsidiaries	1,810,963	1,036,831	774,132
Interest income on bank accounts	181,630	59,278	122,352
Interest expenses	(1,497,158)	(1,490,398)	(6,760)
Other	(746,477)	(27,644)	(718,833)
Total	**(251,042)**	**(421,933)**	**170,891**

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

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

The item *Other* includes a gain on Exchange differences from the translation of balance sheet items not stated in Euros amounting to 636 thousand Euros.

Note 14 - Income taxes

(in Euros)	**2011**	**2010**	**Change**
IRES	-	412,000	(412,000)
IRAP	359,000	437,000	(78,000)
Current taxes	**359,000**	**849,000**	**(490,000)**
Deferred tax liabilities	33,015	32,970	45
Deferred tax assets	(1,263,820)	(163,621)	(1,100,199)
Deferred taxes	**(1,230,805)**	**(130,651)**	**(1,100,154)**
Total income taxes	**(871,805)**	**718,349**	**(1,590,154)**

IRES theoretical rate

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

(in Euros)	**Amount**	**Tax**
Result before taxes	12,276,905	
Theoretical tax rate	**27.50%**	**3,376,149**
Temporary differences, net	(14,409,552)	
Taxable income	(2,132,647)	
Total IRES		**-**

Temporary differences, net refer to:

- deductible differences amounting to 22,652 thousand Euros owing mainly to dividends collected in the financial year under review (20,585 thousand Euros);
- non deductible differences amounting to 8,242 thousand Euros and refers to depreciation of equity investments (3,555 thousand Euros) and directors' salaries (1,488 thousand Euros).

Calculation of taxable IRAP

(in Euros)	**Amount**	**Tax**
Difference between value and cost of production	(5,585,286)	
Temporary differences, net	13,925,691	
Taxable IRAP	**8,340,405**	**359,000**
Total IRAP		**359,000**

Net changes refer to:

- non deductible differences amounting to 17,299 thousand Euros mainly due to personnel expenses;
- deductible differences amounting to 3,375 thousand Euros mainly related to the tax wedge.

Note 15 - Earnings per share

Basic earnings per share

Basic earnings per share at December 31, 2011 was calculated with reference to the profit for the period which amounted to 13,148,710 Euros (14,043,415 Euros at December 31, 2010) divided by the weighted average number of shares outstanding during the year which were 9,050,205 (9,071,664 at December 31, 2010).

(in Euros)	2011	2010
Net profit for the year	13,148,710	14,043,415
Weighted average number of shares	9,050,205	9,071,664
Basic earnings per share	**1.45**	**1.55**

Diluted earnings per share

Diluted earnings per share at December 31, 2011 was calculated with reference to the profit for the period which amounted to 13,148,710 Euros divided by the weighted average number of shares outstanding during the year taking in consideration the diluting effect which could derive from hypothetical exercising of financial instruments potentially convertible in shares (stock options).

(in Euros)	2011	2010
Net profit for the year	13,148,710	14,043,415
Weighted average number of shares	9,050,205	9,071,664
Diluting effect	145,000	168,400
Weighted number of diluted shares	9,195,205	9,240,064
Diluted earnings per share	**1.43**	**1.52**

Note 16 - Tangible assets

Tangible assets as at December 31, 2011 totaled to 203,205 Euros. Detail is as follows:

(in Euros)	**31/12/2011**	**31/12/2010**	**Change**
Plant and machinery	19.052	41.631	(22.579)
Hardware	50.177	45.682	4.495
Other	133.976	215.375	(81.399)
Total	**203.205**	**302.688**	**(99.483)**

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

Change in tangible assets during 2011 is summarized in the table below:

(in Euros)	**Buildings**	**Plant and machinery**	**Hardware**	**Other**
Historical cost	1,160,749	1,224,906	1,975,050	4,360,705
Accumulated depreciation	(1,119,118)	(1,179,224)	(1,759,675)	(4,058,017)
Balance at 31/12/2010	**41,631**	**45,682**	**215,375**	**302,688**
Historical cost				
Additions	13,413	44,195	46,689	104,297
Disposals	-	(6,520)	(17,134)	(23,654)
Other changes	-	12,544	-	12,544
Accumulated depreciation				
Depreciation	(35,992)	(41,074)	(121,547)	(198,613)
Utilization	-	6,520	10,593	17,113
Other changes	-	(11,170)	-	(11,170)
Historical cost	1,174,162	1,275,125	2,004,605	4,453,892
Accumulated depreciation	(1,155,110)	(1,224,948)	(1,870,629)	(4,250,687)
Balance at 31/12/2011	**19,052**	**50,177**	**133,976**	**203,205**

In 2011 the Company carried out investments amounting to 104,297 Euros and mainly refer to computers and network equipment, generic equipment and furniture and fittings and plants for new office locations.

The item *Other* also includes the lease of video conference equipment.

Other changes refers to the transfer of assets of the liquidated company Plus Reply Ltd.

Note 17 - Goodwill

Goodwill at December 31, 2011 amounted to 86,765 Euros and refers to the value of business branches (consulting activities related to *Information Technology* and management support) purchased in July 2000.

Goodwill recognized is deemed adequately supported in terms of expected financial results and related cash flows.

Note 18 - Other intangible assets

Intangible assets as at December 31, 2011 amounted to 1,171,196 Euros (1,174,776 Euros at December 31, 2010). Detail is as follows:

(in Euros)	Historical cost	Accumulated amortization	Net book value at 31/12/2011
Software	3,386,582	(2,749,640)	636,942
Trademarks	534,254	-	534,254
Total	**3,920,836**	**(2,749,640)**	**1,171,196**

Change in Intangible assets in 2011 was as follows:

(in Euros)	Net book value at 31/12/2010	Increases	Accumulated amortization	Net book value at 31/12/2011
Software	643,062	594,289	(600,409)	636,942
Trademarks	531,714	2,540	-	534,254
Total	**1,174,776**	**596,739**	**(600,409)**	**1,171,196**

The item *Software* is related mainly to software licenses purchased and used internally by the company. The increase of such item includes 115 thousand Euros related to software in progress to be used internally.

The item *Trademarks* expresses the value of the "Reply" trademark granted to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on 9 June, 2000, in connection to the Company's share capital increase that was resolved and undersigned by the Parent Company Alister Holding SA. Such amount is not subject to systematic amortization, and the expected future cash flows are deemed adequate.

Increase refers to the trademark "Starbytes the Braining Pot" which refers to the new online service for freelancers and computer specialists.

Note 19 - Equity investments

The item *Equity investments* at December 31, 2011 amounted to 124,020,663 Euros, with an increase of 16,994,694 Euros compared to December 31, 2010.

(in Euros)	Balance at 31/12/2010	Acquisitions and subscriptions	Disposals	Write-downs	Other	Balance at 31/12/2011	Interest
@logistics Reply S.r.l.	1,049,167	-	-	-	-	1,049,167	100.0%
4cust Reply S.r.l.	588,000	-	-	-	-	588,000	100.0%
Aktive Reply S.r.l.	512,696	-	-	-	-	512,696	100.0%
Atlas Reply S.r.l.	356,575	-	-	-	-	356,575	100.0%
Avantage Ltd. (*)	-	5,622,703	-	-	10,988,781	16,611,484	51.0%
Bitmama S.r.l.	3,017,019	-	-	(1,000,000)	-	2,017,019	51.0%
Blue Reply S.r.l.	527,892	-	-	-	-	527,892	100.0%
Bridge Reply S.r.l.	6,000	-	-	-	-	6,000	60.0%
Business Reply S.r.l.	268,602	-	-	-	-	268,602	100.0%
Cluster Reply S.r.l.	2,610,032	-	-	-	-	2,610,032	100.0%
Consorzio Reply Public Sector	22,000	10,500	-	-	-	32,500	80.0%
Discovery Reply S.r.l.	1,311,669	-	-	-	-	1,311,669	100.0%
e*finance Consulting Reply S.r.l.	3,076,385	-	-	-	-	3,076,385	100.0%
Ekip Reply S.r.l.	30,000	-	-	-	-	30,000	100.0%
EOS Reply S.r.l.	155,369	-	-	-	-	155,369	80.71%
Forge Reply S.r.l.	-	9,000	460,000	-	-	469,000	90.0%
Reply Ltd	11,656,556	-	-	-	-	11,656,556	100.0%
Hermes Reply S.r.l.	199,500	-	-	-	-	199,500	100.0%
Hermes Reply Polska zoo	10,217	-	-	-	-	10,217	100.0%
IrisCube Reply S.p.A.	6,724,952	-	-	-	-	6,724,952	100.0%
Lem Reply S.r.l.	400,012	-	-	-	-	400,012	100.0%
Open Reply S.r.l.(*)	217,750	-	-	-	650,000	867,750	85.0%
Plus Reply S.r.l.	15,000	-	-	-	(15,000)	-	0.0%
Portaltech Reply S.r.l.	-	8,500	-	-	-	8,500	85.0%
Power Reply S.r.l.	2,513,500	-	-	-	(12,650)	2,500,850	100.0%
Reply Consulting S.r.l.	5,168,434	-	-	-	-	5,168,434	100.0%
Reply do Brasil Sistemas de Informatica Ltda	17,542	-	-	-	-	17,542	80.0%
Reply GmbH	25,000	-	-	-	-	25,000	100.0%
Reply Services Ltd.	1,211	-	-	-	-	1,211	100.0%
Reply Services S.r.l.	10,000	-	80,000	(80,000)	-	10,000	100.0%
Ringmaster S.r.l.	-	5,000	-	-	-	5,000	50.0%
Riverland Reply GmbH (*)	8,269,989	-	-	-	-	8,269,989	75.016%
Santer Reply S.p.A.	11,386,966	-	-	-	-	11,386,966	100.0%
Security Reply S.r.l.	392,866	-	2,355,000	(2,355,000)	-	392,866	100.0%
Square Reply S.r.l.	100,000	-	30,000	(30,000)	-	100,000	100.0%
Reply Deutschland AG (ex Syskoplan AG)	37,951,367	77,860	-	-	-	38,029,227	80.83%
Storm Reply S.r.l.	-	8,000	180,000	-	-	188,000	80.0%
Reply Deutschland Reply S.r.l.	949,571	-	-	-	-	949,571	100.0%
Sytel Reply S.r.l.	5,876,760	-	-	-	(884,931)	4,991,829	100.0%
Live Reply GmbH	27,500	-	-	-	-	27,500	100.0%
Sytel Reply Roma S.r.l.	10,000	-	-	-	884,931	894,931	100.0%
Target Reply S.r.l.	778,000	-	-	-	-	778,000	100.0%
Technology Reply S.r.l.	216,658	-	-	-	-	216,658	100.0%
Tender Reply S.r.l.(*)	8,000	2,000	90,000	(90,000)	-	10,000	80.0%
Twice Reply S.r.l.	407,000	-	-	-	-	407,000	94.0%
Whitehall Reply S.r.l.	160,211	-	-	-	-	160,211	100.0%
Total	**107,025,969**	**5,745,063**	**3,195,000**	**(3,555,000)**	**11,611,131**	**124,020,663**	

(*) For these companies an option exists for the acquisition of their minority shares; the exercise of such option in future reporting periods is subject to the achievement of profitability parameters. The accounting of such options reflect management's best estimate at the closing date.

Acquisitions and subscriptions

Avantage Ltd.

On February 4, 2011 Reply S.p.A. acquired 51% of the shares and 90% of the voting rights of avantage, a United Kingdom company specialized in the Financial Service market within the areas of risk, regulatory, capital and financial performance management and treasury.

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

Consorzio Reply Public Sector

The increase refers to the annual subscription in the consortium.

Forge Reply S.r.l.

In March 2011 Forge Reply S.r.l., was constituted company in which Reply S.p.A. holds 90% of the share capital. The company is specialized in the development of games for mobiles, smartphones and tablets for the consumer and enterprise market.

Portaltech Reply S.r.l.

In the month of November 2011 Portaltech Reply S.r.l., was constituted company in which Reply S.p.A. holds 85% of the share capital. The company carries out activities in consulting and implementation of multichannel e-commerce strategies and solutions.

Ringmaster S.r.l.

In the month of November 2011 Ringmaster S.r.l., was constituted, company in which Reply S.p.A. holds 50% of the share capital. The company carries out services in the development of Gambling systems (activity centered on winnings in money, which has government authorization).

Reply Deutschland AG

This amount represents the shares purchased on the German stock market of the Reply Deutschland AG shares and is equal to 1.3% of the share capital.

Storm Reply S.r.l.

In the month of January 2011 Storm Reply S.r.l., was constituted, company in which Reply S.p.A. holds 80% of the share capital. The company is specialized in innovative services based on Cloud Computing.

Tender Reply S.r.l.

The increase refers to the acquisition of the remaining 20% of the share capital. The shares were acquired at face value.

Financial loan Remission

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

Write-downs

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

Other changes

Avantage Ltd.

The amount reflects the best estimate of the variable compensation to be paid in three years for the acquisition of the remaining 49% of the share capital of the company.

Plus Reply S.r.l.

Plus Reply S.r.l. was liquidated and consequently the investment was cancelled.

Power Reply S.r.l.

The amount refers to the adjustment of the liability accounted for in accordance to IAS 32 in relation to the "put" option for the acquisition of Power Reply S.r.l.'s minority shares.

Open Reply S.r.l.

In execution of the agreements signed upon constitution of the subsidiary company Open Reply S.r.l., whereby a "put" agreement was put in place, in the first months of 2012 such "put" option will be exercised by the minority shareholders of the company (correspondingly the "call" option for Reply).
In accordance with IAS 32, at December 31, 2011 a liability to minority shareholders of Open Reply S.r.l. was booked in relation to the exercising of the aforementioned option against equity investments.

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

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

Note 20 - Non current financial assets

Detail is as follows;

(in Euros)	31/12/2011	31/12/2010	Change
Guarantee deposits	78,859	91,059	(12,200)
Financial receivables from subsidiaries	10,910,130	3,000,000	7,910,130
Loans to third parties	-	66,000	(66,000)
Total	**10,988,989**	**3,157,059**	**7,831,930**

Guarantee deposits are mainly related to deposits on lease contracts.

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

Company	Amount
Open Reply S.r.l.	250,000
Tender Reply S.r.l.	110,000
Hermes Reply Polska Sp Zoo	535,773
Reply Ltd	5,759,495
Reply do Brazil Sist. De Inf Ltda	100,000
Avantage Ltd	1,827,605
Reply Services Ltd	2,207,257
Storm Reply S.r.l	120,000
Total	**10,910,130**

Note 21 - Deferred tax assets

This item amounted to 1,118,249 Euros at December 31, 2011 (771,725 Euros at December 31, 2010), and included the fiscal charge corresponding to the temporary differences on statutory income and taxable income related to deferred deductibility items.

(in Euros)

Temporary deductible differences	**Tax**
Total deferred tax assets at 31/12/2010	771,725
- accrued	1,764,526
- utilization	(1,418,002)
Total deferred tax assets at 31/12/2011	**1,118,249**
Of which:	
- maintenance, licenses and other deductible costs	1,010,551
- directors fees and employee bonuses accrued but not paid at year end	106,383
- other	1,315
Total	**1,118,249**

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

There are no deferred tax assets on losses carried forward.

Note 22 - Trade receivables

Trade receivables at December 31, 2011 amounted to 150,106,208 Euros and are all collectible within 12 months.

Detail is as follows:

(in Euros)	**31/12/2011**	**31/12/2010**	**Change**
Third party trade receivables	115,317,464	96,595,318	18,722,146
Credit notes to be issued	(35,511)	(295,904)	260,393
Allowance for doubtful accounts	(751,879)	(373,356)	(378,523)
Third party trade receivables	**114,530,074**	**95,926,058**	**18,604,016**
Receivables from subsidiaries	35,452,856	22,448,068	13,004,788
Receivables from Parent Company	123,278	406,186	(282,908)
Trade receivables from subsidiaries and Parent Company	**35,576,134**	**22,854,254**	**12,721,880**
Total trade receivables	**150,106,208**	**118,780,312**	**31,325,896**

Reply carries out fronting activities with primary clients in capacity of sole manager of the ISO 9001 procedures. This activity is reflected in *Third Party Receivables* which increased by 18,722,146 Euros.

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

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

In 2011 a specific provision was made for doubtful accounts and amounted to 378,523 Euros.

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

Note 23 - Other receivables and current assets

Detail is as follows:

(in Euros)	31/12/2011	31/12/2010	Change
Tax receivables	7,475,929	1,725,297	5,750,632
Other receivables from subsidiary companies	12,893,000	25,676,000	(12,783,000)
Other receivables	467,518	56,935	410,583
Accrued income and prepaid expenses	5,598,475	3,553,366	2,045,109
Total	**26,434,922**	**31,011,598**	**(4,576,676)**

The item *Tax receivables* includes VAT receivables net (3,263,534 Euros) and net Italian tax prepayments (3,948,509 Euros) and other withholding tax.

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

Accrued income and prepaid expenses refer to prepaid expenses arising from the execution of services, lease contracts, insurance contracts and other utility expenses, which are accounted for on an accrual basis.
The carrying value of *Other receivables and current assets* is deemed to be in line with its fair value.

Note 24 - Current financial assets

This item amounted to 45,611,867 Euros (36,182,079 Euros at December 31, 2010) and is related to the cash pooling accounts of the subsidiary companies involved in the centralized pooling system with pool leader Reply S.p.A. The interest yield on these accounts is in line with current market conditions.

Note 25 - Cash and cash equivalents

This item amounted to 16,336,864 Euros, with a decrease of 8,350,867 Euros compared to December 31, 2010, and is referred to cash at banks and on hand at year-end.

Note 26 - Shareholders' equity

Share capital

As at December 31, 2011 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,795,886 Euros and is made up of no 9,222,857 ordinary shares, par value 0.52 Euros per share.

Treasury shares

Treasury shares on hand amounting to 3,182,950 Euros is related to shares held by Reply S.p.A., that as at December 31,2011 were equal in number to 210,914. During 2011 Reply S.p.A. acquired no. 74,264 ordinary shares while 41,876 shares were disposed for the acquisition of some minority shares in subsidiaries.

Capital reserve

At December 31, 2011 capital reserve amounted to 49,972,054 Euros and is summarized as follows:

- *Share premium reserve* amounted to 20,622,992 Euros.
- *Reserve for treasury shares on hand* amounting to 3,182,950 Euros, is related to shares held by Reply, which at December 31, 2010 equal to 210,914 number of shares.
- *Reserve for purchase of treasury shares*, amounting to 26,817,050 Euros, was constituted through withdrawal from the *Reserve for treasury shares on hand*, following the resolution made by the General Shareholders Meeting of Reply S.p.A. on 29 April 2010 which authorized, pursuant to art. 2357 of the Italian Civil Code, the purchase of a maximum of 30 million Euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

Earning reserves

Earning reserves amounted to 61,299,150 Euros and comprises the follows:

- Legal reserve amounting to 959,177 Euros (959,177 Euros at December 31, 2010);
- Extraordinary reserve amounting to 44,188,898 Euros (34,215,432 Euros at December 31, 2010);
- Retained earnings amounting to 2,898,365 Euros (2,894,354 Euros at December 31, 2010);
- Net result totaling 13,148,170 Euros (14,043,415 Euros at December 31, 2010).

Other comprehensive income

Other comprehensive income can be analyzed as follows:

(in Euros)	**31/12/2011**	**31/12/2010**
Gains/(losses) on cash flow hedges arising during the period	198,449	346,886
Reclassification adjustment for gains/(losses) on cash flow hedges included in income statement	-	-
Gains/(Losses) on cash flow hedges	**198,449**	**346,886**
Other comprehensive income generated during the period	(8,150)	31,913
Other comprehensive income reclassified during the period	-	-
Share of other comprehensive income	**(8,150)**	**31,913**
Income tax relating to components of Other comprehensive income	-	-
Total Other comprehensive income, net of tax	**190,299**	**378,799**

Share based payment plans

The company has share based payment plans for its employees.

The stock option plans have the following purposes:

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

As mentioned in Note 2 referring to share-based payment plans the Company has applied the standard set out by IFRS 2 "Share-based payment" and has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005 and are related to the stock options plans of 2004 and 2006. With reference to these plans, no costs were incurred for Reply S.p.A. share-based payments in 2011 (10 thousand Euros in 2010).

The Extraordinary Shareholders' Meeting of Reply S.p.A. resolved the increase of the share capital with exclusion of stock option rights in compliance with art. 2441, paragraph 8 and art. 2441 paragraph 5 of the Italian Civil Code.

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

As December 31, 2011 the number of stock options were no. 145,000 and can be summarized as follows:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2004	11/06/2004	12/05/2006	9	21.339	12/05/2009 – 12/05/2014	135,000
2006	15/06/2006	08/08/2006	1	18.662	08/08/2009 – 08/08/2014	10,000

During 2011 no stock options were exercised nor assigned in reference to the existing plans.

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

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

Note 27 - Payables to minority shareholders

Payables to Minority shareholders at December 31, 2011 amounted to 22,190,836 Euros (12,895,016 Euros at 31 December 2010) and are detailed as follows.

(in Euros)	31/12/2011	31/12/2010	Change
Reply Deutschland AG	7,417,033	7,957,027	(539,994)
Riverland Reply GmbH	2,496,296	3,769,989	(1,273,693)
Other	652,000	1,168,000	(516,000)
Avantage Ltd.	11,625,507	-	11,625,507
Total	**22,190,836**	**12,895,016**	**9,295,820**

Payables to minority shareholders of Reply Deutschland AG, for 7,417,033 refers to Reply's obligation, in accordance to the Domination Agreement, to acquire shares upon the request of minority shareholders. The amount represents the fair value of the liability at the balance sheet date.
It is to be noted that at present, the exercise period for such option is still valid as the term has been suspended in anticipation of the competent court's ruling following the minority shareholders' request of verification of the adequacy of the exercise price of the option.
The decrease of such liability at December 31, 2011 is related to:

- the exercise of the option by some minority shareholders;
- the acquisition on the market of. no. 61.614 shares, by Reply S.p.A, for a value of 583 thousand Euros, of which 505 thousand Euros against the liability to minority shareholders.

Payables to minority shareholders of Riverland Reply GmbH, for 2,496,296 Euros which refers to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of 75.016% of the share capital. In the second half of 2011 this liability decreased by 1,273,693 following a payment made to the minority shareholders.

Payables to Other for 652,000 Euros was referred to liabilities to some minority shareholders in relation to options held and that were exercised in the first months of 2012.

Payables to minority shareholders of avantage Ltd. amounting to 11,626 thousand Euros is related to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of the remaining 49% of the share capital and payment of the second tranches of the initial consideration. In accordance to the provisions outlined by the contract, the 100% share capital was considered to be acquired.

Note 28 - financial liabilities

Detail is as follows:

	31/12/2011			31/12/2010		
(in Euros)	**Current**	**Non current**	**Total**	**Current**	**Non current**	**Total**
Bank overdrafts	34,048,984	-	34,048,984	23,792,047	-	23,792,047
Bank loans	7,654,478	15,230,811	22,885,289	11,475,116	9,267,486	20,742,602
Financial borrowings	-	-	-	11,348	-	11,348
Loan from subsidiaries		5,000,000	5,000,000	-	-	-
Transaction accounts	12,108,008	-	12,108,008	12,191,362	-	12,191,362
Total due to banks	**53,811,470**	**20,230,811**	**74,042,361**	**47,469,873**	**9,267,486**	**56,737,359**

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

	31/12/2011			31/12/2010		
(in Euros)	**Due in 12 months**	**From 1 to 5 years**	**Total**	**Due in 12 months**	**From 1 to 5 years**	**Total**
Bank overdrafts	34,048,984	-	34,048,984	23,792,047	-	23,792,047
Syndicated loan		-	-	11,276,752	-	11,276,752
Stand-by credit line	7,654,478	15,308,955	22,963,433	-	9,411,390	9,411,390
Loan from subsidiaries	-	5,000,000	5,000,000	-	-	-
Transaction accounts	12,108,088	-	12,108,088	12,191,362	-	12,191,362
Other financial borrowings	-	-	-	11,348	-	11,348
Other	-	(78,144)	(78,144)	198,364	(143,904)	54,460
Total	**53,811,550**	**20,230,811**	**74,042,361**	**47,469,873**	**9,267,486**	**56,737,359**

The *Syndicated loan* is referred to the contract undersigned on December 30, 2005 by Reply S.p.A. with Intesa SanPaolo for a line of credit amounting to 50,000,000 Euros. The loan will be reimbursed on a half-year basis (Euribor 6 months + spread 2.5%) commencing June 30, 2012 and expires December 31, 2014.

The total amount utilized was 22,963 thousand Euros.

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

As contractually defined, such ratios are as follows:

- Net financial indebtedness / Equity ≤ 1.5
- Net financial indebtedness / EBITDA ≤ 3.0

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

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

The *Loan from subsidiaries* is related to an interest bearing loan from Reply Deutschland AG, the conditions and interest rate are in line with those of the market.

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

Net financial position

In compliance with Consob regulation issued on July 28, 2006 and in accordance with CESR's *Recommendations for the consistent implementation of the European's regulation on Prospectuses* issued on February 10, 2005, the Net financial position at December 31, 2011 was as follows:

(in Euros)	31/12/2011	31/12/2010	Change
Cash and cash equivalents	16,336,864	24,687,731	(8,350,867)
Transaction accounts	45,611,867	36,182,079	9,429,788
Current financial assets	**61,948,731**	**60,869,810**	**1,078,921**
Loans to third parties	-	66,000	(66,000)
Loans issued to subsidiaries	10,910,130	3,000,000	7,910,130
Total non current financial assets	**10,910,130**	**3,066,000**	**7,844,130**
Total financial assets	**72,858,861**	**63,935,810**	**8,923,051**
Due to banks	(41,703,462)	(35,278,511)	(6,424,951)
Transaction accounts	(12,108,008)	(12,191,362)	83,354
Total current financial liabilities	**(53,811,470)**	**(47,469,873)**	**(6,341,597)**
Due to banks	(15,230,811)	(9,267,486)	(5,963,325)
Loans from subsidiaries	(5,000,000)	-	(5,000,000)
Total non current financial liabilities	**(20,230,811)**	**(9,267,486)**	**(10,963,325)**
Total financial liabilities	**(74,042,281)**	**(56,737,359)**	**(17,304,922)**
NET FINANCIAL POSITION	**(1,183,420)**	**7,198,451**	**(8,381,871)**
Of which related parties	*39,413,989*	*26,990,717*	*12,423,272*

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

Note 29 - Employee benefits

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

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

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

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

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

The assumptions adopted can be summarized as follows:

Demographic assumptions

Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfillment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: - Frequency of advances in 2011: 2.50% - Frequency of turnover % 2011: 10%

Economic and financial assumptions

Annual discount rate	Constant average annual rate equal to 2.00%
Annual growth rate of the Employee severance indemnities	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2011 was 4.25%
Annual increase in salaries	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual inflation rate	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.0% to 1.50%

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

Balance at 31/12/2010	**490,741**
Actuarial gains/losses	8,150
Interest cost	21,309
Indemnities paid during the year	(65,794)
Balance at 31/12/2011	**454,406**

Note 30 - Deferred tax liabilities

Deferred tax liabilities at December 31, 2011 amounted to 352,894 Euros and are referred mainly to the fiscal effects arising from temporary differences between the statutory income and taxable income.

(in Euros)	
Balance at 31/12/2010	**319,879**
- accruals	33,015
- utilized	-
Total at 31/12/2011	**352,894**
- On deductible items off the books	197,671
- Different goodwill measurements	145,490
- Other	9,733
Total at 31/12/2011	**352,894**

Note 31 - Trade payables

Trade payables at year end amounted to 150,343,616 Euros with an increase of di 22,783,149 Euros. Detail is as follows:

(in Euros)	**31/12/2011**	**31/12/2010**	**Change**
Due to suppliers	5,616,870	4,679,172	937,698
Due to subsidiary companies	128,745,494	110,063,247	18,682,247
Advance payments	15,981,252	12,818,048	3,163,204
Total	**150,343,616**	**127,560,467**	**22,783,149**

Due to suppliers mainly refers to services from domestic suppliers (5,617 thousand Euros).

Due to subsidiary companies recorded a change of 18,682,247 Euros and refers to professional services in connection to third party agreements with Reply S.p.A.

Reply S.p.A. also carries out *fronting* activities with key clients in capacity of sole manager of the ISO 9001 procedures where the delivery is carried out by the operational subsidiaries.

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

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

Note 32 - Other current liabilities

Details are provided below:

(in Euros)	31/12/2011	31/12/2010	Change
Current tax payables	24,500	7,785,774	(7,761,274)
Withholding tax and other	453,550	350,651	102,899
Total due to tax authorities	**478,050**	**8,136,425**	**(7,658,375)**
INPS	686,283	577,827	108,456
Other	198,122	165,963	32,159
Total due to social security authorities	**884,405**	**743,790**	**140,615**
Employee accruals	884,706	785,951	98,755
Due to subsidiary companies	4,732,283	5,515,267	(782,984)
Other payables	2,334,985	2,386,832	(51,847)
Accrued expenses and deferred income	5,498,681	3,053,544	2,445,137
Total other dues	**13,450,655**	**11,741,594**	**13,450,655**
Total trade payables and other liabilities	**14,813,110**	**20,621,809**	**(5,808,699)**

Due to tax authorities mainly refers to payables due for withholding tax on employees and free lancers' compensation.
Due to social security authorities is related to both Company and employees contribution payables.
Employee accruals mainly include payables to employees for remunerations due but not yet paid at year-end.

Due to subsidiary companies represents the liability on tax losses recorded by subsidiaries under national tax consolidation for 2011 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.

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

Note 33 - Provisions

The item Provisions is related to an accrual amounting to 950,000 Euros and reflects the best estimate in relation to some ongoing disputes.

Note 34 - Transactions with Related parties

In relation to CONSOB communication no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of February 27, 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2011 financial statements related to such transactions are summarized below.

Transactions carried out by Reply S.p.A. with related parties are considered ordinary business and are carried out at normal market conditions.
Financial and business transactions among the Parent Company Reply S.p.A. and its subsidiary and associate companies are carried out at normal market conditions.

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

(thousand Euros)	With subsidiary and associate companies	With related parties	With subsidiary and associate companies	With related parties	Nature of transaction
Financial transactions	**31/12/2011**		**31/12/2010**		
Financial receivables	10,910	-	3,000	-	Financial loans
Transaction accounts	33,504	-	23,991	-	Transaction accounts held by the Parent Company and introduced with the Group cash pooling system
Trade receivables and other	48,345	123	48,124	406	Royalties, administration services, marketing and quality management, management services and office rental
Financial liabilities	5,000	-	-	-	Financial borrowings
Trade payables and other	148,900	268	125,767	318	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Other	-	1,593	-	1,602	Compensation paid to Directors, Key Management and Statutory Auditors.
Economic transactions	**2011**		**2010**		
Revenues from royalties	10,307	-	9,234	-	Licensing of the “Reply” trademark consisting in a 3% fee on third party revenues
Revenues from services	18,882	134	16,769	139	Administration services, marketing and quality management and office rental
Revenues from management services	3,770	-	4,092	-	Strategic management services
Costs for professional services	200,063	63	183,552	17	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	206	1,100	-	1,115	Services related to office rental and office of the secretary
Personnel	-	3,197	-	3,161	Compensation paid to Directors and Key Management
Interest income on loans, net	1,811	-	1,037	-	Interest on financial loans: 3 month Euribor with a spread of 3 percentage points

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

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

Note 35 - Additional disclosures to financial instruments and risk management policies

Types of financial risks and corresponding hedging activities

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

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

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

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

Credit risk

The maximum credit risk to which the company is theoretically exposed at December 31, 2011 is represented by the carrying amounts stated for financial assets in the balance sheet.

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

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

Liquidity risk

Reply S.p.A. is exposed to funding risk if there is difficulty in obtaining finance for operations at any given point in time.

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

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

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

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

Currency risk

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

Interest rate risk

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

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

Sensitivity analysis

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

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

A hypothetical, unfavorable and instantaneous change of 50 basis points in short-term interest rates at December 31, 2011 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 192 thousand Euros (13 thousand Euros at December 31, 2010).

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

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

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

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

Note 36 - Significant non-recurring transactions

Pursuant to the Consob communication no. 6064293 of 28 July, 2006, there were no significant non- recurring transactions carried out by Reply S.p.A. in 2011.

Note 37 - Transactions resulting from unusual and/or abnormal operations

Pursuant to the Consob communication no. 6064293 of July 28, 2006, Reply S.p.A has not taken part in any unusual and/or abnormal operations as defined in that Communication, under which unusual and abnormal transactions are those which because of their significance or importance, the nature of the parties involved, the object of the transaction, the means of determining the transfer price or of the timing of the event (close of the year end) may give rise to doubts regarding the accuracy/completeness of the information in the financial statements, conflicts of interest, the safeguarding of the entity's assets or the protection of minority interests.

Note 38 - Guarantees, commitments and contingent liabilities

Guarantees

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

Commitments

On April 14, 2010 the Board of Directors of Reply S.p.A. and the Management Board and Supervisory Board of Reply Deutschland AG resolved the finalization of a Domination Agreement between Reply Deutschland AG, dominated company and Reply S.p.A., dominating company, by which Reply S.p.A. can exercise the operational control of the company through the Management Board that will respond to Reply S.p.A.'s Board of Directors.

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

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

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

(iii) upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration (8.19 Euros), within the term of three months after the date on which the commercial register of Reply Deutschland AG has been announced in accordance with Sec 10 of the German Commercial Code (HGB). It is to be noted that at present, in accordance to German law, the exercise period for such option is still valid as the competent court has not yet ruled in relation to the adequacy of the exercise price of the option.

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

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

(i) annual dividend integration for a maximum amount of 441 thousand Euros;

(ii) obligation to acquire the Minority Shareholders' shares for a maximum amount of 8.1 million Euros, equivalent to the fair value of non controlling interest;

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

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

Contigent liabilities

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

Note 39 - Emoluments to Directors, statutory Auditors and Key Management

In compliance to art. 78 of *Regolamento Consob* 11971 dated May 14, 1999 the fees of the Directors and statutory Auditors of Reply S.p.A. for carrying out their respective functions, including those in other consolidated companies, are fully explained in the Report on Remuneration annexed herein.

Stock Options granted to Members of the Board of Directors and Key Management

During the financial year under review no stock options have been assigned and/or exercised to Members of the Board of Directors and Key Management.
For further information please see the Report on Remuneration annexed herein.

Note 40 - Events subsequent to December 31, 2011

No significant events have occurred subsequent to December 31, 2011.

Annexed tables

Income statement
pursuant to Consob Resolution no. 15519 of July 27, 2006

(in Euros)	2011	Of which related parties	%	2010	Of which related parties	%
Revenues	224,080,770	28,706,361	12.8%	207,418,143	25,699,494	12.4%
Other revenues	6,443,738	4,387,190	68.1%	6,211,592	4,534,491	73.0%
Purchases	(2,405,713)	(1,890,948)	78.6%	(2,033,976)	(1,166,940)	57.4%
Personnel expenses	(13,651,591)	-	-	(11,464,167)	-	-
Services and other costs	(218,303,279)	(201,431,725)	92.3%	(199,923,938)	(183,517,168)	91.8%
Amortization and write-offs	(799,022)	-	-	(816,711)	-	-
Other unusual operating income/(expenses)	(950,189)	-	-	(505,189)	-	-
Operating margin	**(5,585,286)**	**-**	**-**	**(1,114,246)**	**-**	**-**
Income/(loss) on equity investments	18,113,233	-	-	16,297,943	-	-
Financial income/(expenses)	(251,042)	1,810,963	721.4%	(421,933)	1,036,831	245.7%
Result before tax	**12,276,905**	**-**	**-**	**14,761,764**	**-**	**-**
Income taxes	871,805	-	-	(718,349)	-	-
Net result	**13,148,710**	**-**	**-**	**14,043,415**	**-**	**-**
Net result per share	*1.45*			*1.55*		
Net result per diluted share	*1.43*			*1.52*		

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

(in Euros)	31/12/2011	Of which related parties	%	31/12/2010	Of which related parties	%
Tangible fixed assets	203,205	-	-	302,688	-	-
Goodwill	86,765	-	-	86,765	-	-
Other intangible assets	1,171,196	-	-	1,174,776	-	-
Equity investments	124,022,163	-	-	107,025,969	-	-
Financial assets	10,987,489	10,910,130	99.3%	3,157,059	3,000,000	95.0%
Deferred tax assets	1,118,249	-	-	771,725	-	-
Non current assets	**137,589,067**	**-**	**-**	**112,518,982**	**-**	**-**
Trade receivables	150,106,208	35,452,856	23.6%	118,780,312	22,854,254	19.2%
Other receivables and current assets	26,434,922	12,893,000	48.8%	31,011,598	25,676,000	82.8%
Financial assets	45,611,867	45,611,867	100.0%	36,182,079	36,182,079	100.0%
Cash and cash equivalents	16,336,864			24,687,731		
Current assets	**238,489,861**	**-**	**-**	**210,661,720**	**-**	**-**
TOTAL ASSETS	**376,078,928**	**-**	**-**	**323,180,702**	**-**	**-**
Share capital	4,795,886	-	-	4,795,886	-	-
Other reserves	94,987,189	-	-	85,216,130	-	-
Net result	13,148,710	-	-	14,043,415	-	-
SHAREHOLDERS' EQUITY	**112,931,785**	**-**	**-**	**104,055,431**	**-**	**-**
Payables to minority shareholders	22,190,836	-	-	12,895,016	-	-
Financial liabilities	20,230,811	5,000,000	24.7%	9,267,486	-	-
Employee benefits	454,406	-	-	490,741	-	-
Deferred tax liabilities	352,894	-	-	319,879	-	-
Provisions	950,000	-	-	-	-	-
Non current liabilities	**44,178,947**	**-**	**-**	**22,973,122**	**-**	**-**
Financial liabilities	53,811,470	12,108,008	22.5%	47,469,873	12,191,362	25.7%
Trade payables	150,343,616	144,726,746	96.3%	127,560,467	123,199,445	96.6%
Other payables and current liabilities	14,813,110	4,173,738	28.2%	20,621,809	2,885,718	14.0%
Provisions	-	-	-	500,000	-	-
Current liabilities	**218,968,196**	**-**	**-**	**196,152,149**	**-**	**-**
TOTAL LIABILITIES	**263,147,143**	**-**	**-**	**219,125,271**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**376,078,928**	**-**	**-**	**323,180,702**	**-**	**-**

Equity investments in subsidiaries with additional information required by Consob (communication no. 6064293 of 28 July 2006)

Company	Registered office	Currency	Share capital	Shareholders' equity	Result 2011	% owned	Carrying value at 31/12/2011
@logistics Reply S.r.l.	Turin	€	78,000	2,412,278	1,843,966	100.00%	1,049,167
4cust Reply S.r.l.	Turin	€	10,000	133,615	(68,002)	100.00%	588,000
Aktive Reply S.r.l.	Turin	€	10,000	2,234,891	1,486,919	100.00%	512,696
Atlas Reply S.r.l.	Turin	€	10,000	1,244,420	536,794	100.00%	356,575
Avantage Reply Ltd.	London	GBP	5,150	2,190,053	2,216,479	51.00%	16,611,484
Bitmama S.r.l.	Turin	€	29,407	108,531	(10,480)	51.00%	2,017,019
Blue Reply S.r.l.	Turin	€	10,000	4,032,086	2,899,589	100.00%	527,892
Bridge Reply S.r.l.	Turin	€	10,000	96,816	13,634	60.00%	6,000
Business Reply S.r.l.	Turin	€	78,000	1,582,241	1,002,445	100.00%	268,602
Cluster Reply S.r.l.	Turin	€	139,116	7,186,746	6,118,549	100.00%	2,610,032
Consorzio Reply Public Sector	Turin	€	73,500	5,551	(35,073)	44.20%	32,500
Discovery Reply S.r.l.	Turin	€	10,000	182,451	170,993	100.00%	1,311,669
e*finance Consulting Reply S.r.l.	Turin	€	34,000	687,146	(110,599)	100.00%	3,076,385
Ekip Reply S.r.l.	Turin	€	10,400	27,954	(34,594)	100.00%	30,000
Eos Reply S.r.l.	Turin	€	14,000	510,641	112,558	83.30%	155,369
Forge Reply S.r.l.	Turin	€	10,000	18,503	(451,497)	90.00%	469,000
Hermes Reply Polska	Katowice Poland	ZLT	40,000	1,086,223	969,934	100.00%	10,217
Hermes Reply S.r.l.	Turin	€	10,000	1,202,881	469,943	100.00%	199,500
IrisCube Reply S.p.A.	Turin	€	651,735	2,025,535	1,125,185	100.00%	6,724,952
Lem Reply S.r.l.	Turin	€	47,370	113,138	25,915	100.00%	400,012
Live Reply GmbH	Düsseldorf	€	25,000	856,248	603,544	100.00%	27,500
Open Reply S.r.l.	Turin	€	10,000	619,448	430,096	85.00%	867,750
Portaltech Reply S.r.l.(*)	Turin	€	10,000	-	-	85.00%	8,500
Power Reply S.r.l.	Turin	€	10,000	3,468,918	959,175	100.00%	2,500,850
Reply Consulting S.r.l.	Turin	€	10,000	1,304,309	231,345	100.00%	5,168,434
Reply Deutschland AG and subsidiaries	Gutersloh	€	4,750,561	31,821,150	3,436,530	80.83%	38,029,227

Company	Registered office	Currency	Share capital	Shareholders' equity	Result 2011	% owned	Carrying value at 31/12/2011
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte Brazil	R$	50,000	215,428	165,428	80.00%	17,542
Reply GmbH (*)	Munich	€	25,000	-	-	100.00%	25,000
Reply Ltd	London	GBP	54,175	441,834	(688,969)	100.00%	11,656,556
Reply Services Ltd.	London	GBP	1	(362,319)	(316,410)	100.00%	1,211
Reply Services S.r.l.	Turin	€	10,000	15,562	(100,758)	100.00%	10,000
Ringmaster S.r.l.	Turin	€	10,000	292,014	282,014	50.00%	5,000
Riverland Reply GmbH	Munich	€	25,000	2,900,178	949,380	75.106%	8,269,989
Santer Reply S.p.A.	Milan	€	2,209,500	12,680,249	2,101,149	100.00%	11,386,966
Security Reply S.r.l.	Turin	€	50,000	101,046	(2,348,310)	100.00%	392,866
Square Reply S.r.l.	Turin	€	10,000	12,069	(83,794)	100.00%	100,000
Storm Reply S.r.l.	Turin	€	10,000	20,982	(169,018)	80.00%	188,000
Syskoplan Reply S.r.l.	Turin	€	32,942	363,208	264,378	100.00%	949,571
Sytel Reply Roma S.r.l.	Turin	€	10,000	5,031,691	3,242,636	100.00%	894,931
Sytel Reply S.r.l.	Turin	€	115,046	6,097,059	3,751,841	100.00%	4,991,829
Target Reply S.r.l.	Turin	€	10,000	2,201,847	1,390,099	100.00%	778,000
Technology Reply S.r.l.	Turin	€	79,743	4,793,234	3,990,024	100.00%	216,658
Tender Reply S.r.l.	Turin	€	10,000	11,340	(94,643)	80.00%	10,000
Twice Reply S.r.l.	Turin	€	10,000	2,855,049	945,534	94.00%	407,000
Whitehall Reply S.r.l.	Turin	€	21,224	101,598	28,316	100.00%	160,212

(*) companies not operating; (**) First fiscal year ending at December 31, 2012

Detail of Shareholders' net equity

stated according to origin, possibility of utilization, possibility of distribution, availability and the utilization in the previous three fiscal years.

(in Euros) Nature/description	Amount	Possibility of utilization	Available amount	Summary of the amounts used in the prior three fiscal years: For coverage of losses	Other
Capital	**4,795,886**				
Capital reserves					
Reserve for treasury shares	3,182,950				
Share premium reserve	20,622,992	A, B, C	20,622,992		
Reserve for purchase of treasury shares	26,817,050	A, B, C	26,817,050		
Income reserves					
Legal reserve	959,177	B			
Extraordinary reserve	44,188,898	A, B, C	44,188,898		
Reserve for shares to be issued (art. 2349 C.C.)	104,000	A, B	104,000		
Retained earnings	570,731	A, B, C	570,731		
Total			**92,303,671**		
Non available amount			104,000		
Residual available amount			**92,199,671**		
Reserves from transition to IAS/IFRS					
FTA reserve	303,393				
Retained earnings	2,327,625				
Reserve for cash flow hedge	-				
Treasury share	(3,182,950)				
IAS reserve	(136,229)				
Accounting of expenses according to IAS 32	(770,448)				
	99,783,075				

Legend
A: for share capital increase
B: for coverage of losses
C: distribution to shareholders

Information requested by Art. 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-duodeciesof the *Regolamento Emittenti* issued by Consob, reports the amount of fees charged in 2011 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network.

(thousand Euros)	Service provider	Fees 2011
Audit	Reconta Ernst & Young S.p.A.	26,000
Audit related services	Reconta Ernst & Young S.p.A. (1)	1,000
Other services	Reconta Ernst & Young S.p.A. (2)	21,000
Total		**48,000**

(1) Attestation of tax forms (tax return, IRAP and Form 770

(2) Examination of specific accounting treatments

Attestation in respect of the statutory financial statements under Article 154-bis of Legislative Decree 58/98

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

→ the adequacy with respect to the company structure and

→ the effective application,

of the administration and accounting procedures applied in the preparation of in Reply S.p.A's 2011 financial statements:

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the statutory financial statements at December 31, 2011 was based on a process defined by Reply in accordance with the *Internal Control – Integrated Framework* model issued by the *Committee of Sponsoring Organizations of the Treadway Commission*, an internationally-accepted reference framework.

3. The undersigned moreover attest that:

3.1 The statutory financial statements at December 31, 2011

→ have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002 as implemented in Italy by Article 9 of Legislative Decree no. 38 of 2005;

→ correspond to the amounts shown in the accounts, books and records; and;

→ provide a fair and correct representation of the financial conditions, results of operations and cash flows of Reply S.p.A at December 31, 2011 and for the year then ended.

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

Turin, March 15, 2012

/s/ Mario Rizzante
(Chairman and Chief Executive Officer)

Mario Rizzante

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

Giuseppe Veneziano

Statutory Auditors' report to the Shareholders

pursuant to art. 153 of Italian legislative decree no. 58/1998 and art. 2429, paragraph 2 of the Italian civil code in relation to the separate financial statements as at December 31, 2011

To the Shareholders,

The members of the Board of Statutory Auditors have respected and timely notified the cumulative limits imposed by art. 144-terdecies of Regolamento Emittenti Consobno. 11971 with regards to other positions held as statutory auditors.

* * *

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

Throughout fiscal year 2011 and in accordance with the Independent Auditors, we have performed supervision activities pursuant to article 149 of Legislative Decree no. 58/1998 and in compliance with current CONSOB communications in relation to Regulations of issuers, we refer the following:

1. Significant economic, financial and monetary transactions

We have received adequate and detailed information from the Board of Directors' with regards to the Company's business and with reference to the major operating, financial and asset transactions carried out or in the process of being carried out by the Company and/or its subsidiaries. In this regard we attest the following:

→ On February 4, 2011 Reply S.p.A. acquired 51% of the shares and 90% of the voting rights of avantage, a United Kingdom company specialized in the Financial Service market within the areas of risk, regulatory, capital and financial performance management and treasury.
The total value of the purchase price amounted to GBP£ 7.1 million, of which and a a further GBP£ 2.3 million paid in three years' time. Reply also has the option to exercise the right to purchase the remaining 49% of the capital at the end of 2013 and the minority shareholders' having the right to sell. In the month of June 2011 Reply s.p.A. acquired the remaining 15% of the minority shares of Power Reply S.r.L. which amounted to 0.855 thousand Euros. The acquisition was purchased against no. 41,876 Reply S.p.A. ordinary shares.

→ In the month of November Reply Ltd (an English company held 100% by Reply S.p.A) acquired 80% of the Portaltech, shares, a UK company specializing in consulting and implementation of multichannel e-commerce strategies and solutions.
The total value of the purchase price for 80% of Portaltech's shares is 1.6 million pounds, paid in cash, with further options for Reply to acquire the remaining 20% for 0.4 thousand ponuds. al On the basis of the EBT achieved in the financial years 2012 and 2013 a price adjustment has been established.

We can reasonably attest that such activities have been executed in compliance with the Law and with the Company by-laws.

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

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

In reference to intercompany operations the following is noted:

- In 2011 the contract denominated "Domination Agreement", which was undersigned in 2010 by Reply S.p.A and syskoplan AG , was carried out accordingly;
- Reply S.p.A. has received professional services from group companies in relation to third party revenues;
- Reply S.p.A.has granted gurantees to subsidiary companies;
- Reply S.p.A. has granted to its subsidiaries non-interest bearing loans for the carrying out of their activities:
- 4Cust Reply S.r.l., Open Reply S.r.l., Tender Reply S.r.l. and Storm Reply S.r.l.– non-interest bearing loans
- Reply Ltd., Reply Services Ltd., Hermes Repply Polska Sp Zoo, Live Reply Gmbh, avantage Reply Ltd. and Reply do Brasil SistemaLtda- interest bearing loans;
- Reply S.p.A. has an interset bearing loan with Reply Deutschland AG;
- Reply S.p.A. provided the subsidiaries administrative, managerial, and commercial and marketing assistance and assistance related to the managing of Internet within the company, electronic mail and web services.
- Reply S.p.A. manages a cash pooling system and has activated transaction accounts with the single group companies;
- The Group companies use the "Reply" trademark, which is currently owned by the Parent Company.

Operations carried out with third parties are referred to general services and consulting services provided by Alika S.r.l. current Parent Company of REPLY S.p.A. and have been properly disclosed to the Committee for transactions with related parties. 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 Directors' Report on Operations related to the year ended 2011 provides exhaustive information concerning the major economic, financial and monetary transactions and regarding relations with subsidiary and associate companies and other related parties.
Such report does not reveal the existence of any atypical and/or unusual transactions during and following the year end close.

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

Reconta Ernst & Young S.p.A., the Independent Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of December 31, issued its report in which it asserts that Reply S.p.A.'s financial statement as of December 31, 2011 comply with the International Financial Reporting Standards adopted by the European Union as well with the art. 9 of the Legislative Decree no. 38 of 2005 and provide a fair and correct representation of the financial conditions, results of operations and cash flows at December 31, 2011.
Furthermore the Report on Operations and the information in paragraph 2 letters c), d), f), l), m) and paragraph 2 letter b) of Article 123-bis of the Legislative Decree 58 of 1998 disclosed in the Corperate Goverance Report and ownership structure are coherent to the Financial Statements.

5. Complaints pursuant to art. 2408 Italian Civil Code

During 2011 and the months following the year-end close The Board of Statutory Auditors did not receive any complaints under art. 2408 of the Italian Civil Code.

6. Petitions

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

7. Additional engagements conferred to the independent audit firm and related charges

In the financial year under review the following additional engagements were conferred to Reconta Ernst & Young S.p.A.:

- Assistance in filing of tax return of the Parent Company. Fee for execution of this service amounted to 1,000 Euros. Assistance in filing of tax return of the subsidiary companies. Fee for execution of this service amounted to 7,500 Euros.
- Support activity to the Financial department in realtion to some IFRS accounting principles and their interpretation Fee for execution of this service amounted to 21,000 Euros.

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

The Company did not confer any assignments to parties connected by continuous working relationships with the Auditing firm Reconta Ernst & Young S.p.A.

9. Existence of opinions issued during the year

During 2011, in accordance to the Italian law, opinions were issued by the Statutory Auditors.

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

In 2011 the Board of Directors met 5 times, and the Statutory Auditors held 6 meetings.
The Internal Control committee met 2 times and the Remuneration Committee met 2 times and the Transactions with Third Parties Committee met 1 time.
The Board of Statutory Auditors participated in all the Board of Directors meetings and through its President in the Internal Control Committee meetings, the Remuneration Committee and Transactions with Third Parties Committee.

11. Instructions given by the company to its subsidiaries in accordance with art. 114, paragraph 2 of Law Decree 58/1998

Instructions given to the subsidiary companies, in accordance to paragraph 2, art.114 of Law Decree 58/1998, seem to be adequate and the same subsidiaries provided Reply S.p.A. with timely and appropriate information concerning the companies' activities.
In this regards, we inform You that in order to guarantee the timeliness of the information requested, the Chief Executive Officer of Reply S.p.A., following the death of Mr. Sergio Ingegnati, Mr. Daniele Angelucci, Chief Finance Officer of Reply S.p.A has covered all the duties of director in all the corporate bodies of the Italian subsidiary companies, excluding Ringmaster S.r.l.
We also inform You that Mr. Mario Rizzante, Chairman of the Board of Directors of Reply S.p.A., holds office as Chairman of the Supervisory Board of Reply Deutschland AG (which was syskoplan AG) and Director in the English subsidiary company Reply Ltd. (which was Glue Reply Ltd.).

12. Significant matters arising from the meetings held with the auditors pursuant to art. 150, paragraph 3, Italian Legislative Decree 58/1998

During the meetings held with the Auditing firm's representatives, no significant matters worthy of mention arose.

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

Since 2000 the Company complies to the Corporate Governance set out by Borsa Italiana S.p.A.
On March 15, 2011 the Board of Directors approved the annual report concerning the Corporate Governance System currently adopted by the Company, covering information on the organizational structure in accordance to art. 123-bis of Legislative Decree 58/1998.

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

Supervision activities carried out were the following:

- Necessary measures to monitor compliance with the law and by-laws;
- Participation in Board meetings;
- Acquired information regarding the auditing controls carried out by the external auditors and reported periodically and independency risk factors;
- Acquired information during meetings held with members of the Statutory Board of the subsidiary companies in order to exchange information concerning the Group's activities and to coordinate the control and supervision activities;
- Gathered further information through meetings with the Chairman, Director in charge of drawing up the accounting documents, the Internal control committee and the Compliance Committee;
- Participation at Internal Control Committee meetings;
- Analysis of new Consob adoptions or communications.

The Board of Statutory Auditors has verified the existence of the organizational strcture for the proper running and respect of the company by-laws and regulating laws.
More specifically We bring to the attention of the Shareholders that:

- We have verified the consistency with the Transactions with Third Parties procedures pursuant to the principles indicated in the CONSOB Regulation no. 17221 of 12 March 2010, which was approved by the Reply S.p.A. Board of Directors on 11 November 2011 and effective of 1 January 2011.

- We have verified the proper criteria adopted by the Board of Directors in assessing the existence of independency conditions concerning the "independent directors";
- We have verified the compatibility requisites, as set out by the law, concerning other services, aside from the statutory audit of the consolidated financial statements and those of the subsidiaries of the Independent audit firm;
- We have verified, for the members of the Statutory Board the existence of the same independency conditions as for the "independent directors";
- We have not received any indications of violation of the Organizational, Management and Control Model in compliance to Legislative Decree 231/2001;
- We have verified that in relation to "Internal Dealing" obligations related to "Market abuse" and "Protection of savings" were carried out.

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

1) Administartion

The Board of Statutory Auditors, having participated at Board of Directors meeting and having gathered information therein, asserts to have verified the legitimacy of managerial decisions made by the Administrating Body and the related economic adequacy excluding our opinion concerning the convenience or opportunity of such decisions and verified that these were not in contrast with Board resolutions or jeopardize individual or minority rights.

2) Organizational structure

Within our duties set out by Legislative Decree 58/1998 and in compliance with paragraph 2.3. of the Statutory Auditors Conduct Principles, we have periodically met with the Auditing firm.
This has allowed the Board of Statutory Auditors to fully control the organizational structure of the company allowing to express a positive opinion concerning the adequacy of the structure compared to its size.
The Board also attests to have supervised on the changes to the organizational structure following the death of Mr. Ingegnatti.

3) Internal Control Committee

Within the Board of Directors an Internal Control and Internal Remuneration Committee have been constituted. Their activities are carried out in accordance to a work program in line with the company's needs.
The participation of the Head of Internal Controls and our participation in the Internal Control Committee's meetings have enabled to coordinate our function of internal controls and auditing Committee, assumed under art. 19 of Legislative Decree 39/2010, with the activities carried out by the Internal Control Committee and more specifically, perform the supervision activities provided by art. 19 of Legislative Decree no. 39/2010.
From the controls carried out the internal control system is deemed reliable.
We have received from Reconta Ernst & Young S.p.A. the communication issued in accordance to art. 17, paragraph 9 letter a) of Legislative Decree 39/2010, and the report pursuant to art. 19, paragraph 3 of Legislative Decree no. 39/2010 stating that during the legal audit no significant issues arose nor shortages in the internal control system in relation to the financial disclosure process.
From the controls carried out the internal control system is deemed reliable.

4) Administartive and accounting system

The administrative and accounting system and procedures are set-up correctly within the Company and its subsidiaries. It is considered to be suitable to represent and monitor operations, to provide data for the requested periods, to identify, prevent and manage finance and operational risks and to prevent fraud against the company.

The Chief Executive Officer and the Director responsible for drawing up the financial statements have issued the attestation pursuant to art. 81-ter of Regolamento Consob no. 11971/1999 subsequently amended and integrated by art. 154-bis paragraph 5 of T.U.F (Law Decree 58/1998).

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

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

The Financial statements at December 31, 2011 were prepared according to the European regulation no.1606/2002 of July 19, 2002, in compliance to (IAS/IFRS).

According to the controls carried out directly and information exchanged with the Audit firm, more specifically according to their report in compliance to ex art. 14 del Legislative Decree. no.39 dated January 27, 2010, the Board of Statutory Auditors does not have further observations nor proposals concerning the Financial Statements, the Directors' Report on Operations and the allocation of the net result, subject to Your approval.

The Board of Statutory Auditors, in specific reference to requirements set out by Law Decree 58/1998, paragraph 2, does not have any further proposals to make.

With reference to the point on the agenda concerning the purchase and disposal of treasury shares, recalling disclosures made by the directors, the Board states that the resolution proposed is in accordance to articles 2357, 2357-ter of the Italian Civil Code, in accordance to article 132 of Legislative Decree 58/98 and to art. 144 –bis of Consob Regulation no. 11971 dated May 14, 1999.

To conclude we would like to inform You that our three year mandate has expired and would like to thank You for the trust You have placed in us and we invite You to provide for.

Turin, 26 March 2012

STATUTORY AUDITORS

(Prof. Cristiano Antonelli)

(Dott.ssa Ada Alessandra Garzino Demo)

(Dott. Paolo Claretta Assandri)

Independent Auditors Report

ERNST & YOUNG

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

To the Shareholders
of Reply S.p.A.

1. We have audited the financial statements of Reply S.p.A. as of and for the year ended December 31, 2011, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Reply S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 28, 2011.

3. In our opinion, the financial statements of Reply S.p.A. at December 31, 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Reply S.p.A. for the year then ended.

4. The management of Reply S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance, are consistent with the financial statements of Reply S.p.A. as of December 31, 2011.

Turin, March 26, 2012

Reconta Ernst & Young S.p.A.

Signed by: Luigi Conti, Partner

Reply S.p.A.

Report on Corporate Governance and ownership structure 2011

Approved by the Board of Directors on March 15, 2012

www.reply.eu

Pursuant to art 123 bis Legislative Decree no. 58/198

Report on Corporate Governance and ownership structure 2011

Contents

1. Corporate Governance system

The *Corporate Governance system* adopted by the company, that is, the set of laws and bylaws adopted in order to ensure the efficient and transparent functioning of the corporate bodies and of the control systems, adheres to the Corporate Governance Code issued by Borsa Italiana in March 2006.
The Company is incorporated under Italian law and listed on the stock exchange on the MTA market, STAR segment.
The *Governance* structure of Reply S.p.A. – based on the traditional model, is made up of the following bodies: The General Shareholders' Meeting, the Board of Directors (that carry out its function through executive directors and is advised by an Internal Control Committee and a Remuneration Committee), the Board of Statutory Auditors and Independent Auditors.
The General Shareholders' Meeting is the corporate body which expresses the requests of the shareholders through its resolutions. Resolutions passed in compliance with the law and the by-laws are binding on all shareholders independently whether they agree or disagree unless the latter draw out, in the cases allowed. The Shareholder's are convened according to the rules set out for listed companies.

The Board of Directors has the function to define and approve the company's strategic, operating and financial plans in addition to the corporate structure it heads. The Board is invested with the broadest powers of management of the company in order to perform all the actions held to be most appropriate in the pursuit of the company object, with the exception of those reserved to the Shareholders' meeting.

The Board of Statutory Auditors is responsible for the supervision of compliance with the law and by-laws and more specifically:

- Supervision of proper management by verifying:
  - The respect of good management principles;
  - The adequate structure of the company;
  - The implementation of the rules of corporate governance;
  - The adequacy of information disclosed by the subsidiaries in relation to mandatory information to the market and concerning privileged information.
- Role of committee for internal control and audit responsible for overseeing:
  - The financial reporting process;
  - The effectiveness of the internal control, internal audit and risk management systems;
  - The audit of the annual separate and consolidated accounts;
  - The independence of the independent auditors.

The Board of Statutory auditors is not responsible for the legal audit which is a function preformed by an independent company appointed by the Shareholders' meeting.

The independent audit firm is responsible for checking that the company's accounts are properly kept and that managerial operations are correctly reflected in the accounting records. The auditors also verify that the separate and consolidated accounts correspond to the accounting records and to verifications performed and that they are in compliance with the applicable regulations. The Independent Auditors can also perform other services upon request of the Board of Directors, if not incompatible with the legal audit engagement.
Governance also includes the Internal Control System, the Organizational and management Model pursuant to Article 6 of Legislative decree 231/2001 and the structure of the powers and proxies, as presented herein.
The following Report includes the governance structure examined by the Board of Directors on 15 March 2012 and it accounts for the recommendations of the Code that the Board of Directors has decided not to adopt, providing related motivations.
The Report on Corporate Governance, that is an integral part of the Report on Operations, along with the company's by-laws, are available on the company's website (www.reply.eu – Investors – Corporate Governance).

2. Ownership structure (ex art. 123-bis, paragraph 1, of Legislative Decree 58/1998) as at 15 March 2012

A. Capital structure

The share capital structure of Reply S.p.A. is summarized below.
The share capital fully paid and subscribed at 15 March 2012, amounts to 4,795,885.64 Euros, divided in 9,222,857 ordinary shares having nominal value of 0.52 Euros- no other form of shares exist.
The share capital can further be increased for a maximum of 75,400.00 Euros following the exercise of stock options, with underlying Reply ordinary shares undersigned at established prices and existing at December 31, 2011, and not yet exercised, as already specified in the Report on Operations at paragraph "Stock options" and summarized at the following table:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	Number of options
2004	11/06/2004	12/05/2006	9	21.339	12/05/2009 – 12/05/2014	135,000
2006	15/06/2006	08/08/2006	1	18.662	08/08/2009 – 08/08/2014	10,000

B. Restrictions on the transfer of shares

The by-laws do not foresee restrictions on the transfer of shares.

C. Significant shareholdings

According to the Shareholders' Ledger, to the notifications received in compliance to the laws and according to other available information as at 15 March 2012, the shareholders that directly or indirectly hold stakes greater than 2% of the share capital having the right to vote are the following:

Shareholder	Direct Shareholder	Ownership % over share capital	Ownership % over voting capital
Rizzante Mario	Alika S.r.l.	53.5214	53.5214
	Rizzante Mario	0.1095	0.1095
	Total	**53.6309**	**53.6309**
Kairos Partners Sgr S.p.A.	Kairos Partners Sgr S.p.A.	4.7598	4.7598
Anima Sgr S.p.A.	Anima Sgr S.p.A.	4.0534	4.0534
Highclere International Investors Limited	Highclere International Small Companies Fund	3.5656	3.5656
Lodigiani Riccardo	Lodigiani Riccardo	2.0991	2.0991
BNY Mellon Service Kapitalanlage	BNY Mellon Service Kapitalanlage	2.0565	2.0565
Reply S.p.A.	Reply S.p.A.	2.0093	2.0093

D. Shares granting special rights

No shares have been issued that grant special rights of control.

E. Employee shareholdings: mechanism for exercising voting rights

In the case of employee shareholdings, a system by which the voting right can be exercised directly by someone else does not exist.

F. Restrictions on voting rights

The company by-laws have not established restrictions on voting rights.

G. Agreements with shareholders

At present the Company has the following lock-up agreements in compliance to art. 122 of Legislative Decree no. 58/1998 in which shareholders have more than 2% of the share capital:

1. Agreement dated 9 November 2004, tacitly renewed for a further three year period and until 9 November 2010, and tacitly renewed for a further three-year period until 9 November 2013, by which the shareholders of Alika S.r.l., with headquarters in Torino Corso Francia n. 110, share capital of 90,600.00 Euros entirely called up, fiscal code and Torino company registration no. 07011510018, for a stake of 46,206.00 Euros equivalent to 51% of the share capital and more specifically:

- Mr. Mario Rizzante holder of 5,706.00 Euros, equivalent to approximately 6.3% (six point three percent) of the share capital;
- Mrs. Maria Graziella Paglia holder of 17,100.00 Euros equivalent to approximately 18.87% (eighteen point eighty-seven percent) of the share capital;
- Mrs. Tatiana Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;
- Mr. Filippo Rizzante holder of 11,700.00 Euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;

have signed a lock up agreement according to article 122 of TUF for a three year period and renewable for equal periods as long as one of the shareholders does not communicate the cancellation with a six months written notice, having the right to vote in the company Alika S.r.l., holding of Reply S.p.A.

2. Agreement dated 21 May 2009, between Mr. Luigi Luoni, Mr. Fabrizio Alberton, Mr. Nicola Angelina, Mr. Nicola Canepa, Mr. Marco Cossutta and Mr. Carlo Gotta and the Company, holders of 81,505 (eighty one thousand five hundred five) Reply shares equivalent to approximately 0.88% of Reply's share capital by which they cannot directly or indirectly, or publicly announce the intention of, directly or indirectly executing the following actions: offer, sell and in general not to dispose by any means the shares owned and the rights attributed to the same, with the exceptions under art. 123 of Leg. Dec. 24/02/1998 no. 58 and subsequent amendments as outlined below:
Mr. Luigi Luoni:

- after 36 months following 21 May 2009, the lock-up period shall expire in relation to 35,195 (thirty-five thousand one hundred and ninety-five) equivalent to approximately 0.38% (zero point three eight percent);

Messers: Fabrizio Alberton, Nicola Angelina, Nicola Canepa, Marco Cossutta, Carlo Gotta:

- after 36 months following 21 May 2009, the lock-up period shall expire in relation to 9,262 (nine thousand two hundred and sixty two) equivalent to approximately 0.10% (zero point one zero percent).

H. Change of control clause

With reference to agreements that could be cancelled in relation to a change of control in Reply S.p.A., the following is noted.

Financing contracts

Reply S.p.A., on March 31, 2009 undersigned a Loan Agreement with Intesa San Paolo S.p.A. for a total of 50,000,000 Euros.
This contract, having the scope of financing the Group for acquisitions on the Italian or European market, allow the funding banks the faculty to call off the contract in case of a change of control directly or indirectly in Reply S.p.A., in accordance to 2359 of the Italian Civil Code.

Business agreements and contracts

Within some business agreements and contracts undersigned by Reply S.p.A. it is mandatory to notify the change of control, the Company has also undersigned contracts in which the clause "Change of control" implies immediate cancellation of the contract.
Such agreements, which are not very significant when compared to the whole of Group activities, are subject to confidentiality clauses.

Public Offers

Reply's by-laws does not provide any regulations in relation to the passivity rule provided for by art. 104, paragraph 1 and 2 of TUF nor does it foresee the application of the neutralization rules contemplated in art. 104-bis, paragraphs 2 and 3 of the TUF.

Proxies to increase the share capital and authorization to buy treasury shares

The General Shareholders' meeting has given proxy to the Board of Directors to increase the share capital, pursuant to article 2443 of the civil code.

The information regarding the current proxies is detailed in the table below:

			Amount authorized		Proxy executed	
Shareholders' Resolution	**Proxy**	**Expiry date**	**Euros**	**Shares**	**Euros**	**Shares**
14/06/2007	The Board of Directors has the proxy to increase the share capital in accordance to art. 2429 of the Italian Civil Code and to assign shares to employees, directors of the Parent Company and subsidiaries having a key role in achieving the Group's objectives.	14/06/2012	104,000.00	200,000	-	-
28/04/2011	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, payable in different forms and to be executed separately against payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	28/04/2016	312,000	600,000	-	-

The Shareholder's, following resolution passed on 28 April 2011, have authorized the acquisition of treasury shares in accordance to art. 2357 of the Italian Civil Code as follows:

number of shares: considering the treasury shares already held by the Company at the said date, a maximum number of 743,759 ordinary shares at 0.52 Euros, corresponding to 8.0643% of the existing share capital within the maximum spending limit of 30,000,000 Euros;

duration: for a period of 18 months, that is from 28 April 2011 to 28 October 2012, in substitution of the previous authorization resolved by the shareholders' meeting of 29 April 2010;

minimum purchase price: nominal value of the ordinary shares (presently 0.52 Euros);

maximum purchase price not greater than the official trade price on the MTA Market the day prior to the purchase applying a spread of 15%, and a disbursement of maximum 30,000,000 Euros;

authorization to sell: (i) on the market or in blocks, through a public bid, (ii) sale, transfer, or trade of shares for investment acquisitions or negotiations with strategic *partners* (iii) following agreements made with individual directors, employees and or collaborators of the Company or with directly or indirectly controlled companies, that do not meet the requirements of Stock granting pursuant to ex. Art. 114 bis of the TUF (iv) against payment in kind pursuant to the regulations of the Stock Granting plans.

At the reporting date the company held 210,914 treasury shares.

On June 14, 2007 the Company approved a share based incentive plan in favor of directors, employees and managers of the Company and its subsidiaries that cover a strategic role in achieving the overall objectives of the group; the plan is to be executed through Stock Granting represented by treasury shares of the company or newly issued shares pursuant to article 2349 of the Italian Civil Code. The Shareholders' have attributed proxy to the Board of Directors to resolve, even more than once and for a five year period, a free capital increase, pursuant to article 2349 of the Italian Civil Code for a maximum amount of 104,000 Euros corresponding to 200,000 ordinary shares. At present, the share based incentive plan of Stock Granting has not been activated.

On 28 April 2011 the Company resolved to grant the Board of Directors, pursuant to Article 2443 of the Civil Code, the powers to increase the share capital in one or more tranches for a period of five years, for a maximum nominal value of 312,000 Euros through the issue of 600,000 Reply S.p.A ordinary shares with a par value of 0.52 Euros each, to be executed in one or more tranches and therefore separable, for a maximum five year period.

The Board of Directors pursuant to Article 2441, paragraph 6 of the Civil Law, shall determine the price of the shares with reference to the trend of the stock market for the operation in the increase of share capital, and subordinated to the best practice methods of evaluation at an international level that take into consideration the market multipliers of comparable companies and to financial economic models commonly recognized and used in the respect of the minimum share price calculated as the single value of the share of the consolidated net equity resulting in the most recently approved financial statements by the Board of Directors prior to the resolution of the increase in share capital.

It is to be noted that:

- the information requested by art. 123-bis, first paragraph letter i) of TUF is disclosed in the Directors' report at the paragraph disclosing director's remuneration;
- the information requested by art. 123-bis, first paragraph letter l) of TUF is disclosed in the Directors' report at the paragraph disclosing information on the Board of directors.

3. Management and coordination activities

Reply S.p.A. is not subject to management and coordination activities pursuant to article 2497 and subsequent of the civil code.

The Parent company does not exercise control and coordination activities over Reply S.p.A. inasmuch as it qualifies as a holding, lacking an autonomous organizational structure and consequently does not carry out management activities for Reply S.p.A.

All the Italian subsidiaries held, directly or indirectly, by Reply S.p.A. have accurately disclosed the control and coordination to which they are subject by Reply S.p.A. in accordance to art. 2497 – bis of the Italian Civil Code.

4. Compliance (ex art. 123-Bis, paragraph 2, letter a, tuf)

The Report herein reflects and illustrates the corporate governance structure that the Company has adopted in compliance to the requirements of the Code, available on Borsa Italiana's website www.borsaitaliana.it and to which the Company has adhered.

The Board of Directors is always inclined at evaluating any new views and orientations that the Corporate Governance Code could consider and eventually integrate and amend the Company's Corporate Governance only if, and compatible with the company's reality, and that such integration enables the Company to further strengthen its reliability with investors.

Reply S.p.A. and its key strategic subsidiaries, to the Board of Directors knowledge, are not subject to foreign laws that have an influence on the corporate governance structure of the Issuer.

5. Board of Directors

A. Nomination and substitution of directors and amendments to the bylaws

The nomination and substitution of directors is disciplined by art. 16 (Nomination of Directors) of the by-laws, and is available on the Company's website (www.reply.eu under Investors – Corporate Governance).
Article 16 of the Company's by-laws has been revised under the General Meeting's resolution of June 14, 2007, in order to comply to the changes made to the laws and regulations recently introduced, even in relation to the "voting list" mechanisms, under Principle 6.P.1 of the Code that regulates that the nomination of the directors must follow transparent procedures that guarantee the timeliness of adequate information concerning the personal and professional characteristics of the candidate. The same article has been further amended by the Board of Directors resolution passed on October 26, 2010 following mandatory amendments to the regulation introduced by Legislative Decree no. 27/2010 (exercising of rights of the shareholders of listed companies).

Art. 16 of the Company by-laws, regulates that:

- The list of candidates running for director, shall be deposited at the company's registered office twenty-five days prior to the date of the first call for the Annual general Shareholders' meeting; at least twenty-one days prior to the Shareholders' meeting, the list together with the information and declarations required, shall be made available to the public;

- Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or the minimum minority voting share required in accordance to binding laws or regulations;
- The lists that do not reach the percentage of votes equivalent to at least half of those required for the presentation of the same, cannot be considered when apportioning the directors to be elected;
- The voting mechanism appoints the directors from the list having obtained the majority votes by the shareholders and following the order on the list, five sevenths of the Directors will be selected from the eligible candidates, while the remaining Directors will be selected from the other lists, guaranteeing in any case, that at least one candidate has been voted by the minority list that has received the most number of votes and that is not connected in any way, not even indirectly, to the shareholders that presented or voted the list that reached the greatest number of votes;
- In case the minimum number of Independent Directors have not been nominated according to the procedure mentioned above, the last candidate elected from each list which has been nominated by at least one Director and who has received the most votes will be substituted by the candidate immediately following until the minimum number of Independent Directors have been elected.
- The company by-laws regulate that Independent directors not only must meet the requirements established for Statutory Auditors in accordance to art. 148, paragraph 3, of Legislative decree dated 24 February 1998, no. 58, but must also meet requirements established by the Corporate governance code adopted by the Company.

The Board of Directors have not adopted a succession plan for executive Directors.

B. **Members**

The Company's Board of Directors is made up of a variable number of members from a minimum of 3 to a maximum of 11. The number of members is resolved by the Annual General Shareholders' Meeting.

As required by the Corporate Governance Code the Board of Directors is made up of executive and non executive directors, the number, competence, authority and time availability of non-executive directors shall be such as to ensure that their judgment may have a significant impact on the taking of board's decisions.

At present the Board of Directors is made up of seven (7) Directors of which four (4) executive:

- Mr. Mario Rizzante	Chairman and Chief executive officer
- Mrs. Tatiana Rizzante	Chief executive officer
- Mr. Oscar Pepino	Executive Director
- Mr. Claudio Bombonato	Executive Director

and three (3) non Executive and Independent Directors:

- Mr. Fausto Forti	(Lead Independent Director)
- Mr. Marco Mezzalama	
- Mr. Carlo Alberto Carnevale Maffè	

The non Executive and Independent Directors bring about their specific competencies in the meetings contributing in taking decisions of company interest.

The above mentioned directors have been appointed under shareholders' resolution of April 29, 2009 based on the list presented by the major shareholder, Alika S.r.l.

The above mentioned directors will hold office until approval of the year end December 31, 2011 financial statements. The General Shareholders' meeting, which will be held on first call on 27 April 2012, must resolve the renewal of the Board of Directors.

The Directors operate and take decisions in an informed and unconditioned matter, pursuing the primary objective of creating value for the shareholders. They hold office with the awareness of being able to dedicate the necessary time in order to carry out their actions diligently.

The Chairman coordinates the activities and conducts the Board of Directors Meetings and takes the necessary actions so as to inform the members well in advance on significant points and useful items in order to participate in a profitable manner with the exception of urgent and confidential matters.

The Chairman furthermore, by means of the operational members of the company, makes sure that the Directors participate in initiatives aimed at increasing knowledge of the company reality and its evolution and that they are informed about the major new legislation and regulations that concern the Company and its governing bodies.

On January 22, 2011 Sergio Ingegnatti, Chief executive officer deceased; the Board of Directors on January 24, 2011 resolved the cooption of the office and reduced the number from eight to seven.

The table below discloses the main information related to the Board of Directors in compliance to Article 144- decies of *Regolamento Emittenti* Consob.

Name	Office	Board of Directors								Internal control committee		Remuneration committee	
		In office	L(**)	E	N.E	I. code	I. TUF	%	Other offices	Attendance	%.	Attendance	%
Mario Rizzante	Chairman and Chief executive officer	From 29/04/09 To 31/12/11 (*)	M	X	-	-	-	100.00%	1	-	-	-	-
Sergio Ingegnatti	Chief executive officer	From 29/04/09 To 22/01/11 (*)(***)	M	X	-	-	-	-	N/A	-	-	-	-
Tatiana Rizzante	Chief executive officer	From 29/04/09 To 31/12/11 (*)	M	X	-	-	-	100.00%	2	-	-	-	-
Oscar Pepino	Executive Director	From 29/04/09 To 31/12/11 (*)	M	X	-	-	-	80.00%	N/A	-	-	-	-
Claudio Bombonato	Executive Director	From 29/04/09 To 31/12/11 (*)	M	X	-	-	-	100.00%	1	-	-	-	-
Fausto Forti	Lead Independent Director	From 29/04/09 To 31/12/11 (*)	M		X	X	X	80.00%	1	X	100%	X	100%
Marco Mezzalama	Non-Executive independent Director	From 29/04/09 To 31/12/11 (*)	M		X	X	X	100.00%	N/A	X	100%	X	100%
Carlo Alberto Carnevale Maffé	Non-Executive independent Director	From 29/04/09 To 31/12/11 (*)	M		X	X	X	100.00%	1	X	100%	X	100%
Number of meeting held in 2011					Meetings of the BoD.: 5					Meetings of the Internal control committee: 2		Meetings of the Remuneration committee: 2	

(*) in office until the Shareholders' meeting for the approval of December 31, 2011 financial statements
(**) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favorable votes equal to 56.718% of the share capital.
(***) deceased on January 22, 2011; office no longer held

Legend:
L: list
M/m: M/majority list m/minority list
E: Executive
N.E.: non executive
I: independent
I.TUF independent pursuant to art. 148 of TUF

Following is a brief description of personal and professional characteristics of the members of the Board of Directors of the Company.

Mario Rizzante (Chairman, Chief Executive Officer and founder of Reply S.p.A.)

Mr. Rizzante received a graduate in Science of Informatics at the University of Turin. In the 70's, within the Fiat Group, Mr. Rizzante worked on several projects for manufacturing automation. In 1981 Mr. Rizzante left Fiat and founded Mesarteam S.p.A., a System Integration company that in a few years became one of the leading Italian companies in the ICT sector. In 1990 Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais and Mr. Rizzante contributed as Chairman and strengthened relations with important international clients. In 1994 Mr. Rizzante joined Digital (now HP), as Southern Europe Territory Manager of System Integration and Consulting. In June 1996, together with other partners Mr. Rizzante decided to undertake a new entrepreneur endeavor: constructing a system integration and consulting company specialized in new internet technologies. Reply comes to life. Within only four years since its constitution, in December 2000, Mr. Rizzante leads Reply to the Stock market, listing it on the market in Milan.
In 2006 he became member of the Reply Deutschland AG (Germany) Supervisory Board and holds the position of Chairman.

Tatiana Rizzante (Chief Executive Officer of Reply S.p.A.)

Tatiana Rizzante received a Bachelor degree in Informatics Engineering at the Polytechnics of Turin. Immediately after having graduated, in 1995 Mrs. Rizzante begins working in the field of experimental and research activities on the Internet in collaboration with the Polytechnics of Turin and Cselt. In 1996 within Technology Reply S.r.l., she participates actively in projects involving the realization of Intranet websites, network computing and information retrieving. She continues her career within the Reply Group covering the role of Technical Director in Sytel Reply S.r.l. with the task of developing a competence center related to Internet services for Telecommunication operators. In 2002 Mrs. Rizzante is appointed Senior Partner of Reply with the mission of pursuing the business line Technological Architectures and Portals, along with marketing, communication and partnership activities. In 2003 Mrs. Rizzante was appointed Director of the Board of Directors of Reply and carries out activities of Sales & Marketing in Italy for the entire Group. In 2006 Mrs. Rizzante is appointed Chief Executive Officer of Reply and in the same year becomes member of the Supervisory Board of Reply Deutschland AG (Germany), a company listed on the Frankfurt stock market and controlled by Reply S.p.A.
Since April 2011 she has held the position as Independent Director at Ansaldo Sts S.p.A. (Finmeccanica Group company).

Oscar Pepino (Executive Director and founder of Reply S.p.A.)

Mr. Pepino received a graduate degree in Science of Informatics at the University of Turin in 1977, in 1981 he founded Mesarteam S.p.A., a System Integration company covering the role of in charge of the headquarters in Milan. After Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais in 1990, Mr. Pepino joins Digital (now HP), covering the role of informatics consultant. In June 1996 he participates in the foundation of Reply and covers the role of Chief Executive Officer with the task of Technical and Quality Director of the Reply Group. Mr. Pepino within the Reply Group is currently is in charge of the Operations Office which heads: the informatics system, quality, the operational quarters, PM Academy and Cmmi; supervision of the internal control system and tasks associated to this role in accordance to the Procedures for Operations with Related Parties.

Claudio Bombonato (Executive Director of Reply S.p.A.)

Mr. Claudio Bombonato graduated in Aeronautics Engineering from the Polytechnics of Turin. He holds Doctorate in Philosophy in Aerospace Engineering from the Turin University, and also Masters degree in Business Administration from *Università Commerciale Luigi Bocconi*.

After a 10 year professional experience in Fiat Aviation Division and IBM Italy, he started working at McKinsey (in 1981) where he was mainly involved in the banking sector and Ict. In 1986 he became Partner and leader in financial institutional practices and Ict in Italy. In 1990, he was appointed Director of the company by McKinsey and was a member of the European leadership group on Financial Institutions. Mr. Claudio Bombonato was the European Responsible of Commercial Banking practices for a number of years.

In 2006 he left Mckinsey and was appointed European Senior Advisor Morgan Stanley (Financial Institution sector in Italy). He has published many articles on strategic thematic, organization and technology both for the financial and public sectors. He was Member of the Board at SI Holding and at present he is the Member of the Board at Fonspa.

Fausto Forti (Independent Director and Lead Independent Director of Reply S.p.A.)

Mr. Forti has a graduate degree in mathematics. From 1974 to 1983 he held several positions in Inveco S.p.A. (Fiat Group) among which: IS and in charge of Spare parts for the Brazilian affiliate; from 1983 to 1994 in Fiat S.p.A. held the position of Director of Logistics. From 1994 to 2004 joins the TNT Group – Logistics division – where he covers the role of Chief Executive Officer of the Italian Business Unit and South America. In 2005 he joins DHL Express Mediterranean (Italy, Greece, Cyprus, Malta and Israel), Deutsche Post Group World Net, and is appointed Chairman and Chief Executive Officer, position that he currently holds. From 2000 to 2006 he was Chairman of Assologistica (*Associazione Italiana delle Aziende di Logistica*). Since April 2010 he is Chairman of Confetra (*Confederazione italiana delle Associazioni di Trasporto e Logistica*).

Marco Mezzalama (Independent Director of Reply S.p.A.)

Mr. Mezzalama received a graduate degree in Science of Informatics at the Polytechnics of Turin in 1972 where he is currently Professor of System Elaborations. Since 2005 he holds office of Vice-Chancellor at the Polytechnics of Turin for the informatics systems. From 2001 to 2005 he was substitute of the Chancellor. From 1993 to 2001 Mr. Mezzalama held office as Vice Chancellor for informatics systems and member of the Turin Science Academy. As a representative of the Polytechnics he also covers other roles in research and/or ICT institutions.

Carlo Alberto Carnevale Maffè (Independent Director of Reply S.p.A.)

Mr. Maffè is a professor of Business Strategy at the Strategy Institute and the School of Business Administration at the Bocconi University and was the founder and coordinator of Master in Business Strategy (MISA). He is head of the Business Strategy course for Bachlor in International Economics and Management. At present he teaches the course Media MBA at Steinbeis University of Berlin and the Master in Intelligence at the University of Malta. He has also worked as professor at the Graduate School of Business of Columbia University and Stern School of Business of New York University.

He is a member of the Steering Committee "E-business Policies" of the European Commission. He is columnist for MF- Milano Finanza and he collaborates on a regular basis with newspapers and national and international television such as CNCB International/Class CNCB and IL Sole 24 Ore. Mr. Maffè is a member of Assodigitale scientific committee and the editorial review board of "Economia & Management". He is independent director of listed companies in the Technology, Media and Telecommunications segments and strategic advisor for important international companies. He has published many articles, books and business cases and often has released interviews and comments on the most important international economic- financial newspapers.

The criteria in evaluating the requisites of independence of the Board of Directors has not been integrated or modified.

The Board of Directors has verified, at the date of approval of the Report herein, the offices of Directors and Statutory auditors, held by the Directors in other listed companies, finance, bank, and insurance companies or big enterprises.

The following arose:

- Mr. Mario Rizzante, is Chairman of the Supervisory Board of Reply Deutschland AG., a German company held by Reply S.p.A. and listed on the Frankfurt stock Market;
- Mrs. Tatiana Rizzante is a member of the Supervisory Board of Reply Deutschland AG., a German company held by Reply S.p.A. and listed on the Frankfurt stock Market and independent Director of Ansaldo Sts S.p.a (Finmeccanic group company);
- Mr. Claudio Bombonato is Chairman of the Board of Directors' of Fonspa S.p.A.
- Prof. Marco Mezzalama is member of the Board of Directors of CSI Piemonte of San Paolo, CSP Innovazione in Ict and Consorzio Topix,
- Prof. Carlo Alberto Carnevale Maffè is a member of the Board of Directors' of Poligrafica San Faustino S.p.A.,
- Mr. Fausto Forti is Chairman and Chief executive officer of DHL Express Italy S.r.l..

Although recommended by the Code, the Board of Directors has preferred not to express an opinion in relation to the maximum number of offices compatible with the execution of the directors' role, as it believes that such assessment firstly should be made by the shareholders when appointing the directors and secondly by the individual director when accepting the office.

C. Role of the Board of Directors

The Board of Directors is the statutory managing body vested with the broadest powers for the ordinary and extraordinary management of the Company.

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

More specifically the Board of Directors, in compliance to the Code:

a) examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it heads, if any;

b) evaluate the adequacy of the organizational, administrative and accounting structure of the issuer and its subsidiaries having strategic relevance, as established by the managing directors, in particular with regard to the internal control system and the management of conflicts of interest;

c) delegate powers to the managing directors and to the executive committee and revoke them; it shall specify the limits on these delegated powers, the manner of exercising them and the frequency, as a rule no less than once every three months, with which the bodies in question must report to the board on the activities performed in the exercise of the powers delegated to them;

d) determine, after examining the proposal of the special committee and consulting the board of auditors, the remuneration of the managing directors and of those directors who are appointed to particular positions within the company and, if the shareholders' meeting has not already done so, determine the total amount to which the members of the board and of the executive committee are entitled;

e) evaluate the general performance of the company, paying particular attention to the information received from the executive committee (when established) and the managing directors, and periodically comparing the results achieved with those planned;

f) examine and approve in advance transactions carried out by the issuer and its subsidiaries having a significant impact on the company's profitability, assets and liabilities or financial position, paying particular attention to transactions in which one or more Directors hold an interest on their own behalf or on behalf of third parties and, in more general terms, to transactions involving related parties; to this end, the board shall establish general criteria for identifying the transactions which might have a significant impact;

g) evaluate, at least once a year, the size, composition and performance of the Board of Directors and its committees, eventually characterizing new professional figures whose presence on the board would be considered appropriate;

h) provide information, in the report on corporate governance on the number of meetings of the board and of the executive committee, if any, held during the fiscal year plus the related percentage of attendance of each director.

In accordance to the *Corporate Governance Code* (art. 1.C.1, letter f), the company has granted to the Board of Directors the examination and the approval of the operations deemed "significant" and some specific operations with related parties, fully detailed in this Report at the section dedicated to the topic.
The Board of directors meet on a regular basis, at least every three months, as established by the Company by-laws, or when deemed necessary.
The Directors report to the Statutory auditors on a quarterly basis with regards to the activities carried out during the year, to significant operations carried out by the company or its subsidiaries and with regards to operations that could be of potential conflict of interest.
During 2011 the Board of Directors met five (5) times and the average duration was approximately two hours (2).

The Board of Directors are scheduled to meet at least five (5) times in 2011.

The Board of directors have held no meetings at the present date of this Report.

The participating members of the Board are also allowed to intervene through audiovisual connection.

In order to facilitate the participation of a greater number of Managers and Statutory auditors, a calendar of the annual meetings scheduled is drafted.

Prior to the meetings, the Directors and Statutory auditors are provided with the Agenda of the meeting.

D. Chairman of the Board of Directors, Chief Executive Officers and Executive Directors

The Board of Directors currently holding office comprises one Chief Executive Officer, two Executive Directors and has empowered the Chairman with the broadest operational delegations, in light of the resolutions passed on April 29, 2009. Mr. Mario Rizzante, Chairman of the Board of Directors, is empowered with the ordinary and extraordinary administration of the company with the exception of those specifically empowered by law to the Board of Directors and excluding the operations empowered to the Board of Directors, as set out by the *Regulation on Significant Operations and with related parties*.

The Chairman, is responsible for the management of the Company and is also major shareholder, as illustrated here within.

Mrs. Tatiana Rizzante, Chief Executive Officer, has the following main powers:

- ordinary administration of the company, including the activities related to purchase, sales, trade-in of products, goods and automobiles, real estate and any other asset related to the company's activities;
- undersign rent and lease contracts for no longer than a nine year period establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions;
- carry out any type of operation with the offices of the public debt, banking institutions, post offices, administration and finance authorities, customs agents and transport institutions in general, governmental authorities whether federal, provincial or local, with ministries and in general with any public or private office, including the undersigning of any acts or declarations pursuant to fiscal laws;
- to represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- request, accept and use short term or long term lines of credit, with no sum limitation, according to the necessary conditions and terms with any banking or credit institution;
- hire, appoint or suspend employees, undersign the related labor contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labor unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5.000.000,00 Euros; and can:
  - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - confer or receive the related mandate in the event of a temporary group enterprise participation;
  - undersign the contracts following the assignment of the bid;
  - grant to third parties, to the extent foreseen by the law, the execution of the contracts.

Mr. Oscar Pepino, Executive Director, has the following main powers:

- sign rent and lease contracts for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 Euros; and has the power to:
- draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
- negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 Euros for each operation from an asset side and 500,000.00 Euros for operations from a liability side;
- to represent the Company before any judicial authority, before any administration authority of the Italian Republic and foreign countries, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
- hire, appoint or suspend employees, undersign the related labor contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labor unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts.

The main proxies empowered to the Executive Director, Ing. Claudio Bombonato, with the scope of supporting the Company in the development of activities, are the following:

- individual powers:

  a) represent the Company Reply S.p.A. with external contacts and business negotiations and authorize the issuing of the related business offer with a limit of 5,000,000 Euros per transaction;

  b) negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 Euros for each operation;

  c) participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 Euros; and can:

  - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - confer or receive the necessary mandate in the case of temporary joint ventures;
  - undersign contracts following the awarding of the bid;
  - allow third parties the execution of the contracts awarded;

  d) to carry out in the interest of the Company whatever is necessary or convenient within his powers;

  - joint powers, with another director having the necessary powers, the powers outlined at letters a), b) and c) in the case the limits defined above are exceeded.

Mr. Claudio Bombonato in capacity of Executive Director, has been assigned further powers related to activities under Network Finance & Security within the Reply Group.

The Chairman, the Chief Executive Officers and the Executive Director, during the Board of Director meetings, and at least on a quarterly basis, report to the Board of Directors and to the Board of Statutory Auditors with regards to the activities carried out during the fiscal year and provide adequate information on atypical, unusual or with related party transactions, that are not subject to the Board of Directors approval.
The Chairman, under the company's by-laws, has the power to convene the Board of Directors' meetings.
In preparing the Board of Directors' meetings, the Chairman informs the Directors and Statutory Auditors about the agenda and provides the necessary documentation and information for an effective participation in the Board's work.
The Chairman coordinates the activities of the Board of Directors and runs the meetings.
In order to have a better management of the Group activities, the Board of Directors of Reply S.p.A. has the possibility to attribute specific delegation powers to several key managers of the Group Companies that can act in name and on behalf and interest of the Company.

E. Independent Directors

As previously stated, the three Directors member of the Board of Directors qualifying as being independent are:
- Mr. Fausto Forti (*Lead Independent Director)*
- Prof. Marco Mezzalama
- Prof. Carlo Alberto Carnevale Maffè

The independent directors constitute as a whole the Remuneration Committee and the Internal control Committee.

The same Independent directors also qualify as, in capacity of members of the Internal Control Committee, members of the Related party transaction committee established by the related procedure.

The Independent non Executive Directors have the same characteristics as the Independent Directors, in compliance to paragraph 3.C.1. of the 2006 edition of the Corporate Governance Code that provides that a director usually does not appear independent in the following events, to be considered merely as an example and not limited to:

a) if he/she controls, directly or indirectly, the issuer also through subsidiaries, trustees or through a third party, or is able to exercise over the issuer dominant influence, or participates in a shareholders' agreement through which one or more persons may exercise a control or considerable influence over the issuer;

b) if he/she is or has been in the previous three accounting periods a key person of the issuer, of one of its subsidiaries having a significant strategic relevance or of a joint venture of the issuer, or a company that together with others or under special agreements control the issuer or is able to exercise a notable influence;

c) if he/she has, or had in the preceding fiscal year, directly or indirectly (e.g. through subsidiaries or companies of which he/she is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:
   - → with the issuer, one of its subsidiaries, or any of its significant representatives;
   - → with a subject who, jointly with others through a shareholders' agreement, controls the issuer, or
   - → in case of a company or an entity – with the relevant significant representatives; or is, or has been in the preceding three fiscal years, an employee of the abovementioned subjects;

d) if he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer, a significant additional remuneration compared to the "fixed" remuneration of non-executive director of the issuer, including the participation in incentive plans linked to the company's performance, including stock option plans;

e) if he/she was a director of the issuer for more than nine years in the last twelve years;
f) if he/she is vested with the executive director office in another company in which an executive director of the issuer holds the office of director;
g) if he/she is shareholder or shareholder or director of a legal entity belonging to the same network as the company appointed for the accounting audit of the issuer;
h) if he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

The Board of Directors, in its entirety, verified, in the meeting held March 13, 2009, also being the first meeting following its renewal on April 29, 2009, and subsequently on an annual basis, with positive results, the independence of the abovementioned Directors, by drawing on information provided by each of the Directors in accordance with the definition provided by the Corporate Governance Code, resolving not to apply the criteria stated in point e) in view of the Directors' authority, reputation and moral statute. This was limitedly verified with regards to Prof. Marco Mezzalama since the month of September 2009.

The Board of Statutory Auditors verifies the proper application of the assessment criteria and procedures adopted by the board in order to annually assess the independence of its members, communicating the outcome of such controls in its report to the shareholders.

In 2011 it was not necessary for the independent Directors to convene in specific individual meetings as they periodically meet when the Internal Control Committee and Remuneration Committee meetings are convened representing as a whole such bodies.

F. Lead Independent Director

The Code requires that, in case the Chairman of the Board of Directors is the key person in charge of the running of the company, and even when office is held by the person that controls the Company, the Board must designate a *"Lead Independent Director"*, that represents a reference and coordination point of the motions of the non executive Directors and more specifically the independent ones; for this scope, should these circumstances occur, in accordance to article 2.C.3 of the Code, the role of *Lead Independent Director* is head by the non Executive and Independent Director, Mr. Fuasto Forti.

6. Processing of confidential information

The Chief Executive Officer, Mr. Sergio Ingegnatti, until January 22, 2011 and *ad interim* the Chairman and Chief Executive Officer, Mr. Mario Rizzante together with the Investor Relator Mr. Riccardo Lodigiani, handle the processing of confidential information in order to avoid the spreading of such information through means not in compliance with law, provisions or rulings or by means that are not timely, or that are incomplete or inadequate.
More specifically, all company communication to outsiders and all press releases are accurately drawn up and under the strict supervision of the abovementioned persons that verify the correctness and compliance, in terms of content and means of diffusion, to the existing laws.
Furthermore, all employees, and in particular those having a managing position, have been instructed as to their duties concerning confidentiality of information of a listed company and must verify that the chief executive officer's directions are followed.

Following the so called regulation "market abuse" enacted by Community Law 2004 (Law 18, April 2005 no. 62) and endorsed by the corresponding Consob regulation a law was passed concerning the obligation to notify the public about any transactions carried out by "key persons" and people strictly associated to them in relation to financial instruments of the company.

Consequently, the Internal Conduct Code on Internal Dealing already adopted by Reply S.p.A. since January 2003, was abolished as of April 1, 2006 date in which the new Consob Regulation no.11971/99 was implemented.
In execution of the new regulation of April 1, 2006, a new Conduct Code was implemented aimed at disciplining the flow of information from "Key persons" and "Parties connected to them" with respect to the Company and the corresponding obligations and informative and communication means with respect to Consob and to the market related to operations carried out by these parties.
The new Corporate Governance Code was enacted starting April 1, 2006 following the Board of Directors' resolution of March 31, 2006.
More specifically, the new Corporate Governance Code, with reference to Internal Dealing concerning operations on financial derivative instruments issued by Reply S.p.A. executed by the so called "key persons", disciplines the information to provide the Company, Consob and the market when purchase, sales, undersigning and negotiating of shares or financial derivative instruments connected to the shares, are executed for personal reasons by "Key Persons", that is those being close to the Company that can legitimately negotiate his shares having access to information concerning the parent Company's or its subsidiaries financial-economic trends.
The new code comprises nine paragraphs that define the conduct in terms of "internal dealing" and the ways of applying the same. The code disciplines more specifically, the identification of the so called "key" parties, the types of operations subject to mandatory communication, identification of the party in charge of receiving such information and the notification to Consob and to the market, timing and the means of communication that must be carried out by the so called "Key persons".
The complete version of the Corporate Governance Code is available on the Company's website (www.reply.eu – Investors – Corporate Governance).

7. Committees within the Board

The Board of Directors has set up consulting committees within the Board, The Internal Control Committee and the Remuneration Committee.

The Board of Directors, as allowed by the Code, have not deemed necessary to constitute within its members a Director nomination Committee. More specifically, the definition of the professional characteristics of the candidates and the selection of the candidates is carried out through sharing of the shareholders knowledge of the moral requisites and professional competencies of the persons involved.

8. Remuneration committee

With reference to what has been stated reference shall be made to the Report on Remuneration published in accordance to Article 123-ter of TUF.

The Board of Directors has internally constituted a Remuneration Committee composed by Prof. Marco Mezzalama and Prof. Carlo Alberto Carnevale Maffè, non Executive and Independent Directors and by Mr. Fausto Forti, *Lead Independent Director*.

In 2011 the Remuneration Committee, as to carry out its duties, met twice (2) with the presence of all members.

In 2012 two (2) meetings have been planned, of which one already held.

At present the Committee has not utilized external consultants.

In accordance to art. 7.C.4 of the Corporate Governance Code, no director shall participate in meetings of the Remuneration Committee in which proposals are submitted to the Board of directors relating to his/her remuneration.

9. Remuneration of Directors

With reference to what has been stated reference shall be made to the Report on Remuneration published in accordance to Article 123-ter of TUF.

Remuneration of Directors not invested with operational proxies, for each year in office, was resolved by the Shareholders' Meeting of 29 April 2009, upon nomination, and equal to 20,000.00 Euros gross of any withholding amounts foreseen by law.

Remuneration of directors invested with special roles, was established by the Board of Directors upon proposal of the remuneration Committee, authorized by the Board of Statutory Auditors.

In compliance to article 20 of the Company by-laws, amended by the Shareholders meeting of 28 April 2011, the total amount of remuneration to Directors, including those invested with strategic powers, can also be determined by the Annual General Shareholders meeting.

In compliance to article 7.C.1 of the Code of the March 2006 release, article 22 of the Company by-laws provides the possibility to attribute a variable fee to the Directors invested with special powers, as participation in the profits of the parent Company, and dependent of the economic trends of the Group and more specifically to the Consolidated Gross Margin, which is resolved by the Annual General Shareholders' Meeting approving the annual financial statements.

Such a possibility, that has already been adopted since allocation of the 2004 net result (with the exception of 2009), considering that this alternative does not exclude the distribution of dividends to the shareholders, will be once again applied in relation to December 31, 2011.

Keeping in mind the legislative and regulatory reference regarding remuneration to Directors which is always in evolution, only in December 2011 the Company defined a general policy on compensation to directors and the mandatory communication to the Shareholders, and in March 2012 has adapted to the recommendations contained in Article 7 of the Ethic Code of March 2006 and the modified version of March 2010.

10.Internal control committee

In accordance to art. 8.P.4 of the Corporate Governance, the Board of Directors established an Internal Control Committee composed by Mr. Carlo Alberto Carnevale Maffè and Mr. Marco Mezzalama, non-executive independent directors and by Mr. Fausto Forti, *Lead Independent Director*.

The Internal Control Committee:

- evaluates together with the director responsible for the preparation of the company's accounting documents and the auditor, the correct utilization of the accounting principles and, in the event of groups, their consistency for the purpose of the preparation of the consolidated balance sheet;
- upon request of the executive director, expresses opinion on specific aspects relating to the identification of the principal risks for the company as well as on the design, implementation and management of the internal control committee;
- review the work plan prepared by the officers in charge of internal control as well as the periodic reports;
- perform any additional duties that are assigned by the Board of Directors;
- report to the board, at least on a half yearly basis, on the occasion of the approval of the balance sheet and the half yearly report, on the activity carried out, as well as on the adequacy of the internal control system.

The Committee meets when deemed necessary, and in any case, at least twice a year, when the half year report and the annual report is approved.

The Chairman of the Board of Statutory Auditors or another auditor designated by the Chairman, participates in the works for the Internal Control Committee and at the end of each meeting the minutes are drawn up with the Committee's proposals.

In order to carry out its duties, the Committee can request information and data from head of internal controls, the Board of Statutory Auditors and the independent auditors.

During 2011 the Internal control committee met twice (2) and once (1) in 2012, all members were present and examined the following:

- the separate financial statements and the consolidated financial statements of 2010-2011, and half-year report of 2011;
- updates concerning activities in relation to Law 262/2005 (*Legge sul Risparmio*) and other related internal improvement projects;
- revision of the Impairment Test policy – Impairment (IAS 36).

With reference to this last point, the Committee requested the participation, not only of the Director responsible for drawing up the accounting documents but also that of Mr. Conti, who represents the Auditing firm Reconta Ernst & Young S.p.A.

The Committee reported two times to the Board of Directors in relation to the activities carried out and with reference to the adequate functioning of the internal control System.

Furthermore, within the regulations of transactions with related parties, on August 5, 2010 the Board of Directors empowered the Internal Control Committee with the functions pursuant to art. 4 of Consob Regulation no. 17221/2010. The Internal Control Committee must also express its opinion in relation to transactions with related parties when required by the Procedures (available on internet: www.reply.eu).

11. Internal control system

The internal control system is a set of procedures that contributes to safeguard the company's assets, the efficiency and effectiveness of business transactions, the reliability of financial information and the compliance with laws and regulations.

The Board of Directors is responsible for the internal control and defines the guide-lines of the internal control system and the company's risk management.

In relation to the company's objectives, whether business or compliance and reporting the Company has adopted the following key instruments:

Instruments monitoring business objectives

- Budgeting and management control - Reply S.p.A. has implemented a structured and periodic system in order to forecast and monitor company activities, aimed at defining the company's objectives/strategies and defining a budget;
- Operational procedure system - In order to properly apply the company directives and to limit the risks connected to the achievement of the company's objectives, Reply S.p.A. has implemented a group of procedures that regulate internal processes, regulating the activities executed within a function and those with other areas. In 2007 a specific procedure for "Bid Authorization" was adopted by the Group and is applicable to the bids tendered by all the Group companies and for all Public Bids, providing that the issuing of a "Bid" is subject to approval at an adequate organizational level dependent on the value of the bid and, if the bid exceeds 5,000,000.00 Euros it must be approved by the Reply Approval Board (RAB; this procedure has been approved by the Internal Control Committee.

Instruments monitoring compliance objectives

Law 262/2005 in relation to accounting and financial disclosures - Following the coming into force of law 262/2005 concerning the protection of savings, Reply S.p.A. has terminated the project related to the upgrading of procedures and has adopted other initiatives to monitor and improve them. The objective of the initial project was to revise the administrative and accounting procedures in relation to the reliance of the economic-financial information disclosed to the market and more specifically:

- mapping of the main sub-processes within the administration and relevant accounting procedures;
- assessment of the adequacy of the existing controls and proposal of further areas of control in view of compliance and greater reliance of the processes considered;
- drafting of a series of procedures and consequently the drafting of an Administration Procedures Manual;
- creation of future control and monitoring instruments.
- Legislative Decree 231/2001 – see related paragraph.

- Security, environment and quality - Reply has established a procedure system and an organizational structure dedicated to the management of data security (also in accordance to the laws on Privacy), protection of the environment, security of equipment and personnel and the quality of services carried out (Iso certification 9001:2000).
- Other laws and regulations - Monitoring the evolution and compliance to new laws and regulations is carried out internally.

Instruments monitoring reporting objectives

- Accounting disclosures – the drafting of disclosures within the consolidated and separate financial statements, is regulated by the Group accounting Manual and by the administrative-accounting procedures recently upgraded/integrated within the Project related to Law no. 262/2005, previously illustrated.
- Processing of confidential information: see relevant paragraph;
- Internal information – Reply S.p.A. has an internal communication system, aimed at facilitating and promoting internal communication within the company and the Group, this is also achieved through a structured Committee system and through the management and coordination structure.

The Internal Control Committee has evaluated the adequacy of the internal controls adopted by the Reply Group and has expressed a positive opinion.

A. Risk management and internal control over financial reporting

Reply has put in place a system of risk management and internal control over financial reporting based on the COSO Report model, according to which the internal control system is defined as a set of rules, procedures and tools designed to provide, through an adequate identification process of the major risks related to disclosure of financial data, reasonable assurance of the achievement of corporate objectives.
In relation to the financial disclosure process, the objectives are the reliability, accuracy, completeness and timeliness of the information.
The objective of the internal accounting control system is to assure that the financial information disclosed provides a correct representation of management.

The approach adopted by Reply for the evaluation, monitoring and continuous updating of the System of Internal Control over financial reporting, is based on a 'top-down, risk-based' process consistent with the COSO Framework. This enables focus on areas of higher risk and/or materiality, that is, where there is risk of significant errors, including those attributable to fraud, in elements of the financial statements and related documents.

The key components of the process are:

1. identification and evaluation of the source and probability of significant errors in elements of financial reporting;
2. identification of the key controls aimed at covering the risks;
3. assessment of the adequacy of key controls in enabling ex ante or ex post identification of potential misstatements in elements of financial reporting;
4. verification of the operating effectiveness of controls.

Identification and evaluation of the risk of misstatements which could have material effects on financial reporting is carried out through a risk assessment process, under the supervision of the Director in charge of drawing up the financial statements along with the Chief Executive Officer, that identify the organizational entities, processes and the related accounts, in addition to specific activities which could potentially generate significant errors. Under the methodology adopted by Reply, risks and related controls are associated with the accounting and business processes upon which accounting information is based.

Significant risks identified through the assessment process require definition and evaluation of key controls that address those risks, thereby mitigating the possibility that financial reporting will contain any material misstatements.

According to international best practice, the controls which the Group has in place are of two principal types:

- controls that operate at Group or subsidiary level, such as: the delegation of authorities and responsibilities, separation of duties and assignment of privileges and rights for access to IT systems;
- controls that operate at process level, such as authorizations, reconciliations, verification of consistencies, etc. This category includes controls for operating processes and controls for closing processes. Such controls can be preventive (i.e., designed to prevent errors or fraud which could result in misstatements in financial reporting) or detective (i.e., designed to reveal errors or fraud which have already occurred). They may also be defined as manual or automatic, such as application-based controls relating to the technical characteristics and configuration of IT systems supporting business activities.

The assessment of the design and operating effectiveness of key controls has led to the elaboration of control matrixes (RCM - Risk Control Matrix) that identify, for each significant process, the potential impact of financial reporting:

- risks subsequent to not having reached the "financial statement assertion" control objectives, (existence, occurrence, completeness, rights and obligation, evaluation and accounting, presentation and disclosures) and other control objectives such as authorization, segregation of tasks, data security, documentation and traceability of operations, etc;
- the related *"best practice"* (i.e. *CoSO Framework*)
- the standard control activities (key controls) over these processes/procedures, and their principal characteristics (preventive/detective manual/automatic) and the related process owners;
- the assessment of the aforesaid controls in relation to the adequacy of mitigating the risks identified;
- suggestions to improve shortages identified in the assessment of control activities.

The control activities related to significant processes of financial reporting are fully detailed in Reply Group's Manual of administration and accounting procedures, recently updated/integrated within the Project of the updating of Law no. 262/2005, previously commented.
As Reply S.p.A.'s shares are listed and negotiated on the Italian stock market, it is mandatory for the Board of Directors to nominate a Director in charge of drawing up the financial statements and all other corporate documents, the Director is responsible for setting up adequate administrative and accounting procedures enabling to disclose financial information to the market, and to monitor upon the proper application of the procedures.
The Administration and accounting procedures manual defines the guidelines that must be applied within Reply and more specifically with reference to obligations under art. 154-bis of legislative decree 58/1998 governing company's financial statements and related attestation obligations.

More specifically the Administration and accounting procedures manual has:

- defined roles and responsibilities of the single Organizational Units involved in the general activities of drafting, communication and control of the financial information disclosed to the market;
- defined the operational means of managing the necessary activities to comply with the aforementioned legal obligations;
- introduced, in order to support the drafting of the legal attestation of the Director in charge and the Chief Executive Officer, the obligation, headed by the Compliance department, to internally assess, through the internal communication processes, the correct functioning of the Accounting Control System law 262/2005 related to the accounting processes/flows disciplined by such law, the completeness and reliability of the information and the adequateness and effective application of key controls summarized in the control matrixes.

The company processes, the administrative-accounting procedures and the related control matrixes, along with the list of persons in charge of the operational units enacting the control, are subject to periodic assessments and if the case are updated.

The administrative-accounting procedures and the related control matrixes are co-shared with the related process owners who ascertain the framework and carry out the control, with the process owners, Management, with the support of the Compliance department agree upon the implementation of any necessary corrective measures.

The Compliance department carries out periodic assessments with regards to the adequacy and effective application of key controls on the annual financial statements and half year financial statements through audit procedures performed on specific areas defined by the Director in charge.

The Chief executive officers and administration directors of the foreign companies undersign an attestation on a periodic basis confirming the adequacy of the accounting procedures in relation to any underlying risks and is sent to the Director in charge and the Chief Executive Officer of the Parent company.

The company process owners, as defined by Law 262/2005, issue an attestation letter addressed to the Director in charge of drawing up the financial statements, confirming the effective application of the administrative-accounting procedures within their functions.

The audit plan is aimed at identifying a number of processes to be tested in order to cover the major processes during the year. The audit is performed on several Group companies, selected according to quantative parameters, (material thresholds with respect to the consolidated financial statements) and qualitative ones.

In order to carry out the monitoring controls check lists are prepared according to the different processes being controlled which summarize the ways of testing the key controls included in the Procedures Manual and in the RCM, the sample to be tested and the outcome of the test.

Sample testing is the criteria used and the data and assessments included in the check lists are supported by the documentation gathered during the monitoring activities, that are an integral part of the same check lists.

The outcome of the tests performed and any suggestions made concerning the opportunity of implementing further controls where shortages were identified, are summarized by the Compliance Officer in a report and addressed to the Director in charge and to the Chief Executive Officer. The report is discussed and two flows are activated:

- the attestation process addressed externally based on the declarations made by the Director in charge in compliance to art. 154-bis of legislative decree 58/1998, in occasion of the drafting of the annual financial statements or the half-year financial report, as described above.
- the internal process of sharing with the related process owners the outcome of the control assessments, the compensation controls, corrective measures or improvement plan proposals.
- The Compliance Officer, in capacity of person responsible of internal controls, periodically refers to the Internal Control Committee, the Board of Statutory Auditors and to the Compliance Committee with reference to the activities carried out within the assessment process of the internal control system.

B. **Executive officer in charge of supervising the internal control system**

On 24 January 2011 the Board of Directors appointed Mr. Oscar Pepino in charge of supervising the internal control system substituting Mr. Sergio Ingegnatti, Chief Executive Officer who held this role in 2010; on 29 April 2009 Mrs. Celestina Massenzio was appointed head of internal controls.

Head of internal controls reports her activities to the members of the Board of Directors, top management, Internal Control Committee and to the Board of Statutory Auditors.

C. **Organisation, management and control model pursuant to legislative decree 231/2001**

The Board of Directors approved in November 2004, the "Ethic Code" representing an important step towards the constitution of a sound internal control system and transparency principles that guide the company's internal and external activities, and outlining the fundamental principles necessary to guarantee legality, loyalty and correctness in conducting Reply's relations.

In 2007 the project to adopt a new organization, management and control model pursuant to Legislative Decree 231/2001 (the Model) was put in place, in relation to the responsibilities of enterprises, in order to prevent the execution of illicit. The model was approved by the Board of Directors on 28 March 2008 and updated with the resolution of 13 March 2009 and 4 August 2011.

The Model adopted, starting from an accurate analysis of the company activities with the objective of identifying the potential activities at risk, is the set of general principles, rules of conduct, control instruments and organizational procedures, formation and informational activities and disciplinary system finalized at assuring, the prevention of offences.

The types of offences contemplated by Legislative Decree 231/2001 and that have been considered at risk for the Group, as outlined in the attached Model, are the following:

(i) relations with the Public Administration;
(ii) enterprise obligations;
(iii) privileged information;
(iv) security, prevention, health and hygiene on the work site.
(v) IT crimes and illegal use of personal data;
(vi) Laundering crimes.
(vii) Offences related to violation of copyright laws.

The Model was adopted during 2008 and updated in 2009 and 2011 by all the Italian Group companies.

The Organizational Model of Reply S.p.A is available on the company website (www.reply.eu – Investors – Corporate Governance).

The Model and the Code of Ethics have been distributed to all Group employees and collaborators through the company Intranet. The Code of Ethics is also supplied to newly hired employees of the Group.

The Board of Directors has nominated a Compliance Committee which has the duty to verify the correct functioning of the Model and to update it accordingly. The Compliance Committee refers to the Board of Directors and to the Internal Control Committee. The Compliance Committee comprises external members (Eng. Franco Gianolio) as Chairman, Lead Independent Director (Mr. Fausto Forti) and a member employed in the company (Mrs. Celestina Massenzio) that will hold office until the approval of December 31, 2011 financial statements.

The Italian Group companies have entrusted the function of the Compliance Committee to their Directing body, which performs the functions of compliance through resources within the Compliance Committee of the Parent Company, on the basis of specific agreements.

In 2011 the Compliance Committee met four (4) times and referred to the Board of Directors and to the Statutory Auditors in relation to their activities and the state of the art concerning the Model.

D. Independent audit firm

The Shareholders' General meeting held on 29 April 2010, approved the appointment of Reconta Ernst & Young S.p.A. as the Company's independent auditors for the nine-year period 2010-2018 which includes the audit of the separated financial statements, the annual consolidated financial statements and the half-year condensed consolidated financial statements.

E. Director in charge of drawing up the financial statements

The Board of Directors on 29 April 2009, pursuant to 262/2005, has confirmed upon proposal of the Chief executive officer, in capacity of *Director in charge of drawing up the accounting and legal documents,* with approval of the Board of Statutory Auditors, Mr. Giuseppe Veneziano in view of qualified experience in the last three-year period. On 3 July 2009 a specific proxy was conferred in order to enable him to execute his powers.

Pursuant to article 24 of the Company by-laws, the Director must set up adequate administration and accounting procedures for the drawing up of the statutory financial statements, the consolidated statements and any other financial communication.

The Director, together with the other executive organs, must undersign an attestation, annexed to every financial statement and to any other financial communication in accordance to specific laws and regulations.

With reference to his tasks, the *Director in charge of drawing up the accounting and legal documents* has the same responsibilities and liabilities as those foreseen by law for the Directors, with the exception of those executed under work relations with the company.

12. Director’s interests and transactions with related parties

In compliance with the Corporate Governance Code transactions carried out with related parties are preformed in a transparent manner and meet criteria of substantial and procedural fairness. Directors who have an interest, even if only potential or indirect with related parties shall:

- promptly inform the board in detail of the existence of the interest and of the related circumstances;
- abandon the board meeting when the issue is discussed.

The Board of Directors can however, under certain circumstances, allow the directors to participate and/or vote.

Since June 15, 2006 the Company has adopted a Regulation on Significant Operations with related parties.
In accordance to Consob regulation 17221 of 12 March 2010, the Company has adopted, effective 1 January 2011, procedures for transaction with related parties (the “Procedures”) to ensure full transparency and substantial and procedural fairness in transactions with related parties and is available on the Company website www.reply.eu – Investors – Corporate Governance).
Recalling the definition of Consob Regulation no. 17221 of 12 March 2010, the Procedures establish “significant transactions” those requiring the prior approval of the Board of Directors, with the exception of those subject to law and/or the General Shareholders, “minor transactions” (unless pertaining to the residual category of non significant transactions) those that can be delegated to one or more member of the Board and “exempt transactions” those falling under the types disciplined by Consob regulations.
The Company has exercised the option to apply the procedures related to minor transactions to significant transactions, as it is a smaller sized company.
Under a procedural perspective, when a transaction with a related party is deemed probable, the Designated Director (that is the Director in charge of supervising the internal control system) timely provides the Committee (identified within the Internal Control Committee) written communication with a brief description of the transaction.
If the transaction falls under the significant transaction category and the Designated Director has proposed the application of the specific procedures, the Committee must express a motivated and binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction. Should the Committee express an unfavorable opinion, the Board of Directors could choose to submit to the General Shareholders’ Meeting the decision concerning the transaction, in this case, the transaction cannot be approved unless the majority of the non Related Shareholders express a favorable vote, provided that they represent at least 10% of the voting share capital.
If the transaction falls under the minor transaction category, the Committee submits to the director its non binding opinion concerning the convenience and substantial correctness of the terms and conditions of the transaction prior to the presentation of the contractual proposal, or, in case the decision is taken by the Board of Directors of the Company, at least three days prior to the board’s meeting.
If the transaction falls under the General Shareholders’ competencies or must be authorized by the latter, in addition to what has been described above, depending on whether the transaction is significant or minor, the Committee must express a motivated opinion in relation to the Company’s interest in carrying out the transaction along with the convenience and substantial correctness of the terms and conditions of the transaction when the Board of Directors is called to approve the motion to submit to the General Shareholders’ Meeting the decision.
If, in relation to a significant operation the motion to submit to the General Shareholders’ Meeting the decision is approved by the Board of Directors despite an unfavorable opinion expressed by the Committee, the transaction – having respected the constituent and voting quorum requested for the adoption of ordinary and extraordinary

resolutions by the General Shareholders' Meeting – cannot be approved unless the majority of the non Related Shareholders express a favorable vote, provided that they represent at least 10% of the voting share capital.
In case there is an urgency, the operation, as long it is not competence of the Shareholders and does not need their authorization, may be concluded in derogation of the procedures as long as all mandatory information has been provided to the public and under the condition that:

- Should the transaction fall under the Chief financial officer's powers, the Chairman of the Board of Directors must be informed the reasons of the urgency prior to the transaction being executed;
- The transactions are subsequently approved in a following Shareholders' meeting;
- The body convening the Shareholders' meeting must draw up a report with adequate motivations of the urgency and the Board of Statutory Auditors must refer to the Shareholders their opinion in relation to the reasonableness of the urgency;
- The report and valuation of the previous point must be made available to the public at least 21 days prior to the Annual Shareholders' meeting and in accordance to the means set out by Consob;
- Within one day following the Annual Shareholders' meeting, the Company must make available to the public the information regarding the results of the voting.

The Designated Director, on at least a quarterly basis, submits to the Committee, to the Board of Directors and to the Board of Statutory Auditors, a detailed report concerning transactions previously approved by the Board of Directors and/or carried out by the Chief Executive Officer.
Head of internal controls periodically carries out – in any case at least on a half-year basis – control activities over the fulfillment of obligations of the Procedures herein by the competent company departments and refers to the Committee and Board of Statutory Auditors.
During 2011, the Committee for transaction with related parties, identified within the Internal Control Committee, met one time to resolve on a minor transaction in relation to which the Committee deemed the existence of an interest of the Company to execute the transaction and expressed a favorable opinion in regards to the convenience and correctness of the related conditions.

13. Appointment of Statutory Auditors

The appointment and the substitution of statutory auditors is disciplined by Article 23 (Statutory Auditors) of the Company by-laws, and can be consulted on the company's internet website (www.reply.eu – Investors – Corporate Governance).

Article 23 of the Company by-laws has been amended by the Board of Directors' resolution on 26 October 2010 and the resolution of the Extraordinary Shareholders' meeting on 28 April 2011 to encompass the mandatory amendments following the coming into force of Legislative Decree no.27/2010 (exercise of some rights pertaining to Shareholders of listed companies).

Article 23 of the bylaws regulates, among other, the following:

- the lists of the candidates for the office of Statutory Auditor must be deposited at the Company's offices at least twenty-five days prior to the date set for the Shareholders' Meeting on first call; at least twenty-one days prior to the date set for the Shareholders' Meeting, the lists, together with the requested information, must be made available to the public;
- only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or any other minimum number requested by other laws and regulations; should at the expiry date stated above, only one list be presented, or only lists presented by shareholders that are inter-related in accordance to the regulations in force, lists can be presented up to five days following such date. In this case the above threshold is reduced by half.
- the voting mechanism foresees that the votes obtained from each list, with separate sections for Statutory Auditors and Alternate Auditors, will be divided by one, two, three for the Statutory Auditors and one, two for the Alternate Auditors, according to the progressive number of auditors to be appointed. The ratios will then be progressively assigned to the candidates on each list and ranked in descending order. The candidates with the highest ratio will be appointed, being that one Statutory Auditor and Alternate Auditor have been elected from the second list according to the number of votes obtained and must not be connected, neither indirectly, to the Shareholders which presented or voted the list which obtained the highest number of votes;
- if candidates obtain the same percentage of votes, the candidate will be selected from the list which has not elected a Statutory Auditor, whereas if all the lists have elected the same number of candidates, the Statutory Auditor will be chosen from the list which obtained the most votes. If the result in percentage and vote is the same the Shareholders vote once more and the candidate with the highest percentage will be appointed;
- the office of President of the Board of Statutory Auditors is held by the statutory auditor which was elected from the minority list that obtained the highest number of votes.
- in the event of a statutory auditor being replaced, the first alternate auditor belonging to the same list as the auditor will take his place. Where this is not possible, the alternate auditor will be replaced by the non elected candidate having the highest percentage of votes among the list that the leaving auditor has chosen.

14. Board of Statutory Auditors

The Board of Statutory Auditors is made up of three standing auditors and two alternate auditors and the Board is comprised as follows:

- Prof. Cristiano Antonelli	President
- Dott.ssa Ada Alessandra Garzino Demo	Statutory auditor
- Dott. Paolo Claretta – Assandri	Statutory auditor
- Dott. Alessandro Mikla	Alternate auditor
- Dott. Alessandro Pedretti	Alternate auditor

The Board of statutory auditors was appointed during the Shareholders' meeting on 29 April 2009 based on the list which was presented by the majority shareholders of Alika S.r.l., the office expires on December 31, 2011 with the approval of the financial statements.

The table below summarizes the Board of Statutory Auditors with the main information requested in accordance to Article 144-decies of the Consob Regulation of Issuers.

Name	Office held	Period of office	List(*)	Independent from Code	% of attendance in meetings	Other offices held(1)
Cristiano Antonelli	President	From 29.04.09 to 31.12.11	M	X	100%	2
Ada Alessandra Garzino Demo	Statutory auditor	From 29.04.09 to 31.12.11	M	X	100%	17
Paolo Claretta-Assandri	Statutory auditor	From 29.04.09 to 31.12.11	M	X	100%	33
Alessandro Mikla	Alternate auditor	From 29.04.09 To 31.12.11	M	X	NA	NA
Alessandro Pedretti	Alternate auditor	From 29.04.09 To 31.12.11	M	X	NA	NA

Legend:

M/m: M/list majority list, m/list minority list

(1) A list of all positions held has been annexed, according to art 144-quinquies decies of RE, to the Statutory Auditors' report in compliance to art. 153 paragraph 1 of the TUF.

(*) the last quorum for the presentation of the lists reached 2.5%. Nomination was unanimous and reached favorable votes equal to 56.178% of the share capital.

Following is a brief description of personal and professional characteristics of the members of the of the Statutory Auditors of the Company:

Cristiano Antonelli President of the Board of Statutory Auditors

Mr. Cristiano Antonelli is a professor of political economics, Director of the Economic Department Salvatore Cognetti de Martiis, and Director of the Bachelor degree in Institution and Business Communication at the University of Turin, director of BRICK (Bureau of Research in Innovation Complexity and Knowledge) at Carlo Alberto College. He is the editor of the 'Economics of Innovation and New Technology' magazine and along with Bo Carlsson edits the column 'Economics of Science Technology and Innovation' of Springer. He is member of the Board of *Fondazione CRT*, Pirelli&C and President of the Statutory Board of *Transalpina di Energia*. His education background includes a Master in Economics at ISTAO of Ancona. During 1978 and 1979 he was a junior economist of the Science and Technology department of the OCSE and Rockefeller Fellow in the Sloan School of Massachusetts Institute of Technology from 1983 to 1985. He has taught in the universities of Sassari, Calabria, the Polytechnic of Milan and in the universities of Manchester, Nice, Lione, Lumiere, Aix-en-Provence, Paris XIII and Paris XII. During the academic year 1999-2000 he taught in the university of Dauphine Paris IX.

In the past Mr. Antonelli was: member of the Board of Directors of Telecom Italia in the two-year period 1998-99 and of Pirelli&C for the three-year period 2008-2011; member of the Science Committee of Confindustria in 1999 and 2000; Techno-scientific Committee of ENEA from 2000-2004. Furthermore he held office as Chairman of ICER (International Center for Economic Research from 2008 to 2011 and was Vice-president of the International Schumpeter Society from 1999 to 2004.

Ada Alessandra Garzino Demo Statutory Auditor

Mrs. Ada Alessandra Garzino Demo graduated in Economics at the University of Turin in 1987. She is registered in the Registry of Qualified Accountants and Bookkeepers since 1991 and Registry of Auditors since 1995. She works as a Charted accountant and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals. Mrs. Ada Alessandra Garzino Demo is specialized in Telecommunication tax matters and fiscal planning. She covers the role of both statutory auditor and president in other companies.

Paolo Claretta Assandri Statutory Auditor

Mr. Paolo Claretta Assandri received a graduate degree in Economics and Commerce at the University of Turin in 1978, is registered in the Registry of Qualified Accountants and Bookkeepers since 1981 and Registry of Auditors since 1983. He works as a Charted accountant for *Studio Zunino Associazione Professionale* and provides fiscal and corporate consultancy for medium-large companies as well as Multinationals.

In 2011 the Statutory Auditors met six (6) times.

The compensations paid to the Statutory Auditors is disclosed in the Report on Remuneration pursuant to Article 23-ter of TUF.

Legislative decree 39/2010 assigns the Board of Statutory Auditors the role of committee for internal control and audit responsible for supervising: (i) the financial disclosure process, (ii) the effectiveness of the internal control, internal audit and risk management systems, (iii) the audit of the annual separate and consolidated accounts, (iv) the independence of the independent auditors.

15. Relations with Shareholders

The Board of Directors ensures that a person in charge of relations with investors id identified and periodically assesses the need to constitute a structural function within the company.

Mr. Riccardo Lodigiani has been appointed, under resolution made 29 April 2009 the person in charge of relations with Institutional Investors and with Shareholders (*Investor relator*) in order to create an ongoing dialogue with the market.

The abovementioned person must exclusively and periodically inform the Chairman and the designated member of the board of his activities.

On the Company's website (www.reply.eu, Investors – Corporate Governance), the following documents are available:

- → Company by-laws;
- → Annual calendar of company events;
- → Organizational Model pursuant ex art. 6 Legislative Decree no. 231/01 and the ethic Code;
- → Code of conduct for internal dealing;
- → Corporate Governance Code;
- → Report on Remuneration;
- → Procedures on Related party transactions.

16. General Shareholders' meetings

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

The Company, with the resolution by the Board of Directors on 26 October 2010 and by the Extraordinary Shareholders' meeting on 28 April 2011, has introduced the amendments to the Company's by-laws required by Legislative Decree no. 27 of 27 January 2010 enacting the Community Directive no. 2997/36/EC in relation to the Shareholders' rights in listed companies (Record date).

Amended article 12 of the Company by-laws establishes that shareholders are entitled to intervene during the General Shareholders' Meeting if they are shareholders at the end of the seventh accounting day of open markets preceding the General Shareholders' Meeting and have provided written notice pursuant to art. 2370, paragraph two of the Italian Civil Code.

The Company can designate for each general meeting one or two persons to whom confer the voting rights with specific instructions for one or more proposals on the agenda. The designated persons, the means and terms of the conferred delegation are communicated on the notice calling the general meeting.

The company does not deem necessary the adoption of an Annual General Meeting legislation (aimed at regulating the running of the meetings), as the Company's by-laws provide adequate provisions concerning the matter.

17. Other Corporate Governance practices

System of company's operational procedures – in order to properly apply the company's regulations and to reduce risks connected to the fulfillment of company objectives, Reply S.p.A. has adopted a set of procedures that regulate internal processes, ruling the activities carried out by the single functions and relations with other departments; please refer to what has been described at the paragraph Internal Control System.

18. Changes subsequent to the year end close

Following the year end close no significant changes have been made to the structure of the Corporate Governance, other than what has been disclosed above.

As mentioned in the section Remuneration to Directors, in March 2012 the Company has adapted the recommendations contained in Article 7 of the Ethic Code of March 2006 and later modified in March 2010.

Turin, March 15, 2012

For the Board of Directors
The Chairman
Mario Rizzante

Reply S.p.A.
Report on Remuneration

Pursuant to art. 123-ter CFL

1. Introduction

The following document (The Annual Report on Remuneration, the "Report") has been drawn up according to article 123-ter of the Legislative Decree no. 58/1998 (for hereon "TUF") and article 7 of the Corporate Governance Code promoted by the Borsa Italiana, from the 2010 version approved by the Corporate Governance Committee. The Report was approved by the Board of Directors on 15 March 2012.
The Report describes the Remuneration policy adopted by Reply S.p.A (hereon "Reply") with reference to remuneration to (i) members of the Board of Directors and in particular to Executive Directors and Directors invested with special charges (ii) Directors with Strategic Responsibility.

2. Section I

2.1. Drafting, approval and implementation of the Remuneration Policy

The corporate bodies and persons responsible for drafting, approving and implementing the remuneration Policy are the following:

- Shareholders' Meeting;
- The Board of Directors;
- Remuneration Committee;
- Executive Directors;
- Statutory Auditors.

Shareholders' Meeting

With regard to remuneration, the Shareholders' Meeting:

- establishes the remuneration to each member of the Board of Directors and Executive Directors, if elected in accordance to Article 2364, paragraph 1, no. 3 of the Civil Code; and shall establish, a total amount to all the Board. This amount is established in a concrete manner as to attract, retain and motivate the staff invested with high professional skills necessary to manage the Company with success;
- determines the participation in the profit of the present Company, dependent on the Gross consolidated margin, to directors invested with special charges in accordance to the Company bylaw;
- expresses itself annually, with non-binding vote, on the Annual Report on Remuneration approved by the Board of Directors which was proposed by the Remuneration Committee;
- receives adequate information with regards to the remuneration policy;
- resolves on the remuneration plans based on the allocation of shares or financial instruments to Directors, and employees, including key managers with strategic responsibilities, according to article 114- bis Tuf.

Board of Directors

The Board of Directors:

- establishes within the Board a Remuneration committee. One member shall have adequate knowledge and experience with regards to financial and remuneration policy; the persons competence is evaluated by the Board when he/she is elected;

- defines, with proposals made by the Remuneration Committee, the remuneration policy of the members of the Board. The remuneration policy defines guidelines which all company members involved must follow as to determine the remuneration of executive directors, directors invested with special charges and directors with strategic responsibilities. Such guidelines are illustrated in the present document;
- approves the Annual Report on Remuneration which shall be submitted to the General Shareholders' Meeting;
- determines the remuneration of Executive Directors and Directors invested with special charges, based on the guidelines of the Remuneration Policy and upon consultancy of the Statutory Auditors; draws up, together with the Remuneration Committee's proposal, the remuneration plans based on the allocation of shares or other financial instruments and submits it to the Shareholders' for approval in accordance to Article 114-bis Tuf;
- carries out the Remuneration plans based on shares or other financial instruments delegated by the Shareholders' meeting.

Remuneration Committee

Remuneration Committee:

- makes proposals and advises the Board of Directors in relation to the remuneration to Executive Directors and other directors with special charges, and furthermore advises on the identification and fixing of adequate performance objectives that enable the calculation of the variable components of the compensation;
- makes proposals to the Board of directors on the remuneration policy;
- assists the Board of directors in drawing up and implementing remuneration plans based on shares or other financial instruments;
- periodically evaluates the adequacy and correct application of the remuneration policy, making use of information provided by the Executive Directors when the evaluation is referred to a Director with strategic responsibility;
- provides the Board of Directs opinions and proposals about remuneration;
- monitors implementation of the decisions adopted by the Board of Directors regarding remuneration, evaluating that the performance target has been achieved;
- refers to the Shareholders' the methods of the Committees functions; the presence of the Chairman of the Committee or another member of the Committee is recommended at the Shareholders' meeting;
- if it is deemed necessary or appropriate an external consultant with expertise in remuneration policy can be utilized to carry out such task; the independent expert must not carry out any form of activity in favor of Reply Human resource department, shareholders', executive directors and directors with strategic responsibilities. The external consultant's independence is verified by the Remuneration Committee before being appointed.

On 29 April 2009 the Board of Directors has internally constituted a Remuneration Committee. At the date of the present Report, the Remuneration committee is composed by:

- Fausto Forti, Chairman of the Committee and Lead Independent Director;
- Marco Mezzalama, Independent Director;
- Carlo Alberto Carnevale Maffé, Independent director.

The Chairman of the remuneration Committee has gained adequate knowledge and experience on the subject remuneration policy in the light of his experience and responsibility in companies of significant dimension.
In 2011 the Remuneration Committee has not relied on an independent expert for drawing up the remuneration policy.

For further information regarding operation and the activities of the Remuneration Committee in 2011 see the Report on Corporate Governance and Ownership Structure 2011.

Executive Directors

Executive Directors:

- provide the Remuneration Committee useful information so to evaluate the adequacy and concrete application of the Policy, with particular regard to Directors with strategic responsibilities;
- establish the remuneration to Directors with Strategic Responsibilities based on the guidelines set out by the Remuneration Policy.

The Board of Statutory Auditors

The Board of Statutory Auditors has the task of providing opinion in relation to the Remuneration Policy; in particular the Board provides opinions on the remuneration of Executive Directors and Directors invested with special charges; in expressing their opinion the Board verifies the consistency of the proposals with the Remuneration Policy.

2.2. Remuneration Policies

The Remuneration Policy has been drawn up- with reference to fiscal year 2012- by the Remuneration Committee on15 March 2012 and consequently approved by the Board of Directors. The Remuneration Policy is intended to ensure the Company has the ability to attract, retain and motivate individuals who have professional skills and experience to pursue the achievement of the Company's objectives. With that intent, the Remuneration Policy is defined to align the interests of the Company's management with those of the shareholders through the creation of a strong link between rewards and individual performance.

2.3. Remuneration of Directors

In 2011 the members of the Board were as follows:

Mario Rizzante	Chairman
Tatiana Rizzante	Chief Executive officer
Sergio Ingegnatti	Chief Executive officer[1]
Oscar Pepino	Executive Director
Claudio Bombonato	Executive Director
Fausto Forti	Non Executive Director, Independent and Lead Independent Director
Marco Mezzalama	Non Executive Director and Independent
Carlo Alberto Carnevale Maffè	Non Executive Director and Independent

In 2011 remuneration of Directors not invested with operational proxies is as follows:

- 20,000 Euros for each member as resolved by the Shareholders' meeting of 29 April 2009.

In 2011 the remuneration of members of the Internal Control Committee- with reference to Mr. Fausto Forti- is as follows:

- 1,000 Euros for each participation to the Internal Control Committee meeting.

A specific remuneration component in relation to the participation in the Committee meetings or to the execution of specific engagements not related to operational proxies is not foreseen, being the beneficiaries of the compensation only the Executive Directors that are also members of the Committee, the compensation to the Directors already takes into consideration the commitment deriving from the participation in the Committee meetings.

In line with best practice Non- Executive Directors are not eligible for any form of compensation tied to the achievement of financial targets.

In line with best practice, the Company has an insurance policy on third party liability for damage inflicted by the Board of Directors (apart from the General Manager, but also Directors with Strategic Responsibilities) in performing their duties, with the aim of safeguarding the beneficiaries and the Company from any connected indemnity, excluding cases of malice or gross negligence.

1 Deceased on January 22, 2011.

With the approval of the Financial Statements of 2011 the Shareholders meeting will resolve the renewal of the Board of Directors and the annual remuneration of the Non-executive directors for the next three years.

2.4. Remuneration of Executive Directors

Under a legal and statutory perspective, remuneration to the Executive Directors of the Company are established according to:

- Article 2389 paragraph 3 of the Civil Code – "the remuneration of Directors invested with special charges in accordance to the Company bylaw is determined by the Board of Directors after consultation with the Board of Statutory Auditors";
- Article 22 of the Company bylaw Paragraph 2 –"Directors invested with special charges have the right to the participation in the profit of the Company, dependent on the consolidated Gross margin, which is resolved by the Annual General Shareholders' Meeting approving the annual financial statements.

Remuneration policy, the remuneration of Executive Directors is composed by the following elements:

- Gross annual fixed component;
- Variable component; linked to objectives- having general characteristics- predetermined, measurable and connected to value creation for shareholders over the medium- long term, and are not inferior to 12 months.

In consideration of the nature of the activities carried out, a twelve month period allows to determine targets adequately consistent with the market trends in which the company operates and consistent with a prudent risk management policy.
The payment of the variable compensation is deferred in respect of when it has matured of approximately four to five months which enables a proper risk management within the Remuneration Policy of the Company.

The Board of Directors keeps in mind two factors when determining remuneration and its single components (i) the specific proxy that each Executive Directors holds and/or (ii) the function and the role concretely carried out by each executive Director within the Company, thus ensuring that the variable component is coherent to the tasks assigned.

Under an accounting perspective, the remuneration of the Executive Directors is posted to the financial statements in the year in which the services are rendered both for the fixed price component and the variable component although payment is made through the profit participation in accordance to article 22 of the Company's by-laws. This is consistent with the International Reporting Standards in as much as the profit participation is considered as part of the remuneration and therefore is accrued for in the year in which the service is rendered, for this reason, the proposal to attribute the profit share is part of the Board of Directors resolutions together with the approval of the draft of the Annual financial statements.

With reference to 2011:

- During the meeting of 15 March 2011 The Board of Directors resolved the fixed component to the Executive Directors after consultancy with the Remuneration Committee;
- during the meeting of 15 March 2012 the Board of Directors, and with the proposals made by the Remuneration Committee, determined the variable component to the Executive Directors for 2011 and as a participation in the profits of present Company in accordance to Article 22 of the Company bylaws;
- on 27 April 2012 the Shareholders' meeting shall be called to approve the proposal regarding the variable component of remuneration as described.

With reference to 2012, remuneration is based on the following criteria:

- the consistency between the elements as to determine remuneration and the objectives;
- the correct balance between the fixed and variable component based on the strategic objectives and risk management policy of the Company, keeping in mind the field in which it operates and the characteristics of the activities concretely carried out;
- the weight of the variable component is approximately 60% of the whole remuneration package, being understood that the fixed component must be sufficient to compensate the performance of Executive Directors in case the variable component is not paid out when performance objectives established by the Board of Directors are not achieved;
- pre-established performance targets, or rather financial results or other specific objectives linked to the payment of a variable component, are concretely measurable and correlated to value creation for shareholders over the medium to long term, fixed to 12 month period;
- the relationship between the variance of the results achieved is guaranteed through scaling of the variable compensation from a minimum (usually zero) and a maximum related to a scale of objectives;
- Several month deferral of payment of the variable component with respect to when the compensation matures in order to enable a proper risk management of the company within the Remuneration Policy requirements.

The Remuneration committee verifies – on a yearly basis- the achievement of the performance objectives established for the previous year and makes its recommendation to the Board of Directors- On such basis, the Board of Directors resolves on the variable component of Executive Directors.

The criteria utilized in defining remuneration to Executive directors for 2012 was established by the Board of Directors and is as follows:

- Accrual is subordinated to the achievement of one of the accessible terms represented by the capacity of the profits of the Company;
- fixing of the annual margin objective represented by the Consolidated Gross Operating Margin as shown in the consolidated financial statements, with the identification of a minimum threshold and maximum threshold;
- fixing of further objectives for the Executive Directors invested with special charges in the Company;
- quantification of the bonus up to a pre-established maximum amount linked to the achievement of assigned objectives;
- for the variable component, assigning to Directors invested with special charges, a participation in the profits of the Company correlated to the Consolidated Gross Operating Margin in accordance to Article 22 of the Company bylaws.

The Remuneration Committee and the Board of Directors can evaluate and approve any other compensation to the Executive Directors for any other engagement conferred in the Board of Directors of the subsidiary companies.

The Executive Directors can also be granted other types of benefits typical of the office held and recognized within the Group to Directors having strategic responsibilities and/or managers (i.e. company car).

At present post termination treatment has not been established as it is considered having analogous characteristics to severance indemnity ex Article 2120 of the Civil Code which is recognized to all Italian managers of the Group.

The Board of Directors can propose to the Shareholders the adoption of the incentive mechanisms through the attribution of financial options. Under this aspect, the General Shareholders' meeting approved on June 14, 2007 a stock option plan in favor of Directors, employees and managers of Reply and its subsidiaries that have a strategic role in achieving the overall goals of the group; at present, such plan to be executed through the a gratuity grant of ordinary shares is represented by ordinary shares of the Company and or the issuing of new shares in accordance to article 2349 of the Civil Cod, has not been activated.

The Company deems that the Remuneration Policy is consistent with the pursuit of the long-term interests of the company and its risk management.

2.5. General Managers and Directors with Strategic Responsibility

As at 15 March 2012 the role of General Manager is non existent in the Company's organization.

Directors with Strategic Responsibility at 15 March 2012 are five.

Remuneration to Directors with Strategic Responsibilities is composed by a fixed and variable component and established with the same principles and criteria described above for the executive Directors. For further information see point 2.4 Remuneration to Executive Directors.
In accordance to ex Article 2120 of the Civil Code, Directors with Strategic Responsibilities have the right to severance indemnity (TFR) ex art. 2120 of the Italian Civil Code. Furthermore some Directors who cover strategic positions in subsidiaries have also been assigned post termination treatment determined in the same manner as severance indemnity.
The remuneration to the Director in charge of drawing up the accounting documents and the Internal Audit manager are in line with the tasks assigned.

2.6. Cessation of office or termination of employment

At the date of the present Report no allowance has been set in event of cessation of office or termination of employment on behalf of Executives and Directors with Strategic Responsibilities apart from what is provided by the ex law and/or/ the Collective labor agreement in case the persons have a dependent work contract.

3. Section Two

3.1. Remuneration paid to members of the Board of Directors, Statutory Auditors, General Managers and Executives with Strategic Responsibilities

Remuneration paid to members of the Board of Directors, Statutory and other Executives with Strategic Responsibilities (thousand Euros)

(thousand Euros)

Name and Surname	Office held in Reply S.p.A.	Period of office	Term of office (*)	Fixed remuneration
Mario Rizzante	Chairman and Chief executive officer	1/01/2011-31/12/2011	31/12/2011	460 (1)
	Remuneration paid by subsidiaries			120
	Total			580
Tatiana Rizzante	Chief executive officer	1/01/2011-31/12/2011	31/12/2011	205 (2)
	Remuneration paid by subsidiaries			280
	Total			485
Sergio Ingegnatti	Chief executive officer	1/01/2011–22/01/2011	22/01/2011 (**)	20 (3)
	Remuneration paid by subsidiaries			3
	Total			23
Oscar Pepino	Executive Director	1/01/2011-31/12/2011	31/12/2011	295
Claudio Bombonato	Executive Director	1/01/2011-31/12/2011	31/12/2011	400
Fausto Forti	Non executive director and Independent	1/01/2011-31/12/2011	31/12/2011	24 (4)
C. A. Carnevale Maffé	Non executive director and Independent	1/01/2011-31/12/2011	31/12/2011	20
Marco Mezzalama	Non executive director and Independent	1/01/2011-31/12/2011	31/12/2011	20
Cristiano Antonelli	Chairman of the Board of Statutory Auditors	1/01/2011-31/12/2011	31/12/2011	44
A.A. Garzino Demo	Statutory Auditors	1/01/2011-31/12/2011	31/12/2011	30
	Remuneration paid by subsidiaries			2 (5)
	Total			32
Paolo Claretta-Assandri	Statutory Auditor	1/01/2011-31/12/2011	31/12/2011	30
Directors with Strategic Responsibility	Remuneration paid by Reply S.p.A.			160
	Remuneration paid by subsidiaries			1,213
	Total			1,373

To be noted that where no indication has been made, no compensation has been given to Reply S.p.A. subsidiaries.

(*) Board of Directors will hold office until the Shareholders' meeting that will approve the December 31, 2011 financial statements.

(**) Passed away on January 22, 2011.

Following a brief description of the emoluments of the individual operating Director:

(1) Gross emolument for the office of Chairman and Chief executive officer of the Board of Directors in Reply S.p.A.;

Remuneration for the participation to internal committees	Non equity variable remuneration		Non monetary benefits	Other remuneration	Total	Fair value of the equity remuneration	Post mandate Indemnity
	Bonus and other incentives	Profit Sharing					
-	-	400	-	-	860	-	-
-	-	-	-	-	120	-	-
-		400			980	-	-
-	-	400	-	-	605	-	-
-	-	-	-	-	280	-	-
-	-	400	-	-	885	-	-
-	-	-	-	-	20	-	-
-	-	-	-	-	3	-	-
-	-	-	-	-	23	-	-
-	-	400	-		695	-	-
-	-	288	-	-	688	-	-
-	-	-	-	-	24	-	-
-	-	-	-	-	20	-	-
-	-	-	-	-	20	-	-
-	-	-	-	-	44	-	-
-	-	-	-	-	30	-	-
-	-	-	-	-	2	-	-
-	-	-	-	-	32	-	-
-	-	-	-	-	30	-	-
-	-	-	-	-	160	-	-
-	-	2,000	-	-	3,213	-	-
-	-	2,000	-	-	3,373	-	-

(2) Gross emolument for the office of Chief executive officer of the Board of Directors in Reply S.p.A.;
(3) Gross emolument for the office of C Chief executive officer of the Board of Directors in Reply S.p.A to 22/01/ 2011;
(4) Gross emolument for the office of Independent Directors in 2011 equal to 20 (Euro/1000); the residual amount is referred to the presence tokens in 2011 for the participation in the Internal control Committee meetings.
(5) Gross emolument for the office of Chairman of the Board of Statutory Auditors in 2011 in subsidiaries

3.2. Stock options granted to members of the Board of Directors and Executives with Strategic Responsibility (in Euros)

		Shareholders' meeting resolution. of 10/06/2004
First name and Surname	**Office held in Reply S.p.A.**	**(1)**
Tatiana Rizzante	Chief executive officer	Plan 2004
Directors with Strategic Responsibility		Plan 2004

(1) Plan
(2) Number of options
(3) Average exercise price
(4) Possible exercise period
(5) Number of options
(6) Average exercise price
(7) Possible exercise period
(8) Fair value on the granting date

3.3. Shares held by members of the Board of Directors and Executives with Strategic Responsibility in companies with listed shares and its subsidiaries

Shares held by members of the Board of Directors

First name and Surname	Position held	Shares held	No. of shares held at 31/12/2010	No. Of shares bought	No. of shares sold	No. Of shares held at 31/12/2011
Mario Rizzante	Chairman and Chief Executive Officer	Reply S.p.A.	11,381	-	-	11,381
Tatiana Rizzante	Chief Executive Officer	Reply S.p.A.	15,734	-	-	15,734
Sergio Ingegnatti	Chief Executive Officer	Reply S.p.A.	10,100	-	10,100(*)	-
Oscar Pepino	Executive Director	Reply S.p.A.	13,710	-	-	13,710
Claudio Bombonato	Executive Director	Reply S.p.A.	27,500	-	-	27,500
Fausto Forti	Non - Executive Director and Independent	Reply S.p.A.	-	-	-	-
C. A. Carnevale Maffé	Non - Executive Director and Independent	Reply S.p.A.	-	-	-	-
Marco Mezzalama	Non - Executive Director and Independent	Reply S.p.A.	250	-	-	250

(*) Shares held until the date of decease on 22/01/2011.

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

- Messer Mario Rizzante and Oscar Pepino hold 51% and 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin;
- Alika S.r.l. holds no. 4,936,204 Reply S.p.A. shares, equivalent to 53.5214% of the Company's share capital.

Stock Options granted to Members of the Board of Directors and Key Management

Number of Directors having strategic responsibility	Company	No. shares held at 31/12/2010	No. options bought	No. options sold	No. shares held at 31/12/2011
5	Reply S.p.A.	722,783	-	1,920	720,863

Number of options 01/01/2011			Options assigned in 2011						Options exercised in 2011			Options expired in 2011	Total Options held at 31/12/2011	Options relating to the current financial year
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
15,000	21.339	12/5/2009 -12/5/2014	-	-	-	-	-	-	-	-	-	-	15,000	-
75,000	21.339	12/5/2009 -12/5/2014	-	-	-	-	-	-	-	-	-	-	75,000	-

(9) Granting date
(10) Market price of the underlying shares at the granting date
(11) Number of options
(12) Average exercise price
(13) Market price of the underlying shares at the granting date
(14) Number of options
(15) Number of options
(16) Fair value

Definitions

In the present document the definitions of the words in upper case is as follows:

"**Board**": means all the Board members of Reply, whether Executive, Non- Executive, Independent, etc;

"**Executive Directors**": means, in accordance to the criteria of the Corporate governance Code for Listed Companies:

- Directors of Reply who have been nominated as Chief Executive Directors of the Company or subsidiaries which has strategic importance;
- Members of the Reply Board of Directors with management duties in the Company or subsidiaries which has strategic importance;
- The Directors of Reply, who may also be the Chairman of the Company, holder of specific individual proxies or having a specific role in the development of the company strategies;

Other **Directors invested with special charges** means Directors who are assigned special charges (i.e. Chairman, Vice-Chairman), different from the Executive Directors;

Executives with Strategic responsibilities means those who have power and responsibility in – directly or indirectly-planning, managing and controlling the activities of the Company, in accordance to the Consob Regulation no. 17221/2010 regarding Related Parties.

Corporate Information

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