2001

2002

2003

2004

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

The financial statements have been prepared in accordance with the Italian law related to such financial statements. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Italy, may not conform with generally accepted accounting principles in other countries.

CORPORATE BODIES

Board of Directors

Chairman	Mario Rizzante
Chief Executive Officers	Sergio Ingegnatti Oscar Pepino
Directors	Tatiana Rizzante(1) Fausto Forti(1) Marco Mezzalama(1)(2) Paul de Sury(1) (2)

Board of Statutory Auditors

Statutory Auditors	Piergiorgio Re – Chairman Tommaso Vallenzasca Ada Garzino Demo

Independent Auditors	Deloitte & Touche S.p.A.

[1] *Directors not invested with operational proxy;*
[2] *Independent directors, according to the Corporate Governance code for listed companies.*

REPLY – FINANCIAL HIGHLIGHTS

Statement of operation data (thousand euros)	**2004**	**%**	**2003**	**%**	**2002**	**%**	**2001**	**%**
Revenues	112.116	100,0	85.970	100,0	77.141	100,0	60.303	100,0
Gross operating income	15.795	14,1	10.317	12,0	12.324	16,0	11.047	18,3
Operating income	11.398	10,2	6.471	7,5	9.111	11,8	8.404	13,9
Income before extraordinary items*	10.924	9,7	6.264	7,3	9.292	12,0	9.185	15,2
Net income/(loss)	3.779	3,4	3.003	3,5	3.535	4,6	3.842	6,4

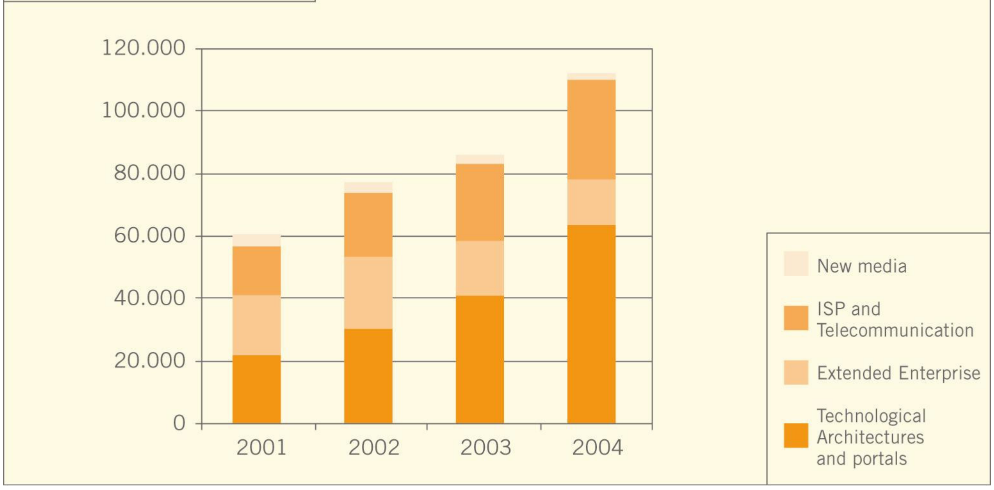
* Income before extraordinary items includes operating income and net financial income

Balance sheet items (thousand euros)	**2004**	**2003**	**2002**	**2001**
Shareholders' equity	53.804	50.055	48.888	45.615
Minority interest	1.037	836	698	466
Total assets	107.237	89.022	79.197	69.789
Net working capital	41.111	33.912	31.314	20.582
Net invested capital	52.486	47.260	45.455	29.584
Cash Flow *	11.277	10.199	8.654	8.402
Net financial position	2.355	3.631	4.131	16.497

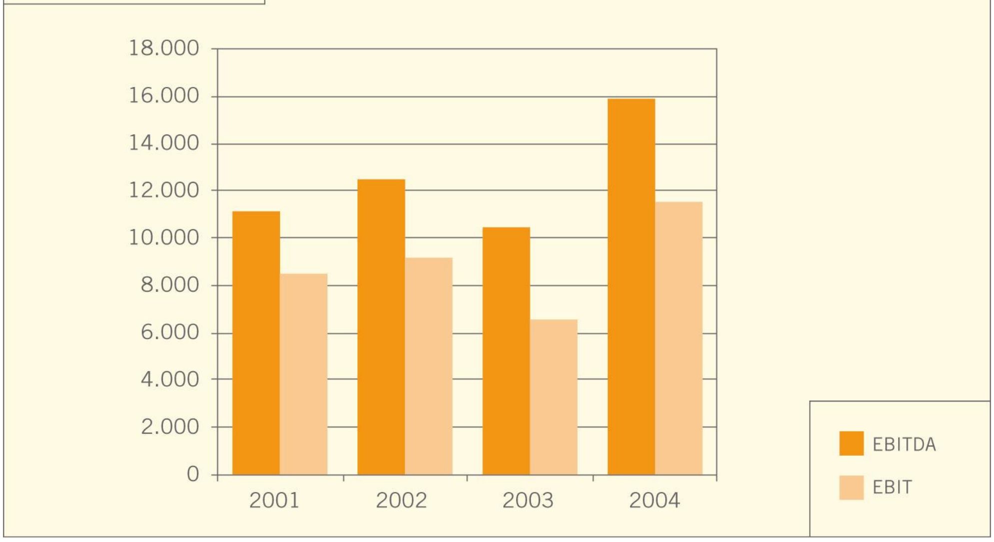
* Cash flow of operational activities.

Data per single share (in euros)	**2004**	**2003**	**2002**	**2001**
Number of shares	8.357.010	8.162.200	8.162.200	8.162.200
Operating result per share	1,36	0,79	1,11	1,03
Net profit per share	0,45	0,37	0,43	0,47
Cash flow per share	1,35	1,25	1,06	1,03
Shareholder's equity per share	6,44	6,13	6,00	5,59

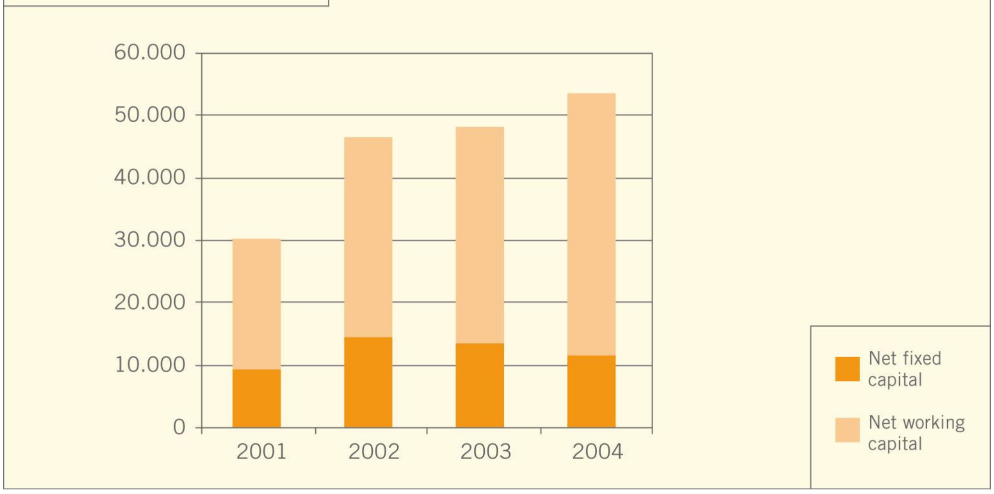
Revenues by business lines



Trends in profitability

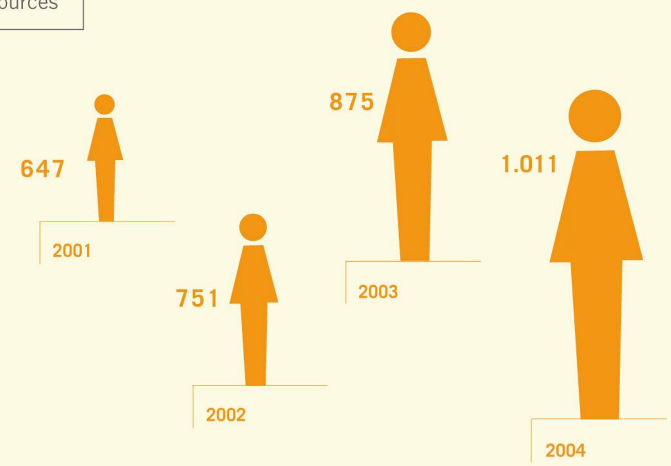


Trend in net invested capital



Reply on the stock market since listed

Human resources



LETTER TO THE SHAREHOLDERS

To our shareholders,

The year 2004 was a rich year full of satisfaction having achieved positive results in terms of profit and in terms of recognition by our clients.

We recorded a high increase of turnover and margins that confirm the solidity of an organizational model capable of maintaining a growth rate higher than the average of the market segment.

Turnover increased by 30% compared to 2003 standing at 112 million euros, the gross operating margin increased by 53% amounting to 15,8 million euros, the net result increased by 26% totaling 3,8 million euros.

In view of the positive results achieved, a dividend will be distributed for an approximate of 35% of the total net result, confirming Reply's policy of creating value for the shareholders and the market.

In 2005, coherent to the strategic lines adopted in these past years, we intend to continue our growth by developing and completing our offer in those Market sectors where we are already present and also in different areas that could represent potential business opportunities for Reply.

It is a challenge that we will face with maximum commitment, supported by our acquired knowledge, competencies and professionalism of our people, to whose intelligence and enthusiasm our success derived from in these past years.

The Chairman

Mario Rizzante

Reply
The e-builder

DIRECTORS' REPORT ON OPERATIONS

GROUP DISTINCTIVE FEATURES

Reply [Rey.MI] is a Consultancy, System Integration and Application Management company, leader in the development and implementation of solutions based on new communication channels and digital media.

Reply's organizational model, made up of a network of specialized companies, concentrates its technological and application skills on the single operating company level, guaranteeing a complete and outstanding offer of services thanks to the synergic efforts of the group.

Reply was founded as an answer to the middle 90's technological evolution concerning communication and the new conception of doing business, more and more based on the capability of exchanging information with all the operators involved in the value chain.

The increasing effectiveness of procedures, the availability of information to anyone and anywhere, the ability to make decisions in real time, are objectives that require business capability but also complete domain of consolidated solutions and the ability to implement them timely on different technological platforms.

In order to satisfy these needs Reply has developed an offer of integrated services that include:

Consultancy - strategic, communicational, organizational, procedures, technological;

System Integration - configuration and integration of various technological platforms. Reply's approach combines communication and consulting with highly valued informative solutions;

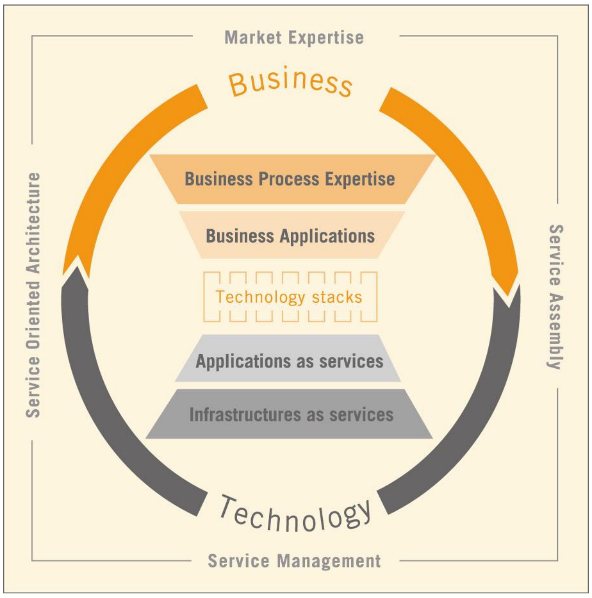
Application Management - management, monitoring and continuous evolution of the applications realized in multi-channeled architectures.

Reply's distinctive features are:

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

BUSINESS SOLUTIONS

Reply is specialized in creating effective business solutions based on innovative technologies capable of creating communication with clients, partners suppliers and collaborators.



Reply's offer

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

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

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

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

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

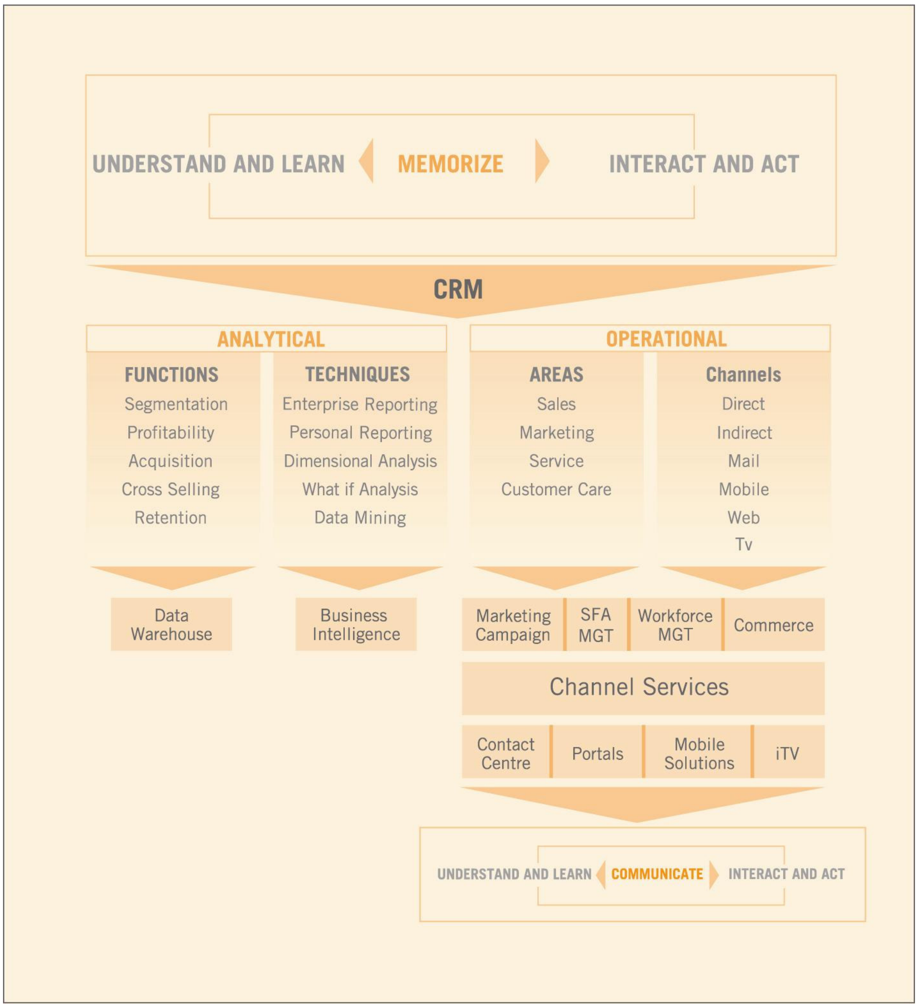
COMPETENCIES

Extended Enterprise

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

Customer Relationship Management

Creating CRM solutions means identifying a relationship strategy: by determining a correct cultural behavior in order to consider the client as an integral part of the company organization.

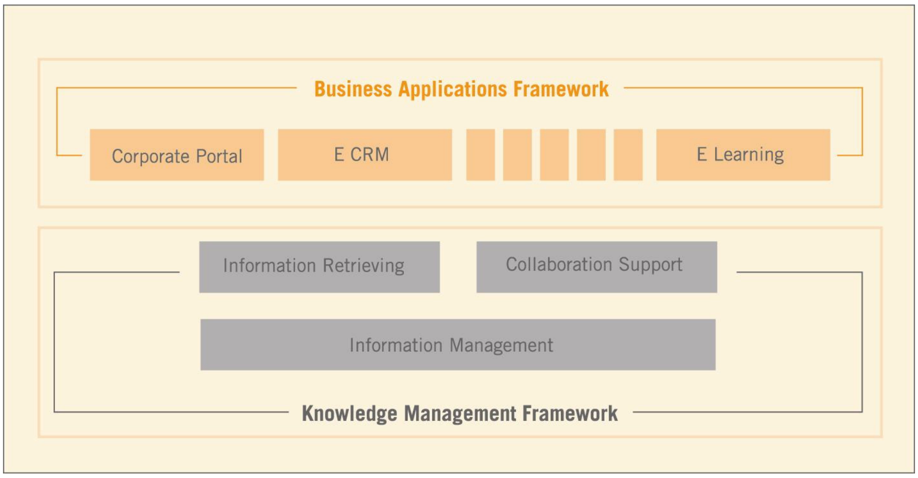


CRM – Reply's offer

Reply intervenes in internal procedures and skills through redesigning, where necessary, company procedures and by developing architectural applications that support Marketing, Sales and Assistance Activities.

Knowledge Management

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



KM – Reply's offer

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

Business Intelligence

A proper use of Business Intelligence (BI) tools and methods guarantees a high level of reaction to all the events that take place throughout the entire value chain.

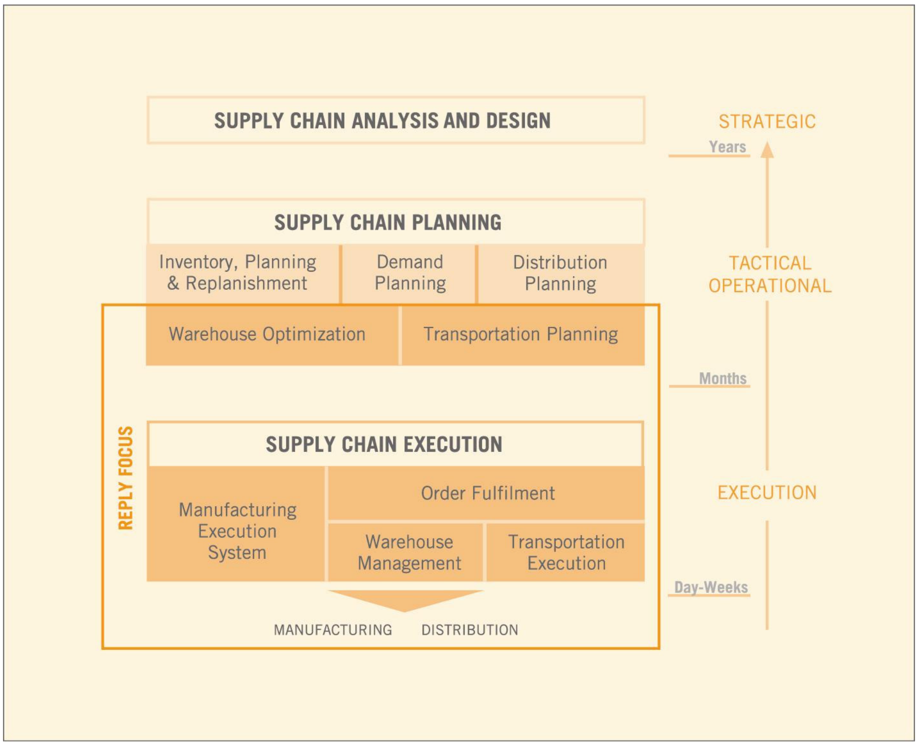
Currently BI is an essential element in collaborative work relations thanks to the integration, in portal and/or Web Service platforms, of traditional Reporting, Data Mining and Monitoring with Workflow instruments, subscriptions, publication and analysis functions.

Reply supports its clients with services and solutions in the following fields:

- Data Mining, Reporting and analysis;
- Creation of portals in order to support decisions that integrate collaborative work relations and Business Intelligence platforms:
- Clickstream Analysis;
- Use of web services in BI applications.

Supply Chain Management

Dynamism and flexibility require an integrated approach to control and manage the processes of products and services provisioning, production and distribution. Therefore, the need to redefine and re-engineer procedures regarding purchases, control of production, dislocation of warehouses and production units, control of stock rotation, shipping and distribution of goods, has become crucial.



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

Reply bases its integrated solutions for the Supply Chain on its proprietary suite Click Reply™ capable of guaranteeing full visibility and traceability of the procedures related to the modern Supply Chain in terms of:

- Demand Management and Planning
- Inventory Management
- Warehouse Management
- Transportation Management

Click Reply™ integrates a proprietary model named Click Reply RFID Layer capable of integrating and easily controlling a wide range of tag based mechanisms that read and write RFID technology.

Click Reply – RFID LAYER

Over 170 companies and more than 7000 consumers use and integrate in their logistic Value Chains solutions based on Click Reply™, an integrated suite capable of managing finished product, semi-finished and spare part warehouses throughout the entire production/distribution cycle. Click Reply™ is used successfully in different fields such as automotive, fast moving/consumer good, electronic-consumer, telecommunication and sales through catalogues.

TECHNOLOGICAL ARCHITECTURES AND INFRASTRUCTURES

Multi-channels

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

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

Infrastructures

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

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

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

Application Management

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

Reply offers support for:

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

DIGITAL MEDIA & CONTENT

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

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

- Internet
- Interactive Television
- Mobile

Within the *Digital Media* framework, Reply is engaged in the development of solutions that, exploiting the convergence between the new media (Internet, mobile phones, CD) and the traditional means of communication (video and press), require the capability of integrating a variety of expertise.

Discovery Reply™ is a proprietary platform for Digital Asset Management allowing consumers and administrators of the contents to have a new approach to heterogeneous digital media management.

Thanks to its innovative methods of workflow organization, to its high levels of interoperability with other companies' systems, and to its advanced services of multi-channel distribution of contents, Discovery Reply™ gives companies the opportunity of providing a more efficient management of the entire life cycle of digital assets.

INDUSTRIAL FIELDS

Telecommunication and Media

During recent years the telecommunications market has witnessed operators moving towards a new dimension: from being connection service suppliers to added value service suppliers. The available network infrastructures and applications make it possible to create a new generation of convergent services that can be used by customers at any time and in any location. Services and contents are increasingly linked to users (businesses, consumers, employees), terminals (Smart phones, PDAs, PCs, etc.) and business models. Wireless and standard Internet-based applications require an increasingly advanced approach both during design and development.
The increasing volume of information received and transmitted requires complex infrastructures such as the storage area network.

Reply integrates the knowledge of technologies and of client-side architectures with the typical telecommunication procedures and infrastructures.

Industry and services

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

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

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

Banks, Insurance Companies and Financial Operators

Banks, Insurance Companies and Financial Institutions are focusing their attention on the development of informative systems that, besides being of easy implementation and management, most of all simplify, strengthen and generate more efficient customer's and partner's relationships.

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

Public Administration

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

Administrations make an increasing use of technologies to manage citizen relations, manage their entire stock of information and ensure their own employees the access to know-how during their everyday work. Reply is fully aware of the challenges and opportunities that administrations have to deal with in the digital era: to use the new technology to offer citizens better services at low cost.

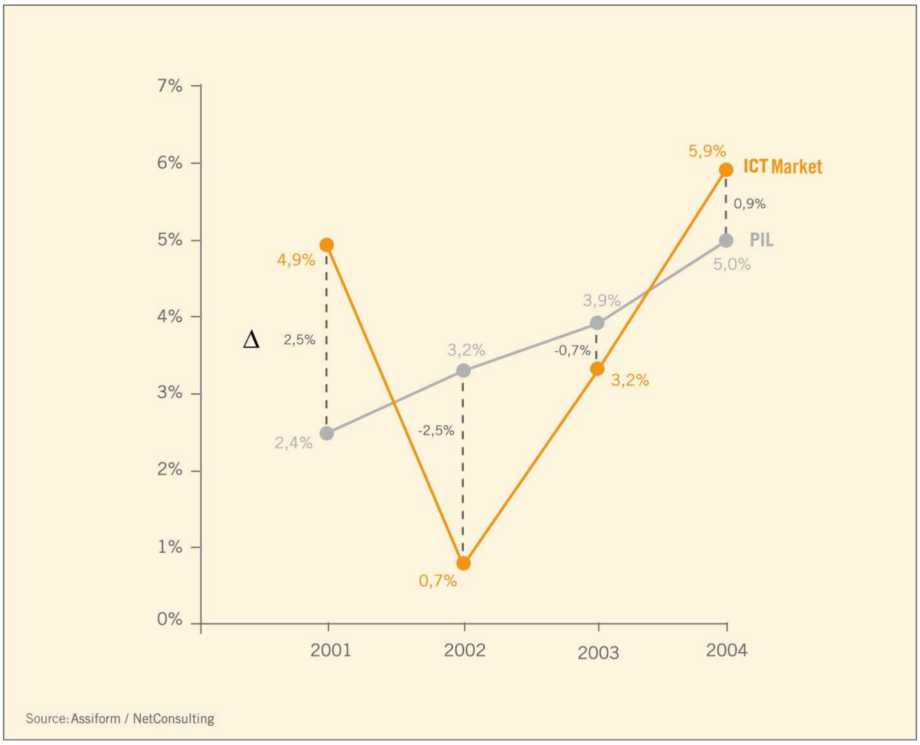
Reply's e-Government initiatives are aimed at creating solutions which allow:

- Citizens to receive services and to access them online, to benefit from training programmes and to take part actively in managing the State;
- Companies to be a part of the public services network, to access online services and develop partnerships with the Public Administration in order to encourage economic development;
- Administration Staff and Executives to concentrate on higher value added activities, to redefine relations with the general public and to improve efficiency.

In the Public Administration field, Reply makes use of the experience acquired over the years on the most advanced on-line services, relying on quick execution times and on the proficiency of its consultants. With vertical applications and skills, it maximizes efficiency in the realization of specific solutions.

THE REFERENCE MARKET

In 2004 the world economy recorded the highest growth rates in the past 20 years owing to two fundamental engines: the United States and Asiatic countries, more specifically China and India.
The ICT market, which is ever more correlated to economic trends, was influenced by this growth, increasing by 5.9% compared to the previous year.



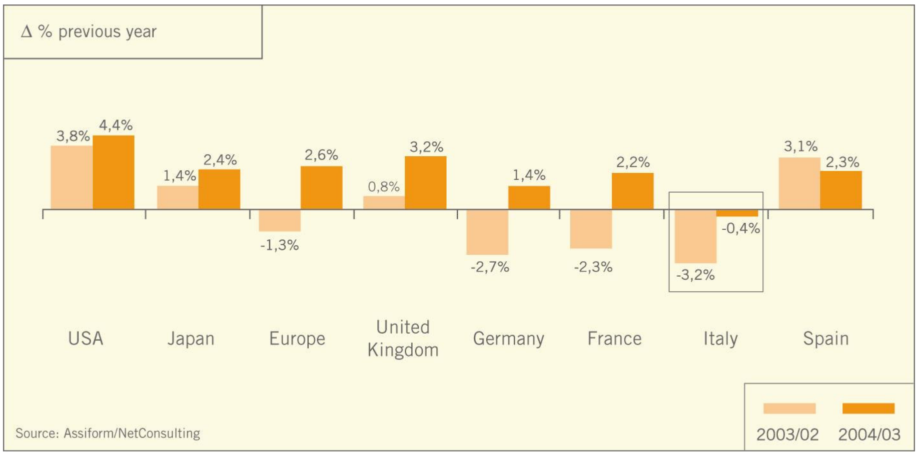
World ICT market

Such increases are the result of very different trends in terms of area and segments:

- North America grows considerably in IT but less in TLC;
- Asia grows in both segments and in particular in TLC;
- Europe grows considerably less than the world average in both segments.

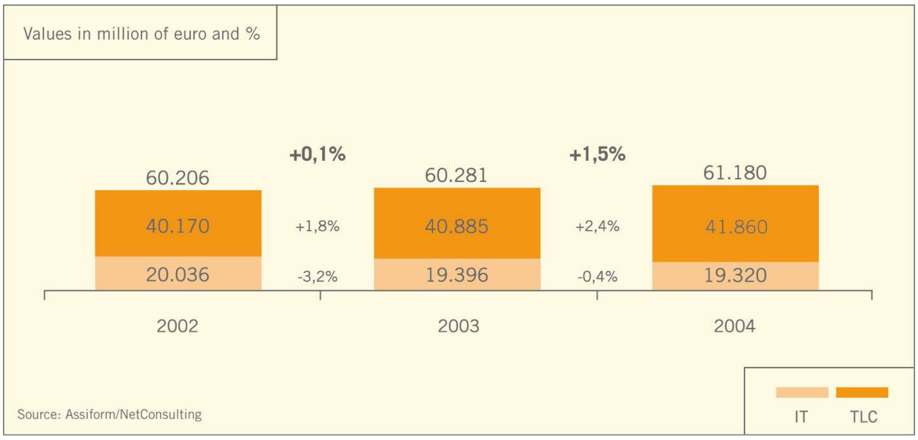
IT and TLC trends in the main world areas

As far as Italy is concerned, in 2004, the aggregated demand of informatics and telecommunications reached 61.180 million euros (Assinform source) with a total increase of 1.5% compared to 2003. The Italian system in reality, continues to show a substantial gap compared to the world trend (5.9%) and European trend (3.4%) and confirms that it is behind compared to the companies with which it competes that have growth rates that are double if not triple.



ICT market in major countries – 2003/2004

Analysis of the two segments reveal different trends: the telecommunication sector increased by 2.4% reaching 41.860 million euros, supported mainly by mobile telephone services, whereas demand for informatics stood at 19.320 million euros with a decrease of 0.4% compared to 2003.



The Italian ICT market – 2002/2004

The mobile business was confirmed as being the engine of the market in Italy. The entire demand for mobile in 2004 amounted to approximately 22.000 million euros increasing by 4.9%; large part of this performance is related to the trend in mobile services that increased by 5.2% standing at 16.650 million euros.

For the first time after years of constant decrease, the wired line segment demonstrated a substantial stand still (-0.2%) compared to the previous year, even in this case largely supported by services which reached 16.200 million euros (+0.7%) and by a wider access to broad band, passing from 2,25 million in 2003 to 4,45 million in 2004 (+98%).

The drive for software and services was still lacking concerning total demand of informatics in 2004. These two segments totaled approximately 13.300 million euros in Italy, with a decrease of (-0.7%) compared to 2003, year in which a negative performance was recorded (-2.2%).

A detailed analysis shows different trends within the single segments: notwithstanding an overall negative figure in 2004 the System Integration, Consulting and Outsourcing segments increased respectively by (+1.5%), (+0.8%) and (+1%).

Overall the IT market in Italy is still facing a difficult phase. However, the new opportunities and the possibilities of development and growth exist since the next few years. More specifically, the extraordinary wide spreading of broad bands in the telecommunication network, whether wired or wireless, is opening a new era of content and digital application communication.

Within the Internet Protocol (IP) the new digital convergence processes are being developed between telecommunication networks, new wireless networks and digital terrestrial and satellite television that offer greater access to the different technologies "any content, anytime, anywhere, any platform". As a consequence the digital value chain of new contents and digital services and the evolution of audio and video media, which open great opportunities in the multi-channel applications and in particular new developments in the mobile area, both consumer and business, has assumed a fundamental role.

In such a scenario, the Italian market presents specific competitive advantages. The strong incursion of cellular telephones (over 60 million connections), the accelerated diffusion of broad band access via Dsl (approximately 8 million), together with an active policy concerning digital terrestrial television and consequently sound technological and application skills, give the Italian market a great growth perspective for the years 2005-2006 in telecommunications (in 2005 +4.4% compared to +3.3% of the European average – source Eito 2005).

GROUP RESULTS

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

Reply, which is constituted by a network of specialized companies and over 1.000 employees, offers to the Telecom & Media, Manufacturing, Finance and Public Administration segments, the applications which optimize company procedures and the innovative technologies allowing communication with clients, partners, suppliers and collaborators.

In 2004 new companies were constituted:

- Reply Consulting S.r.l., company specialized in the introduction of new business models based on architectures and services for Extended Enterprises; Reply Consulting works side by side with Twice Reply and e*finance Reply, respectively focalized on consulting within the Telco and Media processes and in the financial area.
- Cape Reply S.r.l., company specialized in NetWeaver, the new platform for integration developed by SAP.

Reply S.p.A. is listed on the stock market in the TechStar segment.

Despite the difficult market conditions, Reply wraps up 2004 with positive results recording a substantial increase in turnover and in margins and confirming the solidity of an organizational model capable of maintaining a growth rate greater than the segment average.

Briefly, consolidated results achieved by the Group as at 31 December 2004 were: revenues for 112,1 million euros (+30.4% compared to 2003), EBITDA for 15,8 million euros (+53.1% compared to 2003), EBIT – net of amortization of listing expenses – for 11,4 million euros (+76.1% compared to 2003) and net consolidated result for 3,8 million euros (+25.8% compared to 2003).

As at 31 December 2004 group net equity amounted to 53,8 million euros.

The net financial position as at 31 December 2004 was positive for 2,4 million euros.

Reclassified consolidated statement of income

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

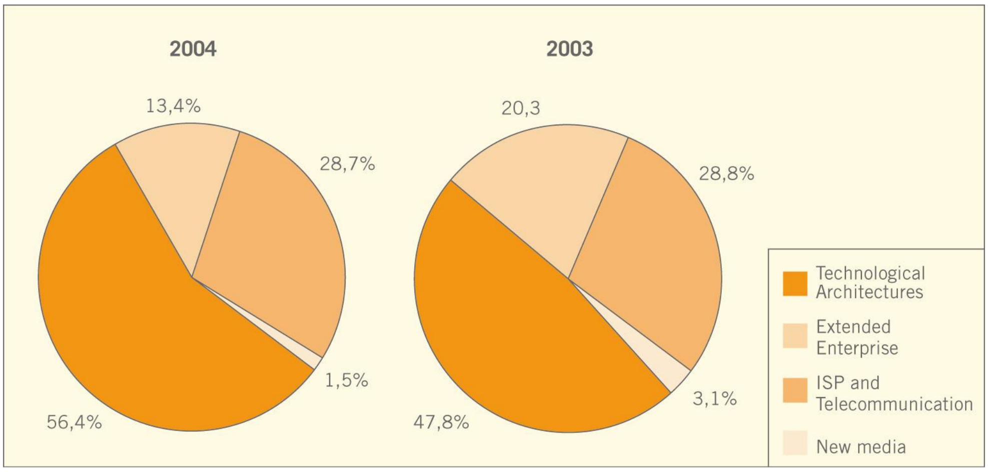
(thousand euros)	2004		2003	
Revenues from sales and services (*)	111.775		85.511	
Other revenues	341		459	
Value of production	**112.116**	**100,0**	**85.970**	**100,0**
Raw materials, supplies and merchandise, net of change in inventory	(3.438)	(3,1)	(3.266)	(3,8)
Services	(33.313)	(29,7)	(25.303)	(29,4)
Leases and rentals	(3.245)	(2,9)	(2.488)	(2,9)
Other operating costs	(1.204)	(1,1)	(1.292)	(1,5)
Value added	**70.916**	**63,3**	**53.621**	**62,4**
Personnel costs and directors' remuneration	(55.121)	(49,2)	(43.304)	(50,4)
Gross operating income (EBITDA)	**15.795**	**14,1**	**10.317**	**12,0**
Amortization and depreciation	(3.487)	(3,1)	(2.936)	(3,4)
EBIT before amortization of listing expenses	**12.308**	**11,0**	**7.381**	**8,6**
Amortization of listing expenses	(910)	(0,8)	(910)	(1,1)
Operating income (EBIT)	**11.398**	**10,2**	**6.471**	**7,5**
Financial income/(expenses), net	(264)	(0,2)	11	0,0
Adjustments to financial assets	(210)	(0,2)	(218)	(0,3)
Income before extraordinary items	**10.924**	**9,7**	**6.264**	**7,3**
Extraordinary income/(expenses), net	(336)	(0,3)	241	0,3
Result before taxation	**10.588**	**9,4**	**6.505**	**7,6**
Income taxes	(6.376)	(5,7)	(4.288)	(5,0)
Minority interest	(433)	(0,4)	786	0,9
Net income	**3.779**	**3,4**	**3.003**	**3,5**

(*) Change in work in progress included

During 2004 the Group's revenues amounted to 112.116 thousand euros with an increase of 30.4% compared to 2003 (85.970 thousand euros).

Breakdown of 2004 and 2003 revenues by business line is illustrated below:

(thousand euros)	2004	%	2003	%
Technological Architectures	63.041	56,4%	40.874	47,8%
Extended Enterprise	14.978	13,4%	17.359	20,3%
ISP and Telecommunications	32.079	28,7%	24.627	28,8%
New Media	1.677	1,5%	2.651	3,1%
Total revenues	**111.775**	**100%**	**85.511**	**100%**



Technological Architectures represent the "Core Business" of Reply. In 2004 this business line increased by 54.2%, despite an Italian market context that was decreasing in the same period (-0.7%).
In such a framework Reply has established consolidated partnerships with the major world leaders in technology (Microsoft, Oracle and SAP).

Extended Enterprise reduced its incidence over revenue standing at 13.4%, highlighting the downfalls of the market in which it operates.
Within the Supply Chain Management framework Reply offers its clients a wide range of advanced services that go from the design and modeling of logistic processes to the organization and introduction of innovative technology such as RFID.
Reply bases its integrated solutions for the Supply Chain on its proprietary suite Click Reply™.

Reply is furthermore one of the major partners for the *Telecommunication* operators with a strong specialization on the wired and mobile network. In 2004 such business line increased by 30.3%.

New Media completes Reply's offer, aimed at taking advantage of all the new potential digital channels.

The key operating margins, if compared to revenues, mark a greater increase owing to the greater profitability achieved in 2004.

The gross operating margin (EBITDA) as at 31 December 2004 stood at 15.795 thousand euros marking an increase of 53.1% and recorded a 14.1% revenue margin (12.0% in 2003).

The increase of 2 percentage points compared to 2003 is due to the reduction of pressure on prices that characterized the segment the previous year and to the significant improvement of operating margins of the subsidiary company IrisCube, now aligned to those of the Group.

The operating margin (EBIT) as at 31 December 2004, net of amortization of listing expenses amounting to 4.397 thousand euros, stood at 11.398 thousand euros.
Amortization of intangible assets, amounted to 3.261 thousand euros as at 31 December and mainly included:

- amortization of listing expenses (910 thousand euros);
- amortization of the difference between acquisition price and the corresponding share of net equity of the subsidiary (1.224 thousand euros);
- amortization of the Reply trademark (343 thousand euros).

Depreciation of tangible assets is calculated using rates that reflect the estimated useful lives of the related assets and as at 31 December 2004 such cost amounted to 1.136 thousand euros.

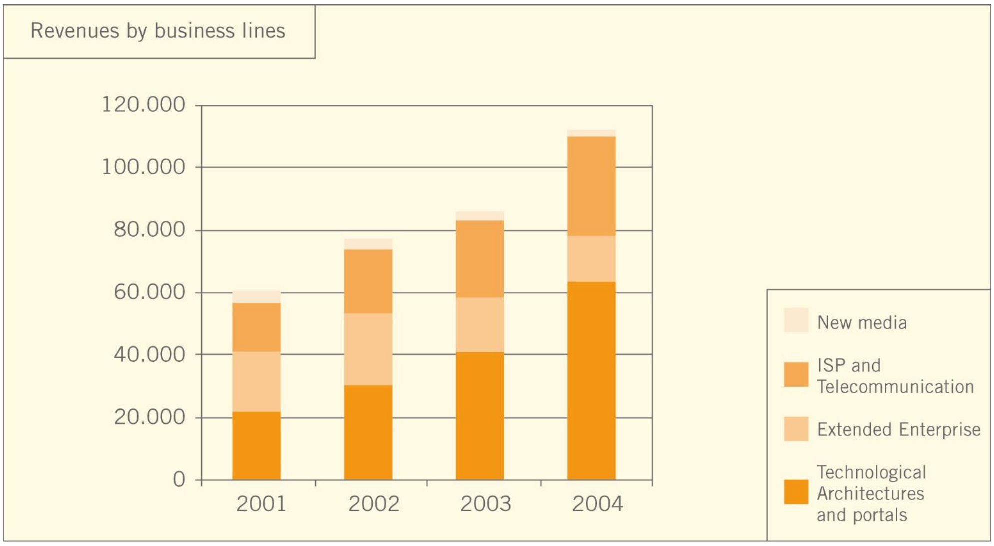
Net financial expenses amounted to 264 thousand euros and mainly included interest charges related to the use (12,1 million euros) of a syndicated term loan (35,5 million euros) for new M&A operations.

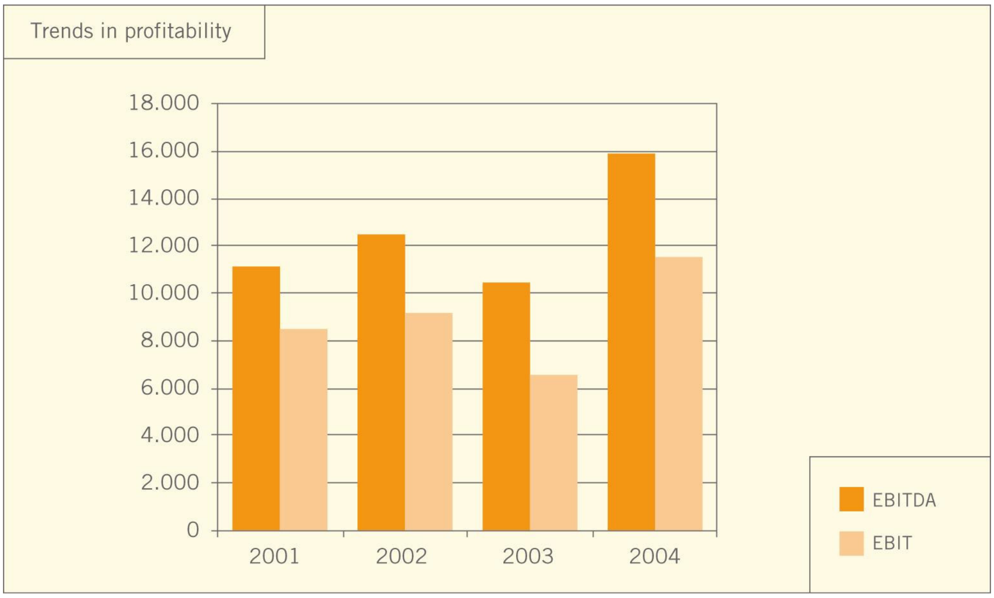
Adjustments to financial investments refer to the financial investment in Santer S.p.A., consolidated according to the equity method, of which Reply S.p.A. holds 49% of the shares.

Income before extraordinary items stood at 10.924 thousand euros and marked an increase of 74.4% compared to 6.264 thousand euros of the previous period.

Income before taxation amounted to 10.585 thousand euros marking a 62.7% increase compared to 6.505 thousand euros of the previous period.

The Group’s net income stood at 3.779 thousand euros, after having deducted an average fiscal rate of 60.2%, due mainly to non-tax deductible items for IRAP purposes and after having attributed minority interest for 433 thousand euros.


Revenues by business lines
120.000
100.000
80.000
60.000
40.000
20.000
0
2001
2002
2003
2004
New media
ISP and Telecommunication
Extended Enterprise
Technological Architectures and portals


Trends in profitability
18.000
16.000
14.000
12.000
10.000
8.000
6.000
4.000
2.000
0
2001
2002
2003
2004
EBITDA
EBIT

Group Balance Sheet

The Group balance sheet as of 31 December 2004, compared to 31 December 2003 is provided below:

(thousand euros)	31/12/2004 (a)	%	31/12/2003 (b)	%	Change (a-b)
Current assets					
Financial receivables and securities	14.731	13,7	13.032	14,7	1.699
Operating assets	74.405	69,4	56.724	63,7	17.681
Total current assets	**89.136**	**83,1**	**69.756**	**78,4**	**19.380**
Non-current assets					
Financial receivables and securities	642	0,6	626	0,7	16
Other assets	17.459	16,3	18.640	20,9	(1.181)
Total non-current assets	**18.101**	**16,9**	**19.266**	**21,6**	**(1.165)**
TOTAL ASSETS	**107.237**	**100,0**	**89.022**	**100,0**	**18.215**
Current liabilities					
Financial liabilities	282	0,3	2.761	3,1	(2.479)
Operating liabilities	33.294	31,0	22.812	25,6	10.482
Total current liabilities	**33.576**	**31,3**	**25.573**	**28,7**	**8.003**
Non-current liabilities					
Long term financial liabilities	12.094	11,3	6.640	7,5	5.454
Other non-current liabilities	6.726	6,3	5.918	6,6	808
Total non-current liabilities	**18.820**	**17,5**	**12.558**	**14,1**	**6.262**
Total liabilities	**52.396**	**48,9**	**38.131**	**42,8**	**14.265**
Total Shareholders' equity	**54.841**	**51,1**	**50.891**	**57,2**	**3.950**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**107.237**	**100,0**	**89.022**	**100,0**	**18.215**

Total assets as at 31 December 2003 amounted to 89.022 thousand euros and as at 31 December 2004 amounted to 107.237 thousand euros, with an increase of 18.215 thousand euros. The change is mainly due to the increase of trade receivables in relation to the significant increase in revenues.

Long term financial liabilities are related to the utilization of the credit facility (35,5 million euros), undersigned in June 2003 for new M&A operations. In 2004 the credit facility was used for another 5,5 million euros. A detailed description of such facility is provided at the Notes to the Financial Statements.

The ratio between current operating assets, amounting to 74.405 thousand euros (56.724 euros as at 31 December 2003) and current operating liabilities, totaling 33.294 thousand euros (22.812 thousand euros as at 31 December 2003), is 2.2 (2.5 as at 31 December 2003).

Economic and financial structure

Detail of the net invested capital as at 31 December 2004 and the related funds is detailed in the table below:

(thousand euros)	**31/12/2004 (a)**	**%**	**31/12/2003 (b)**	**%**	**Change (a-b)**
Current operating assets	74.405		56.724		17.681
Current operating liabilities	(33.294)		(22.812)		(10.482)
Net current operating assets	**41.111**		**33.912**		**7.199**
Non-current assets					
Non-current assets	18.101		19.266		(1.165)
Net invested capital (A)	**59.212**	**100,0**	**53.178**	**100,0**	**6.034**
M/L term non-financial liabilities	6.726	11,4	5.918	11,1	808
Net Shareholders' equity	54.841	92,6	50.891	95,7	3.950
Total non-financial funds (B)	**61.567**	**104,0**	**56.809**	**106,8**	**4.758**
Net financial position (A-B)	**(2.355)**	**(4,0)**	**(3.631)**	**(6,8)**	**1.276**

Net invested capital as at 31 December 2004 amounted to 59.212 thousand euros, compared to 53.178 thousand euros as at 31 December 2003 with a difference of 6.034 thousand euros due mainly to the increase in net current operating assets.

Net invested capital was funded by medium/long term non-financial liabilities, including the reserve for employee termination indemnity (5.911 thousand euros) and the reserve for risks and losses (815 thousand euros) for a total of 6.726 thousand euros and also funded by Shareholder's equity, 54.841 thousand euros, with a residual net financial liquidity of 2.355 thousand euros.

Net invested capital

(thousand euros)	31/12/2004 (a)	31/12/2003 (b)	Change (a-b)
Work in progress and inventories	3.270	4.393	(1.123)
Third party trade receivables, net	65.106	46.072	19.034
Other assets	6.029	6.259	(220)
Current operating assets (A)	74.405	56.724	17.681
Third party trade payables	12.989	9.680	3.309
Other liabilities	20.305	13.132	7.173
Current operating liabilities (B)	33.294	22.812	10.482
Net invested capital (A-B)	**41.111**	**33.912**	**7.199**
% of revenues	*36,7%*	*39,4%*	

Net financial position

Detail of the Group's net financial position as at 31 December 2004 analyzed by maturity date and compared to 31 December 2003 figures is provided below:

(thousand euros)	31/12/2004	31/12/2003	Change
Bank and cash on hand	14.381	10.319	4.062
Financial assets not held as fixed assets	350	2.713	(2.363)
Due to banks	(282)	(2.752)	2.470
Due to other providers of finance within 12 months	-	(9)	9
Cash and short term borrowings, net	**14.449**	**10.271**	**4.178**
Due to banks beyond 12 months	(12.094)	(6.640)	(5.454)
Long term financial position	**(12.094)**	**(6.640)**	**(5.454)**
Total net financial position	**2.355**	**3.631**	**(1.276)**

The net financial position as at 31 December 2004 amounted to 2.355 thousand euros with a decrease of 1.276 thousand euros compared to 31 December 2003, detailed as follows:

(thousand euros)	**2004**
Cash flow generated from operating activities	11.277
Change in working capital	(9.282)
Cash flow from operating activities (A)	1.995
Cash flow used for investment activities (B)	(1.964)
Cash flow used for financial activities (C)	(1.307)
Change in net financial position (A+B+C)	**(1.276)**
Net financial position at beginning of year	3.631
Change in net financial position	(1.276)
Net financial position at year-end	**2.355**

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

THE PARENT COMPANY REPLY S.p.A.

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

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

(thousand euros)	**31.12.2004 (a)**	**31.12.2003 (b)**	**Change (a-b)**
Tangible assets	432	520	(88)
Intangible assets	663	2.119	(1.456)
Financial fixed assets	20.914	18.489	2.425
Total fixed assets	**22.009**	**21.128**	**881**
Net working capital	**7.209**	**8.871**	**(1.662)**
NET INVESTED CAPITAL	**29.218**	**29.999**	**(781)**
M/L term non financial liabilities	556	424	132
Shareholders' equity	52.682	48.840	3.842
Net financial position	(24.020)	(19.265)	(4.755)
TOTAL FUNDS	**29.218**	**29.999**	**(781)**

Net invested capital, totaling 29.218 thousand euros was funded by medium/long term non-financial liabilities, including the reserve for employee termination indemnity (514 thousand euros) and the reserve for risks and losses (42 thousand euros) for a total of 556 thousand euros and also funded by Shareholder's equity, 52.682 thousand euros, with a residual net financial liquidity of 24.020 thousand euros.

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

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

(thousand euros)	**2004**	**2003**	**Change**
Revenues from operational activities	12.039	9.395	2.644
Revenues from sales and services	47.374	31.819	15.555
Purchases, services and other costs	(54.230)	(36.564)	(17.666)
Personnel and related costs	(4.733)	(3.743)	(990)
Gross operating income	**450**	**907**	**(457)**
Amortization and Depreciation	(1.905)	(1.953)	48
Operating income	**(1.454)**	**(1.046)**	**(408)**
Financial income/(expenses), net	747	818	(71)
Income from equity investments	3.500	4.000	(500)
Write-down of equity investments	-	(2.260)	2.260
Extraordinary income/(expenses), net	31	(191)	222
Result before taxation	**2.823**	**1.321**	**1.502**
Income taxes	177	495	(318)
Net result	**3.000**	**1.816**	**1.184**

Revenues from operational activities are mainly related to:

- Royalties on the Reply trademark for 3.334 thousand euros (2.191 thousand euros in 2003);
- Activities carried out centrally for the subsidiary companies for 5.616 thousand euros (4.603 thousand euros in 2003);
- Management services for 2.322 thousand euros (2.014 thousand euros in 2003).

Revenues from sales and services are related to agreements that Reply S.p.A. has reached with important clients, and which Reply S.p.A. then subcontracts to the subsidiaries. These types of contracts were more frequent in 2004.

Gross operating income, influenced solely by operational activities, stood at 450 thousand euros (907 thousand euros in 2003).

Operating income in 2004 marked a negative result of 1.454 thousand euros, after having deducted amortization expenses of 1.905 thousand euros related to listing expenses (910 thousand euros) and to the "Reply" trademark (343 thousand euros).

The net financial result of 747 thousand euros includes interest income and interest from security investments (1.049 thousand euros) and interest expenses (301 thousand euros) related to the utilization (12,1 million euros) of the credit facility (35,5 million euros), undersigned in the month of June 2003 for new M&A operations.

Income from equity investments refers to dividends from subsidiaries, recorded on accrual basis for 3.500 thousand euros.
Net result for the year ended 2004 amounted to 3.000 thousand euros and includes a tax burden of 177 thousand euros.

REPLY ON THE STOCK MARKET

In 2004 the Italian stock market (represented by the Mibtel index) recorded an increase of 16.2% compared to year-ended 2003, acclaimed as one of the best performing world markets of the year. The market capitalization of companies listed on the Italian markets increased from 487,4 billion euros in 2003 to over 580 billion euros in 2004 (43.1% of GDP), in spite of a constant number of companies listed (278 compared to 279 at year end 2003).

During the year, the market segment in which Reply has been listed since 2000 (The New Market) underwent an important transformation, the TechStar segment was created. This new market segment is represented by companies, that in function of rigid economic and financial parameters demonstrated to meet high quality requisites and in which the Reply share (REY.MI) entered from the beginning. As a consequence, on February 1, 2005 the new index (.TSTAR) was introduced and substituted the Numtel.

During the twelve months of 2004 the Reply share trend recorded excellent performances both in absolute terms marking an increase of 51.2% (passing from 8,63 euros last closing price as at 30 December 2003 to 13,049 euros as at 30 December 2004) and in relative terms compared to the TechStar index that for over eleven months held a negative performance to then close the year with a +9%.

If the Reply share's performance is considered from when it was listed, compared to the entire market, in four years it outperformed Piazza Affari with a positive gap of 7 percentage points compared to the Mibtel index.

In the three months following fiscal close 2004, the share has maintained an absolutely positive trend in absolute terms (+16%) and compared to the TechStar index (+15%).

During 2004, the major financial institutions demonstrated appreciation for Reply's share by constantly proposing research on the Group (6 active coverages with positive recommendation) and by encountering management.

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

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

The following graph shows the positive trend in 2004 and the first three months of 2005 compared to the general trend of the TechStar index:

RELATED PARTIES TRANSACTIONS

In relation to CONSOB communication no. DAC/RM 97001574 of 20 February 1997 and no. DAC/RM 98015375 of 27 February 1999 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s and the Group's 2004 financial statements related to such transactions are summarized below.

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

Financial and business transactions among Group companies are carried out at normal market conditions and are eliminated during consolidation.
Pursuant to art. 150, 1st paragraph of the Italian Legislative Decree n. 58 of 24 February 1998, no transactions have been carried out by the members of the Board of Directors that might be in potential conflict of interests with the Company.

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

(thousand euros)	With subsidiary and associate companies	With related parties	Nature of transaction
Financial transactions			
Financial receivables	28.349	-	Financial loans yielding interest: 3 month euribor with a spread of 2 percentage points
Receivables from dividends	3.500	-	Dividends from subsidiary companies
Trade and other receivables	10.994	-	Royalties, administration services, marketing and quality management, management services and office rental
Trade and other payables	33.202	148	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Economic transactions			
Revenues from royalties	3.334	-	Licensing of the "Reply" trademark consisting in a 3% fee on third party revenues
Revenues from services	6.428	-	administration services, marketing and quality management and office rental
Revenues from management services	2.513		Strategic management services
Costs for professional services	46.896	-	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	-	468	Services related to office rental and office of the secretary
Interest income on loans	954	-	Interest on financial loans: 3 month euribor with a spread of 2 percentage points

Reply group – main economic and financial transactions

(thousand euros)	With related parties	Nature of transaction
Financial transactions		
Trade and other receivables	190	Receivables from professional services
Trade and other payables	1.494	Payables for professional services and office rental
Economic transactions		
Revenues from services	205	Consulting services
Costs for professional services	1.683	Consulting services
Services from Parent company and related parties	1.990	Services related to office rental and office of the secretary

CORPORATE GOVERNANCE

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

Articles of incorporation

The articles of incorporation in force is the one approved by the Extraordinary Shareholders' meeting on June 10 2004 that was updated to take into consideration the new rulings concerning company law.

Governance structure of the company

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

Role and tasks of the Board of Directors

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

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

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

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

During 2004 the Board of Directors met 8 times and is expected to meet at least 7 times in 2005.

Annual Calendar of company events

In compliance to Borsa Italiana's Regulation, the 2005 annual calendar of company events has been made available to the public within the established time period.

Members of the Board of Directors

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

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

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

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

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

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

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

Nomination of directors

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

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

Chairman of the board and chief executive officers

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

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

The Directors disjointly control the ordinary administration of the company.

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

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

Directors' remuneration

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

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

During 2004 the Remuneration Committee met 5 times.

Internal Control Committee

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

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

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

During 2004 the Internal Control Committee met twice.

Ethic Code

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

Transactions with related parties

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

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

Relations with institutional investors and shareholders

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

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

Disclosures to the board of directors and processing of confidential information

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

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

Internal dealing

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

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

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

Composition of the share capital

The share capital amounting to 4.351.989,20 euros, at the present date, is made up of 8,369,210 ordinary shares of nominal value 0,52 euros each.
At present no other category of shares is in circulation.
The controlling shareholder is Iceberg S.àr.l., with headquarters in Luxemburg (non listed company) that at present holds 4,807,538 Company shares, equivalent to 57.44% of the Company's share capital.

Annual General Meeting

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

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

Statutory Auditors

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

Independent Auditors

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

Management and coordination activities

In the month of January 2004 all the Italian subsidiary companies, directly or indirectly controlled by Reply S.p.A., have complied to requirements established by art. 2497-bis of the Italian Civil Code, by indicating the management and coordination activities they are subject to by Reply S.p.A.

Internet website

On the company website (www.reply.it, under *investor*) one can find all financial information of the company.

ADOPTION OF IAS/IFRS PRINCIPLES

Transition process

In relation to the CESR (Committee of European Securities Regulators) recommendations published on December 30, 2003 that include the guide lines for listed companies on EU markets concerning the methods of transition to IAS/IFRS, the adoption process of the international principles within the Reply Group is detailed below.

At the end of 2003, Reply had established a specific project aimed at the adoption of the international accounting principles, through a dedicated work group that during 2004:

1) defined the transition date (January 1, 2004);
2) identified the major differences between the Italian accounting principles and the IAS/IFRS principles in order to draw up the financial statements and periodic reports;
3) set up the necessary changes to administration procedures and to the informatics system in order to draw up the abovementioned documents according to IAS/IFRS principles.

The quantification of such differences is currently under way and once completed will allow to elaborate:

- the opening balance sheet as at January 1 2004;
- 31 December 2004 financial statements for comparative purposes only;
- 2004 periodic reports (quarterly and half-year) for comparative purposes only.

The independent auditing firm Deloitte & Touche will be conferred with the auditing of the opening balances of the Balance Sheet and the comparable 2004 figures.

In order to elaborate the opening Balance Sheet at the transition date and consolidated financial statements as at December 31, 2004, the Group will adopt the following options allowed by IAS/IFRS concerning the financial statement schemes:

- the Balance Sheet will classify assets and liabilities according to the criteria that identifies the items as "current" and "non current";
- the Statement of Income is classified according to the nature of the costs.

Reply intends on adopting the international accounting principles for the first time in occasion of the drawing up of the consolidated half year report as of June 30, 2005.

Major differences arising from the application of IAS/IFRS

The analysis conducted until now has identified some differences between Italian accounting principles and IAS/IFRS applicable to the Group consolidated financial statements. The major differences are outlined below:

- *intangible assets – Consolidation differences* - goodwill deriving from "business combinations" following acquisitions made by the Group in the past years, is currently recorded at the item Intangible assets – "Consolidation differences" and amortized in 10 years on the basis of the underlying expected future benefits. Once IAS/IFRS is adopted such item will no longer be amortized but subject to an annual "impairment test" in order to determine its "fair value" and if the conditions exist to a write-down of the same.

- *intangible assets – start-up and expansion costs* – start-up and expansion costs cannot be capitalized according to IAS/IFRS. The balances of such item, in application of the international accounting principles will be written-off against consolidated Shareholders' Equity. At the same time, IAS/IFRS provide that development costs be capitalized.

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

- *Employee severance indemnities (TFR)* – Employee severance indemnities of the Group companies will be considered as "*Defined benefit plan treatment*" and therefore will be subject to an actualization evaluation on a periodic basis. Such an evaluation has lead to analysis conducted by external independent consultants;

- *Contract work in progress* – According to IAS 11 and 18, for construction contracts, the percentage completion method is to be applied. According to this principle, the revenues and expenses of contract orders (clearly and objectively identified) must be accounted for in relation to the state of completion of the same contract;

- *Share capital operations* – for IAS/IFRS purposes, treasury shares (conjunctly with any gains/losses deriving from their sale) must be recorded at shareholders' equity. Similarly stock options given to employees must be recorded at "fair value" and at the balance sheet;

- *Extraordinary income and expenses* – income and expenses recorded as extraordinary items as at 31 December 2004 must be reclassified as ordinary income and expenses, bearing in mind that IAS/IFRS do not foresee separate indication on the face of the statement of income.

OTHER INFORMATION

Human resources

Personnel mainly comprise University graduates in Electronic and Informatics Engineering, Business and Economics from the best universities.
The Group intends on preserving this distinctive feature in expanding its personnel, increasing investments dedicated to training and relations with universities.
The number of employees as at 31 December 2004 were 1.011 compared to the 875 as at 31 December 2003.

Research and development activities

Reply supplies services and solutions for *E-business* at high technologic content in a market in which innovation assumes primary importance.
Research activities include the updating and the improvement of services to propose on the market. In particular, research and development of the Group is aimed at updating and improving proprietor software.
These activities are charged to the statement of income in the year in which they are incurred.

Treasury Shares

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

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

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

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

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

- Messer Mario Rizzante, Sergio Ingegnatti, Oscar Pepino hold 51%, 18% e 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin;

- Alika S.r.l. holds 99.94% of Alister Holding, company governed by Luxemburg laws, which holds 100% of Iceberg's share capital, company governed by Luxemburg laws with headquarters at 400, route d'Esch, Luxemburg;

- Iceberg holds 4,807,538 Company shares, equivalent to 57.53% of the Company's share capital.

Stock option plans

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

The stock option plans have the following purposes:

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

The Board of Directors' of the Parent Company in charge of the stock option plan, has assigned stock options to approximately 50 employees and directors of the group companies. As at 31 December 2004 no. 214,800 stock options have not yet expired.

In the first months of 2005 no. 12,000 stock options have been exercised for a total value of 134.471,60 euros of which 6.344 euros as increase in share capital, passing from 4.345.645,2 euros to 4.351.989,20 euros and 128.127,60 euros as additional paid-in capital.

Options for the purchase of minority interests

In accordance to the contractual agreements stipulated upon purchase of E*Finance Reply S.r.l., in 2005 the "put" option to be exercised by the minority shareholders (and the "call" option for Reply) is going to expire for the acquisition of 42% of the minority interests of the company.

Reply has the possibility to exercise the purchase option for a further 2% of the company Santer S.p.A., within 6 months form the end of 2005; currently Reply holds 49%.

Legal and arbitration processes

Following the legal actions in relation to the supposed unauthorized use of software, a law suite has been filed against Sytel Reply S.r.l., who contests the validity of the request and the consequent request of compensation by the counterpart.
The case is still in course and presently there is not enough information to reasonably foresee the outcome of the verdict and the estimation of the probable liabilities. No provision has therefore been made in the 2004 financial statements.

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

Programmed Security Document

In compliance to paragraph 26, annex B) of Legislative Decree nr. 196 dated 30 June 2003, the Programmed Security Document (DPS) has been completed.
Reply has given way to the activities concerning the implementation of the minimum security measurements, in compliance to law orders, whose terms have been postponed to 31 December 2005.

EVENTS SUBSEQUENT TO 31 DECEMBER 2004

Constitutions

On February 9, 2005 Reply S.p.A., in capacity of Sole Proprietor, constituted Open Reply S.r.l.; the company operates in the open source segment.

On March 2, 2005 Reply S.p.A. constituted the company Power Reply S.r.l., subscribing 79% of the company's share capital; the company operates in the "Energy & Utilities" segment.

Acquisition of the ACS company branch

On March 1, 2005 the company branch made up of commercial and development activities carried out in the Asset Management segment, previously managed by the company Advanced Computer System A.C.S., was purchased through the contract stipulated with Sytel Reply S.r.l.; the purchase price amounted to 184 thousand euros.

Preliminary contract for the acquisition of the Fiat Gesco branch

On March 9, 2005 a preliminary contract between Reply S.p.A. and Fiat Gesco S.p.A. was concluded aimed at the acquisition of the branch related to activities in the administrative services field supporting accounting, balance sheet and reporting activities; the agreed purchase price amounted to 600 thousand euros.
On April 18, 2005 Reply S.p.A. constituted the company EOS Reply S.r.l., identified as the means of giving a concrete execution of the acquisition of the Fiat Gesco company branch by the Reply Group, and subscribed 80% of the share capital.
The branch acquisition will bring the Reply Group turnover to increase by approximately 5 million euros and will include in its portfolio of clients important industrial names such as Gruppo Avio, Ilte, Teksid and RGZ Magnetti Marelli After Market.

OUTLOOK FOR 2005

Despite the difficult and enduring market conditions, Reply has wrapped up 2004 with positive results recording a substantial increase of revenues and margins confirming the solidity of an organizational model capable of maintaining a growth rate greater than the segment average.

In 2005 Reply's strategy remains oriented towards further strengthening traditional business and looking out for new opportunities in segments with high growth rates that will drive the market in the future (*Mobility*, *RFID*, *Web Services, Open Source, Security, Digital Asset and VAS*).

Furthermore in 2005 significant investments are foreseen in the procedure consulting area in markets such as TLC, finance and manufacturing in order to generate important synergies with the technological skills acquired.

The trend in the first months of 2005 was positive in terms of revenues and profitability; the competitive advantage that Reply has achieved will allow it to further expand in 2005.

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

Reply S.p.A.'s financial statements for the year-ended 2004, recorded a net result of 3.000.006 euros and net equity amounted to 52.681.765 euros detailed below:

(in euros)	31/12/2004
Share capital	4.345.645
Additional paid-in capital	15.903.681
Legal reserve	558.718
Reserve for treasury shares on hand	349.680
Other reserves	23.649.295
Retained earnings	4.874.740
Total Share Capital and Reserves	**49.681.759**
Net result of the year	3.000.006
Total	**52.681.765**

The Board of Directors proposes to the Shareholders to allocate the net result of the year amounting to 3.000.006 euros, as follows:

- 150.000 euros to the legal reserve;
- 315.000 euros, equal to 2% of the gross consolidated operating margin, to the directors Mr. Mario Rizzante, Mr. Sergio Ingegnatti and Mr. Oscar Pepino as participation in the Parent Company's net result in compliance to art. 22 of the Articles of Incorporation;
- 1.255.381,50 euros as dividends to the shareholders, in the amount of 0,15 euros per ordinary share having the right and that are in circulation at the fixed payment date, 14 July 2005, excluding treasury shares;
- 1.279.624,50 euros to the extraordinary reserve.

Turin, 21 April 2005

For the Board of Directors
The Chairman
(Mario Rizzante)

Reply
The e-builder

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2004

REPLY
CONSOLIDATED BALANCE SHEET

(in thousands of euros)

	ASSETS	31/12/2004	31/12/2003
A)	**AMOUNT DUE FROM SHAREHOLDERS**	-	28
B)	**FIXED ASSETS**		
I	*Intangible*		
1	Start-up and expansion costs	171	986
3	Industrial patents and intellectual property rights	501	223
4	Concessions, licenses, trademarks and similar rights	159	502
5	Goodwill	188	216
7	Other	369	608
8	Consolidation differences	8.954	8.700
	Total intangible fixed assets	**10.342**	**11.235**
II	*Tangible*		
1	Land and buildings	73	76
2	Plant and machinery	103	211
3	Industrial and commercial equipment	46	39
4	Other assets	1.701	1.674
	Total tangible fixed assets	**1.923**	**2.000**
III	*Financial fixed assets*		
1	Equity investments in:		
	b) associated companies	5.193	5.403
	c) other companies	1	2
		5.194	5.405
2	Receivables:		
	d) other	642	626
		642	626
Total financial fixed assets		**5.836**	**6.031**
Total fixed assets (B)		**18.101**	**19.266**

(in thousands of euros)

		31/12/2004	31/12/2003
C)	**CURRENT ASSETS**		
I	***Inventories***		
3	Contract work in progress	3.120	3.351
4	Finished products and goods for resale	150	1.042
Total inventories		**3.270**	**4.393**
II	***Receivables***		
1	Trade receivables	65.106	46.072
4-bis	Receivables from tax authorities	1.000	2.541
4-ter	Prepaid tax receivables	3.089	2.341
5	Other receivables	1.098	885
Total receivables		**70.293**	**51.839**
III	***Financial assets not held as fixed assets***		
5	Treasury shares	350	350
6	Other securities		2.345
Total financial assets not held as fixed assets		**350**	**2.695**
IV	***Liquid funds***		
1	Bank and post office deposits	14.304	10.228
3	Cash on hand	77	91
Total liquid funds		**14.381**	**10.319**
Total current assets		**88.294**	**69.246**
D)	**ACCRUED INCOME AND PREPAID EXPENSES**	842	482
TOTAL ASSETS		**107.237**	**89.022**

(in thousands of euros)

LIABILITIES AND SHAREHOLDERS' EQUITY

		31/12/2004	31/12/2003
A)	**SHAREHOLDERS' EQUITY**		
I	*Share capital*	4.346	4.244
II	*Additional paid-in capital*	15.904	14.190
IV	*Legal reserve*	559	468
VI	*Reserve for treasury shares on hand*	350	350
VII	*Other reserves*	23.649	22.898
VIII	*Retained earnings (accumulated losses)*	5.217	4.902
IX	*Group net result*	3.779	3.003
Group Shareholders' equity		**53.804**	**50.055**
X	*Minority interest*	1.037	836
Total Shareholders' equity		**54.841**	**50.891**
B)	**RESERVE FOR RISKS AND CHARGES**		
1	Employee pensions and similar obligations	534	464
2	Income tax reserve, and deferred	115	74
3	Other	166	731
Total reserve for risks and charges (B)		**815**	**1.269**
C)	**RESERVE FOR EMPLOYEES TERMINATION INDEMNITIES**	**5.911**	**4.649**
D)	**PAYABLES**		
4	Due to banks		
	- within 12 months	282	2.761
	- beyond 12 months	12.094	6.640
6	Advances	4.172	1.950
7	Trade payables	12.989	9.680
12	Due to tax authorities	6.031	3.474
13	Due to social security authorities	3.784	2.847
14	Other payables	5.596	4.280
Total payables (D)		**44.948**	**31.632**
E)	**ACCRUED EXPENSES AND DEFERRED INCOME**	722	581
TOTAL LIABILITIES		**107.237**	**89.022**

(in thousands of euros)

MEMORANDUM ACCOUNTS	31/12/2004	31/12/2003
Guarantees issued on behalf of related parties	983	983
Guarantees received from third parties	1.838	1.456
Risks for pledges on shares	12.094	6.628
Commitments for lease contracts	2.431	1.719
Commitments for financial derivatives	14.580	6.628
TOTAL MEMORANDUM ACCOUNTS	**31.926**	**17.414**

REPLY
CONSOLIDATED STATEMENT OF INCOME

(in thousands of euros)

		2004	2003
A)	**VALUE OF PRODUCTION**		
1	Revenues from sales and services	111.955	88.999
3	Change in work in progress	(180)	(3.488)
5	Other income	341	459
Total value of production (A)		**112.116**	**85.970**
B)	**COSTS OF PRODUCTION**		
6	Raw materials, consumables and goods for resale	3.150	4.122
7	Services	40.663	29.601
8	Lease and rentals	3.245	2.488
9	Personnel		
	a) salary and wages	34.445	28.175
	b) social security charges	10.774	8.670
	c) employee termination indemnities	2.231	1.870
	d) employee pensions and similar obligations	65	65
	e) other	256	226
		47.771	**39.006**
10	Amortization, depreciation and write downs		
	a) amortization of intangible fixed assets	3.261	2.715
	b) depreciation of tangible fixed assets	1.136	1.131
	d) write down of receivables recorded as current assets and liquid funds	475	393
		4.872	**4.239**
11	Changes in inventories of raw material, consumables and goods for resale	288	(856)
12	Provisions for risk	-	200
14	Other operating costs	729	699
Total costs of production (B)		**100.718**	**79.499**
Difference between value and cost of production (A-B)		**11.398**	**6.471**

(in thousands of euros)

		2004	2003
C)	**FINANCIAL INCOME AND EXPENSES**		
16	Other financial income		
	b) from securities held as fixed assets	78	259
	d) Other		
	- other	103	83
Total financial income		181	342
17	Interest and other financial expenses		
	- other	(422)	(408)
17-bis	Gain (loss) on exchange differences	(23)	77
Total financial expenses		(445)	(331)
	Total financial income and expenses (C)	**(264)**	**11**
D)	**ADJUSTMENTS TO FINANCIAL ASSETS**	**(210)**	**(218)**
E)	**EXTRAORDINARY INCOME AND EXPENSES**		
20	Income	597	1.930
21	Expenses	(933)	(1.689)
	Total extraordinary income and expenses (E)	**(336)**	**241**
	RESULT BEFORE TAXATION	**10.588**	**6.505**
22	Income taxes	**6.376**	**4.288**
	a) current	7.518	4.936
	b) prepaid	(1.257)	(722)
	c) deferred	115	74
	NET RESULT BEFORE MINORITY INTEREST	**4.212**	**2.217**
23	Minority interest income/(loss)	(433)	786
	NET RESULT	**3.779**	**3.003**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL CRITERIA FOR THE DRAWING UP OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The coming into force of law decree no. 6/03 "reform of company law", has redesigned chapter V of the civil code related to "financial statements".
After having adopted the abovementioned decree it was necessary to modify the schemes and informative content of the financial statements, to adapt to the new fiscal rulings provided by law decree no. 344 of 12 December 2003 and to record the related effects according to deferred fiscal accounting.

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

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

In reference to the financial statement schemes, all the integrations required by law decree 6/2003 have been made even to prior year balances in order to provide homogeneous information; these changes did not have effects on shareholders' equity.

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

ACTIVITY OF THE GROUP

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

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

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

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

CONSOLIDATION

The consolidated financial statements include the financial statements as of 31 December 2004 of Reply S.p.A. and of the subsidiary companies, in which Reply S.p.A. directly or indirectly holds the majority of the voting rights.

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

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

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

The most significant changes in consolidation of Reply Group compared to the year 2003 are the following:

- consolidation of Cape Reply S.r.l., constituted in May 2004;
- consolidation of Reply Consulting S.r.l., constituted in July 2004;
- Bewit Reply S.r.l. is no longer consolidated following the liquidation procedures

Subsequent to the company reorganization plan with the scope of forming homogenous groups having the same business lines, Planet Reply S.r.l. and Sytel Reply Milano S.r.l. have been incorporated in Sytel Reply S.r.l. (having effect as of January 1, 2004).

CONSOLIDATION PRINCIPLES

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

a. The assets and liabilities of the subsidiary companies are consolidated on a line-by-line basis according to the line-by-line consolidation method; the carrying amount of investments held by the Parent Company and other subsidiaries is eliminated against the related shareholders' equity.

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

c. Intercompany receivables and payables, costs and revenues and all significant transactions between consolidated companies, including the payment of dividends, are eliminated. Unrealized intercompany profits, gains and losses arising from transactions between Group companies are also eliminated.

d. The minority interests in net equity and net result for the year are classified separately in the consolidated shareholders' equity and statement of income.

e. Balance sheet items expressed in foreign currency are translated in euros at the year-end exchange rate, whereas the Income Statement items are translated in euros at the average rate of the year. The difference arising as a result of the year-end exchange rate and the average rate and the differences arising from translation of assets and liabilities at historic rates and year-end rates are posted at the item "Reserve for translation differences".

ACCOUNTING PRINCIPLES

The accounting principles adopted comply with article 2426 of the Italian Civil Code, with CONSOB indications and with the Italian accounting principles issued by the National Board of Accountants; where lacking reference is made to those issued by the International Accounting Standards Board (IASB). The accounting principles adopted are in compliance with those outlined at art. 2426 of the Italian Civil Code, are in accordance with those indicated by CONSOB and, are in line with the ones adopted in the previous year with the exception of those deriving from the adoption of the aforementioned law decree D. Lgs. 6/2003.

Intangible Fixed Assets

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

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

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

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

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

Research and developments costs of new products or procedures are recorded entirely at the statement of income in the year in which they are incurred.

Tangible fixed assets

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

Depreciation is calculated on a straight-line basis (from the year the asset is put in use which normally corresponds to the first year in which asset is used) using rates that reflect the estimated useful lives of the related assets. In the year of acquisition such assets are depreciated at 50% of the normal rate, in consideration of their shorter period of use.

The annual depreciation rates applied are as follows:

	Rate
Land and building	3%
Plants and machinery	40%-50%
Industrial and commercial equipment	30%
Furniture and fittings	24%
Electronic office equipment	40%
Office equipment	24%
Mobile telephones	100%
Automobiles	50%

In the year of acquisition such rates are reduced by 50% in consideration of the minor use of such assets.

Assets acquired under finance leases are recorded at their fair value at the start of the lease and the capital portion of the lease installments is recorded as a liability. The lease fees which are recorded in each consolidated company's statement of income are substituted with depreciation expenses calculated on a straight-line basis over their economic useful lives and interest expense is calculated in relation to the financial loan. Deferred tax was calculated on the differences arising from such accounting method.
Such assets are depreciated on a straight-line basis over their economic useful lives, on the same basis as other tangible fixed assets.

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

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

Equity investments

Investments in associated companies are accounted for using the equity method. The positive differences arising between the carrying value and the corresponding net equity at the acquisition date are included in the carrying value of the equity investment and amortized at constant rates that reflect the estimated recovery value. Such amortization, along with minority interest of said investments are recorded at the consolidated statement of income as "Adjustments to financial assets".

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

Inventories

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

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

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

Accounts receivable and accounts payables

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

Financial assets not held as fixed assets

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

Treasury shares

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

Liquid funds

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

Reserves for risks and charges

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

Reserve for employee termination indemnities

This reserve reflects the liability for severance indemnities accrued for each employee and determined in accordance with current legislation and labor contracts at the balance sheet date.
Such liability is subject to an index-based revaluation in accordance with the current legislation.
The reserve accrued corresponds to the total indemnity matured in favor of employees as at the balance sheet date net of any advances paid.

Derivative Contracts

Derivative contracts as at 31 December 2004 were valued at cost in consideration of the fact that they were stipulated in order to hedge the interest rate risk on financial loans.

Memorandum Accounts

Memorandum accounts include amounts related to real risks, commitments and guarantees as of the balance sheet date.

More specifically, the amounts recorded for commitments for guarantees issued and received correspond to the debt to which they refer.

Risks for pledges on shares are recorded as memorandum accounts when the derivative contracts are stipulated for the nominal value of the underlying contract.

Revenue recognition

Revenues from services are recognized at the time of execution.
Revenues from the execution of specific contracts are recognized upon customer approval of the completion of the work or according to the percentage of completion method.
Revenues from sales of products are recognized when title is passed to the client, which is generally at the time of shipment.
Contribution grants are recorded to the statement of income in the accounting period which they can be recognized with reasonable certainty.

Income taxes

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

Prepaid and deferred tax having a temporary nature arising from differences between values attributed to assets or liabilities according to accounting principles and values attributed to the same for fiscal purposes are also accounted for.
Prepaid tax arise from costs and expenses, which are not tax deductible at year-end, from consolidation adjustments and from benefits on tax losses carried forward.
Deferred tax refers to transactions where taxation is deferred to future years (such as gains on the disposal of tangible and intangible fixed assets) or to consolidation adjustments.

Deferred tax is recorded at the balance sheet item B2, the explanatory notes include a summary of the differences that originated deferred tax.
Prepaid tax, accounted for only if there is a reasonable belief that they will be recovered, are recorded at the balance sheet item C II 4-ter. The explanatory notes provide a summary of the differences that originated prepaid tax.

The fiscal effects of the temporary differences are determined by applying the tax rate corresponding to the moment these differences will be reversed, or the theoretical current tax rate at the balance sheet date as the best estimate of the rate if the reversal date cannot be reasonably identified.
In relation to prepaid tax recorded in previous years, reasonable certainty to achieve future taxable income and therefore the possibility to recover the entire amount of prepaid tax has been verified.

Translation of foreign currency items

Receivables and payables denominated in foreign currency are translated and booked at the year-end exchange rate. The exchange differences arising at the time of collection or payment are booked to the statement of income.

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

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

OTHER INFORMATION

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

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

Comparability of the items

Pursuant to art.2423 ter, comma 5 of the Italian Civil Code several items of the 2003 balance sheet were reclassified in order to provide better comparability with 2004.

Such reclassifications did not have any effects on the 2003 net result and shareholders' equity.

NOTES TO ASSETS RECORDED IN THE CONSOLIDATED BALANCE SHEET

B) FIXED ASSETS

I. Intangible fixed assets

Net intangible assets as at 31 December 2004 amounted to 10.342 thousand euros (11.235 thousand euros as at 31 December 2003).

(thousand euros)	Historical cost	Accumulated amortization	Net book value 31/12/2004
Start-up and expansion costs	4.872	(4.701)	171
Industrial patents and intellectual property rights	1.949	(1.448)	501
Concessions, licenses, trademarks and similar rights	1.716	(1.557)	159
Goodwill	291	(103)	188
Other	1.109	(740)	369
Consolidation differences	12.379	(3.425)	8.954
Total	**22.316**	**(11.974)**	**10.342**

Movements in intangible assets during 2004 are detailed below:

(thousand euros)	Net book value 31/12/2003	Increases	Amortization	Net book value 31/12/2004
Start-up and expansion costs	986	150	(965)	171
Industrial patents and intellectual property rights	223	713	(435)	501
Concessions, licenses, trademarks and similar rights	502	-	(343)	159
Goodwill	216	-	(28)	188
Other	608	27	(266)	369
Consolidation differences	8.700	1.478	(1.224)	8.954
Total	**11.235**	**2.368**	**(3.261)**	**10.342**

Start-up and expansion costs refer to charges related to the operations of share capital increase. More specifically, the increase of the year, refers to costs incurred by the Parent Company in relation to the acquisition of the entire minority rights of Blue Reply S.r.l. and Planet Reply S.r.l, this latter incorporated during the year in Sytel Reply S.r.l.
Amortization of *Start-up and expansion costs* includes 910 thousand euros related to the last portion of the costs incurred by the Parent Company in 2000 in relation to the Global Offer of 1,970,000 ordinary shares representing approximately 24.14% of Reply S.p.A.'s share capital.

Industrial patents and intellectual property rights refer mainly to software patents purchased and used by the Group companies.

The item *Concessions, licenses, trademarks and similar* expresses the value of the "Reply" trademark granted to the Parent Company Reply S.p.A. (before Reply Europe Sàrl) on 9 June, 2000, in connection to the Company's share capital increase that was resolved and undersigned by the Parent Company Alister.
Such trademark is amortized over a 5-year period calculated from the date of acquisition.

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

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

Consolidation differences as at 31 December 2004 amounted to 8.954 thousand euros and reflect the goodwill arising from consolidation.

In detail:

Company	Year acquired	% acquired	Consolidation difference (thousand euros)	Net book value 31/12/04 (thousand euros)
@Logisitcs	2000	30%	765	382
Cluster	2000	15%	258	129
Sytel	2000	20%	372	186
Business	2000	20%	266	133
YH	2000	100%	27	13
XYZ	2001	70%	2.220	1.332
XYZ	2003	30%	960	768
e*fc	2001	58%	1.446	868
Sysproject	2002	100%	1.850	1.480
IrisCube	2003	51%	2.739	2.261
Planet	2004	20%	1.191	1.131
Blue	2004	12%	285	271
Total			**12.379**	**8.954**

The value of intangible assets, and in particular the value of industrial patents, goodwill and consolidation differences, is deemed adequately supported in terms of expected financial results and related cash flows.

II. Tangible fixed assets

Tangible assets as at 31 December 2004 amounted to 1.923 thousand euros and are detailed as follows:

(thousand euros)	31/12/2004	31/12/2003	Change
Buildings	73	76	(3)
Machinery	103	211	(108)
Electronic equipment	1.176	1.131	45
Ordinary office equipment	43	45	(2)
Furniture and fittings	324	438	(114)
Automobiles	138	40	98
Generic equipment	46	39	7
Mobile telephones	20	20	-
Total	**1.923**	**2.000**	**(77)**

Had the purchase of tangible assets been accounted for according to the financial lease method no significant effects would have been produced.

Movements during 2004 in tangible assets are detailed in the table below:

(thousand euros)	Buildings	Plant and machinery	Industrial and commercial equipment	Other	Total
Historical cost	100	585	113	5.958	6.756
Accumulated depreciation	(24)	(374)	(74)	(4.284)	(4.756)
Balance at 31 December 2003	**76**	**211**	**39**	**1.674**	**2.000**
Historical cost					
Additions	-	16	24	1.147	1.187
Disposals	-	(16)	(5)	(546)	(567)
Change in consolidation	-	-		(18)	(18)
Accumulated depreciation					
Depreciation	(3)	(124)	(17)	(992)	(1.136)
Disposals	-	16	5	422	443
Change in consolidation	-	-		14	14
Historical cost	100	585	132	6.541	7.358
Accumulated depreciation	(27)	(482)	(86)	(4.840)	(5.435)
Balance at 31 December 2004	**73**	**103**	**46**	**1.701**	**1.923**

Total additions in 2004 amounted to 1.187 thousand euros, mainly related to computers and network equipment (868 thousand euros), plants (33 thousand euros) and office furniture (41 thousand euros).

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

As at December 31 2004, 73.8% of the value of tangible assets has been depreciated compared to 70.4% year-ended 2003.

III. Financial fixed assets

Equity investments

Equity investments as at 31 December 2004 amounted to 5.194 thousand euros compared to 5.405 thousand euros as at 31 December 2003, and comprised the following:

(thousand euros)	**31/12/2004**	**31/12/2003**	**Change**
Investments in associate companies	5.193	5.403	(210)
Investments in other companies	1	2	(1)
Total	**5.194**	**5.405**	**(211)**

The item *Investments in associate companies* amounting to 5.193 thousand euros, is related to the investment in Santer S.p.A., purchased in December 2002 through the subscription of a share capital increase. Such increase comprises 1.083 thousand euros related to the subscription of 49% of the share capital, 4.508 thousand euros of additional paid-in capital and 30 thousand euros of a contribution grant.
The change of 210 thousand euros is due to application of the net equity method.

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

Financial receivables

Other financial receivables include:

(thousand euros)	**31/12/2004**	**31/12/2003**	**Change**
Receivables from insurance companies	403	338	65
Guarantee deposits	239	288	(49)
Total	**642**	**626**	**16**

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

C) CURRENT ASSETS

I. Inventories

Inventories amounted to 3.270 thousand euros, and are detailed as follows:

(thousand euros)	31/12/2004	31/12/2003	Change
Contract work in progress			
- within 12 months	2.032	1.926	106
- beyond 12 months	1.088	1.425	(337)
	3.120	**3.351**	**(231)**
Finished products and goods for resale	150	1.042	(892)
Total	**3.270**	**4.393**	**(1.123)**

Contract work in progress included mainly the following activities:

- Implementation of applications for administration-accounting management on Oracle platform;
- Development of applications for knowledge and content management;
- Definition and realization of SOA architectures;
- Web systems with WebSphere technology;
- Development of the informatics system for on-line content management;
- Informatics systems that enable the execution component of the supply chain.

At the balance sheet date total costs incurred for contract work in progress do not exceed the corresponding contractual revenue.

Finished products and goods for resale reflect the value of software licenses for delivery.

II. Receivables

Change in current assets compared to year-ended 2003 amounted to 19.034 thousand euros and is analyzed below.

Trade receivables

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

(thousand euros)	31/12/2004	31/12/2003	Change
Domestic trade receivables	64.764	46.229	18.535
Foreign trade receivables	2.215	1.413	802
Credit notes to be issued	(473)	(501)	28
Total	**66.506**	**47.141**	**19.365**
Allowance for doubtful accounts	(1.400)	(1.069)	(331)
Total trade receivables	**65.106**	**46.072**	**19.034**

Foreign trade receivables include receivables in foreign currency of no significant amount.

After an attentive analysis of each receivable account, as at 31 December 2004, the provision made for doubtful accounts amounted to 475 thousand euros.

Receivables from tax authorities

The detail is as follows

(thousand euros)	31/12/2004	31/12/2003	Change
VAT receivables	363	196	167
Receivables from tax authorities	637	2.345	(1.708)
Total	**1.000**	**2.541**	**(1.541)**

Prepaid tax receivables

This item amounted to 3.089 thousand euros as at 31 December 2004 and includes the fiscal charge corresponding to the temporary differences deriving from consolidated companies' results and taxable income related to deferred deductibility.
The tax rates applied were 33% corresponding to IRES and 4.25% corresponding to IRAP.

Detail of prepaid tax receivables is analyzed below:

(thousand euros)	**31/12/2003**	**Statement of income 2004**	**Utilization**	**31/12/2004**
Fiscal losses carried forward	1.455	-	(360)	1.095
Write down of equity investments deductible in 5 years	597	-	(149)	448
Prepaid tax on costs that will become deductible in future years	-	1.062	-	1.062
Prepaid tax on greater provision for doubtful accounts	-	115	-	115
Deferred fiscal deductibility of amortization	174	64	-	238
Consolidation adjustments and other items	115	16	-	131
Total	**2.341**	**1.257**	**(509)**	**3.089**

Other receivables

Detail is as follows:

(thousand euros)	**31/12/2004**	**31/12/2003**	**Change**
Advances to suppliers	330	169	161
Advances to employees	171	216	(45)
Miscellaneous receivables	597	500	97
Total	**1.098**	**885**	**213**

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

III. Financial assets not held as fixed assets

Treasury shares

Such item amounted to 350 thousand euros and is referred to no. 45,837 treasury shares recorded at cost determined according to the LIFO method.
During the year the Parent Company did not carry out transactions related to treasury shares.

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

Other securities

During the year the Parent Company sold its other financial activities giving rise to non significant extraordinary financial gains.

IV. Liquid funds

This item amounted to 14.381 thousand euros as at 31 December 2004, with an increase of 4.062 thousand euros compared to 31 December 2003 and reflects the amount of cash at banks and on hand at year end.

D) ACCRUED INCOME AND PREPAID EXPENSES

The ending balance of 842 thousand euros, with an increase of 360 thousand euros compared to 31 December 2003, is mainly referred to prepaid expenses of lease contracts, insurance contracts and other utility expenses, which are accounted for in accordance with the accruals accounting method.

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

A) GROUP SHAREHOLDERS’ EQUITY

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

(thousand euros)	Share capital	Additional paid-in capital	Legal reserve	Reserve for treasury shares on hand	Extraord. reserve	Reserve for purchase of treasury shares	Retained earnings	Net result of the year	Total
Balance at 31/12/2002	**4.244**	**14.190**	**260**	**98**	**63**	**19.955**	**6.543**	**3.535**	**48.888**
Allocation 2002 result									
- reserves			208		3.132		(1.421)	(1.919)	-
- to directors								(800)	(800)
- dividends (0,10 per share)								(816)	(816)
Purchase of treasury shares				344		(344)			-
Disposal of treasury shares				(92)		92			-
Other changes:									
- change in consolidation							(128)		(128)
- other changes							(92)		(92)
Result for the year 2003								3.003	3.003
Balance at 31/12/2003	**4.244**	**14.190**	**468**	**350**	**3.195**	**19.703**	**4.902**	**3.003**	**50.055**
Allocation 2003 result									
- reserves			91		751		602	(1.444)	-
- to directors								(585)	(585)
- dividends (0,12 per share)								(974)	(974)
Share capital increase	102	1.714							1.816
Other changes:								-	
- change in consolidation							(180)		(180)
- other changes							(107)		(107)
Result for the year	-	-	-	-	-	-	-	3.779	3.779
Balance at 31/12/2004	**4.346**	**15.904**	**559**	**350**	**3.946**	**19.703**	**5.217**	**3.779**	**53.804**

As at 31 December 2004 the fully subscribed paid-in share capital of the Parent Company Reply S.p.A. amounted to 4.346 thousand euros.
This is made up of 8,357,010 ordinary shares, par value 0,52 euros each.

Changes in consolidated net equity are mainly referred to:

- Increase of share capital following the acquisition of the entire minority rights of Blue Reply S.r.l. (12%) and Planet Reply S.r.l.(20%), for a total value of 1.815.434,39 euros of which 101.301,20 euros as increase of share capital, passing from 4.244.344 euros to 4.345.645,20 euros and 1.714.133,19 euros as additional paid-in capital;

- Distribution of dividends (0,12 euros per ordinary share) for a total value of 973.963 euros;

- Distribution of profits of some of the consolidated companies to directors of the same (585 thousand euros).

Stock option plans

The Extraordinary Shareholders' Meeting of Reply S.p.A. resolved the increase of the share capital with exclusion of stock option rights in compliance with art. 2441, paragraph 8 and art. 2441 paragraph 5 of the Italian Civil Code.
The Board of Directors' of the Parent Company in charge of the stock option plan, has assigned stock options to approximately 50 employees and directors of the group companies.

The following table summarizes the valid stock options as at 31 December 2004:

Board resolution date	Nr. of rights (*)	Exercise price (euros)	Exercise period
8 August 2002	14.400	13,198	08/08/2004 – 08/02/2005
26 September 2002	2.400	12,719	26/09/2004 – 26/03/2005
13 November 2002	9.800	10,618	13/11/2004 – 13/05/2005
13 February 2003	18.900	10,572	13/02/2005 – 13/08/2005
17 April 2003	9.000	8,934	17/04/2005 - 17/10/2005
26 September 2003	15.300	8,924	26/09/2005 – 26/03/2006
13 November 2003	1.700	9,058	13/11/2005 – 15/05/2006
12 February 2004	12.000	8,914	12/02/2006 – 12/08/2006
19 April 2004	18.600	9,208	19/04/2006 – 19/10/2006
13 May 2004	100.300	9,416	13/05/2006 – 13/11/2006
11 November 2004	12.400	10,943	11/11/2006 – 11/05/2007
	214.800		

In the first months of 2005 no. 12,000 stock options have been exercised for a total value of 134.471,60 euros of which 6.344 euros as increase in share capital, passing from 4.345.645,2 euros to 4.351.989,20 euros and 128.127,60 euros as additional paid-in capital.

Group consolidated net equity as at 31 December 2004 amounted to 53.804 thousand euros (50.055 thousand euros as at 31 December 2003).

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

	31/12/2004		31/12/2003	
(thousand euros)	**Net equity**	**Net result**	**Net equity**	**Net result**
Reply S.p.A.'s financial statements	**52.682**	**3.000**	**48.840**	**1.816**
Results of the subsidiary companies	11.932	5.741	10.834	3.244
Carrying value of investments in consolidated companies	(15.294)	-	(12.875)	2.260
Consolidation differences	8.954	(1.224)	8.700	(961)
Elimination of dividends from subsidiary companies	-	-	-	(323)
Elimination of dividends recorded on the accrual accounting basis by the Parent Company	(3.500)	(3.500)	(4.487)	(4.487)
Equity method valuation of investments	(428)	(210)	(218)	(218)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	495	405	97	885
Minority interest	(1.037)	(433)	(836)	787
Reply Group's consolidated financial statements	**53.804**	**3.779**	**50.055**	**3.003**

B) RESERVES FOR RISKS AND CHARGES

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

(thousand euros)	Balance at 31/12/2003	Accruals	Utilization	Balance at 31/12/2004
Employee pensions and similar obligations	464	70	-	534
Income tax reserve	74	115	(74)	115
Other				
- Company restructuring	200	-	(100)	100
- IrisCube restructuring	531	-	(465)	66
Total	**1.269**	**177**	**(631)**	**815**

Employee pension and similar obligations

This item is related to the Companies' liability for Directors' severance indemnity.
The difference of 65 thousand euros, compared to the previous year, is mainly related to the additional leaving indemnity conferred to several members of the Board of Directors for the year 2004 resolved by the individual company's Shareholders' Meeting.

Income tax reserve

The accrual of 115 thousand euros is related to the deferral of the deductibility of provision for doubtful accounts made solely for fiscal purposes.

Other

Other reserves are related to:

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

C) RESERVE FOR EMPLOYEE TERMINATION INDEMNITY

Movements in the reserve were as follows:

(thousand euros)	
Balance at 31/12/2003	**4.649**
Provision for the year	2.231
Utilization	(969)
Balance at 31/12/2004	**5.911**

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

The number of employees as at 31 December 2004 were 1.011, compared to 875 employees as at 31 December 2003.

D) PAYABLES

As at 31 December 2004 payables amounted to 44.948 thousand euros, of which 12.376 thousand euros were related to financial payables (9.401 thousand euros as at 31 December 2003) and 32.572 thousand euros were related to trade and other payables (22.231 thousand euros as at 31 December 2003).

Financial payables

(thousand euros)	31/12/2004			31/12/2003		
	Short term	**M/L term**	**Total**	**Short term**	**M/L term**	**Total**
Advances on invoices and bank overdrafts	270	-	270	2.732	-	2.732
Medium/long term borrowings	12	12.094	12.106	20	6.640	6.660
Total due to banks	**282**	**12.094**	**12.376**	**2.752**	**6.640**	**9.392**
Due to other providers of finance	-	-	-	9	-	9
Total financial payables	**282**	**12.094**	**12.376**	**2.761**	**6.640**	**9.401**

Medium and long-term borrowings, as at 31 December 2004, are detailed as follows:

Financial institution	Balance 31/12/04 (€/000)	Interest rate	Maturity date	Installment
Syndicated loan SanPaolo IMI	12.094	Euribor 6 months + 0,95%	31 December 2008	Half-year
BIPOP	12	Euribor 6 months +1,25%	1 January 2006	Monthly post-dated
Total M/L term borrowings	**12.106**			

The *Syndicated loan* is related to a loan contract undersigned June 30, 2003 by the Parent Company Reply with SanPaolo IMI, pool leader of a group of banks, for a medium term credit facility of a maximum of 35,5 million euros.

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

During the year the credit facility was used for a further 5,5 million euros bringing the total use to 12,1 million euros and some contractual conditions were modified.

The credit facility can be used within 30 months of the contract date and therefore by 31 December 2005.

The reimbursement of the amount used of the credit facility will be made through six half-year installments starting June 30, 2006. Should, at the reimbursement date, the use of the credit facility exceed 26,6 million euros, the reimbursement plan will be calculated on such amount and the exceeding difference will be reimbursed in a lump sum solution by Reply S.p.A. at the maturity date.

The interest rate applied is the Euribor at 6 months with a spread of 1.35 percentage points for the first 12 months; after such a time period the spread could be modified (from 0.95% to 1.50%) in relation to the Debt/Ebitda ratio calculated on Reply consolidated figures.

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

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

The loan is also guaranteed by pledges on the treasury shares and on shares purchased with the loan, in favor of the participating institutions.

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

At the balance sheet date such ratios, as contractually defined (*), were as follows:

- Debt / Equity ≤ 1 (0,04)
- Debt / Ebitda ≤ 3 (0,13)

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

(*)
"Debt" (Net financial indebtedness): with reference to art. 2424 of the Italian Civil Code indicates the difference between the items at D1), D2), D3), D4), D8), D9), D10), (the last three of financial nature only) and the items at C.II) (points 2, 3, 4, 5 of financial nature only), C.III) (only point 6) and C.IV);

"Ebitda" (Gross operating margin): with reference to art. 2425 of the Italian Civil Code indicates the sum of the amounts of the statement of income identified by letter A) (Value of Production) minus the sum of the amounts identified by letter B) (Costs of Production). To the amount determined by this algebraic operation the amounts indicated at letter B) number 10) letter a) "amortization of intangible fixed assets", letter b) "depreciation of tangible fixed assets", number 12) "provision for risks" and number 13) other accruals must be added.

"Equity" (Shareholders' Equity): with reference to art. 2424 of the Italian Civil Code indicates, the sum of the amounts of the liability section identified by the letter A) "Shareholders' Equity" minus the sum of the items of the Assets section identified by the letters A) "Amounts due from Shareholders", B) "Fixed Assets" at no. III (Financial fixed assets) sub no. 4 (treasury shares),and C) "Current Assets" at no. III (financial assets not held as fixed assets) sub no. 5 (treasury shares).

Analysis of the net financial position

The net financial position as at 31 December 2004 amounted to 2.355 thousand euros and is detailed as follows:

(thousand euros)	**31/12/2004**	**31/12/2003**	**Change**
Current financial assets			
Treasury shares	350	350	0
Securities	-	1.873	(1.873)
Mutual investment funds	-	87	(87)
Other	-	403	(403)
Liquid funds	14.381	10.319	4.062
Total current financial assets	**14.731**	**13.032**	**1.699**
Financial payables			
Due within 12 months	(282)	(2.761)	2.479
Due beyond 12 months	(12.094)	(6.640)	(5.454)
Total Financial payables	**(12.376)**	**(9.401)**	**(2.975)**
Net financial position	**2.355**	**3.631**	**(1.276)**

The change of 1.276 thousand euros compared to the previous year can be mainly explained by the following:

(thousand euros)	2004
Cash flow from operating activities before working capital movements	11.277
Change in working capital	(9.282)
Cash flows from operating activities (A)	**1.995**
Cash flows in investing activities (B)	**(1.964)**
Cash flows in financing activities (C)	**(1.307)**
Change in net financial position (A+B+C)	**(1.276)**

Trade and other payables

Trade and other payables in 2004 increased by 10.341 thousand euros compared to year-ended 2003 and are detailed at the table below:

(thousand euros)	31/12/2004	31/12/2003	Change
Advances	4.172	1.950	2.222
Trade payables	12.989	9.680	3.309
Due to tax authorities			
Income taxes (Ires- Irap)	2.037	1.281	756
VAT payable	2.485	740	1.745
Withholding taxes	1.509	1.453	56
	6.031	**3.474**	**2.557**
Due to social security authorities			
Inps	3.600	2.685	915
Inail	21	1	20
Other authorities	163	161	2
	3.784	**2.847**	**937**
Other payables			
Employee accruals	5.184	4.004	1.180
Other payables to employees	198	139	59
Miscellaneous	214	137	77
	5.596	**4.280**	**1.316**
Total trade and other payables	**32.572**	**22.231**	**10.341**

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

Advances

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

Trade payables

Trade payables are related to transactions carried out at normal market conditions and as at 31 December 2004 amounted to 12.989 thousand euros and include:

- domestic suppliers for 11.465 thousand euros;
- foreign suppliers for 325 thousand euros. Payables in foreign currency are not significant;
- trade payables due to related parties for 1.494 thousand euros related to services carried out at normal market conditions, which consist mainly in providing various services including the use of offices and office of the secretary.

Due to tax authorities

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

Due to social security authorities

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

Other payables

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

MEMORANDUM ACCOUNTS

Detail is as follows:

(thousand euros)	31/12/2004	31/12/2003	Change
Guarantees issued on behalf of related parties	983	983	-
Guarantees received from third parties	1.838	1.456	382
Risks for pledges on shares	12.094	6.628	5.466
Commitments for lease contracts	2.431	1.719	712
Commitments for financial derivatives	14.580	6.628	7.952
Total	**31.926**	**17.414**	**14.512**

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

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

Risks for pledges on shares are related to the medium-long term financial loan, recorded at the balance sheet item financial payables for a total value of 12.094 thousand euros, burdened by a pledge in favor of the participating banking institutions on all the shares purchased through the loan. Reply S.p.A. maintains the right to vote at the annual general meetings on the condition that all obligations and fulfillments under the contract are met.

Commitments for financial derivatives are referred to an interest rate swap agreement (IRS) and forward rate agreement (FRA) against interest rate risks of the SanPaolo IMI syndicated loan as already described previously. At the balance sheet date, the market value of such commitment that reflects the amount that the company would have to pay at the contract expiry date, determined on the basis of the notifications received by the bank counterparties, would not have had significant effects on the financial statements (62 thousand euros).

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

A) VALUE OF PRODUCTION

Revenues from sales and services

Revenues from sales and services, including change in contract work in progress, amounted to 111.775 thousand euros and are detailed as follows:

(thousand euros)	2004	2003	Change
Revenue from services	109.540	82.293	27.247
Hardware and software licenses for resale	2.235	3.218	(983)
Total	**111.775**	**85.511**	**26.264**

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

Country	2004	2003
Italy	96,10%	98,37%
Europe EC members	1,86%	0,72%
Europe (non EC members)	1,48%	0,30%
South America	0,56%	0,61%
	100,00%	**100,00%**

B) COST OF PRODUCTION

Raw materials, consumables and goods for resale

Such expenses are related to the purchase of hardware and software for delivery and resale. Detail is as follows:

(thousand euros)	2004	2003	Change
Hardware	358	193	165
Software licenses	2.035	3.276	(1.241)
Other	757	653	104
Total	**3.150**	**4.122**	**(972)**

Services

The cost of services is detailed as follows:

(thousand euros)	2004	2003	Change
Commercial and technical consulting	23.608	14.003	9.605
Services from Parent Company and related parties	1.990	1.532	458
Directors' fees	4.408	4.010	398
Traveling and training expenses	4.478	4.500	22
Marketing expenses	603	557	46
Administration and legal services	1.093	991	102
Utilities	1.020	829	191
Statutory Auditors' and Independent Auditors' fees	218	160	58
Canteen expenses	1.088	915	173
Media services to be re-billed	149	694	(545)
Miscellaneous	2.008	1.410	598
Total	**40.663**	**29.601**	**11.062**

The increase of Service expenses amounting to 11.062 thousand euros is mainly referred to the increased use of third party services due to the significant increase in revenues.

Services from Parent Company and related parties refer to service contracts related to the use of premises and centralized secretarial services; for a more detailed description of relations with related parties is provided at the Directors' Report on Operations.

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

Leases and rentals

Charges for leases and rentals are detailed below:

(thousand euros)	2004	2003	Change
Lease and rental expenses	1.580	1.354	226
Lease of automobiles	1.214	1.104	110
Other	451	30	421
Total	**3.245**	**2.488**	**757**

Personnel costs

Personnel costs amounted to 47.771 thousand euros, with an increase of 8.765 thousand euros compared to the previous year. The breakdown of these costs is provided at the statement of income. The following table indicates the number of employees by category.

(number)	2004	2003	Change
Directors	59	48	11
Managers	132	107	25
Staff	820	720	100
Total	**1.011**	**875**	**136**

Amortization, depreciation and write-downs

Amortization of intangible assets as at 31 December 2004 amounted to 3.261 thousand euros. The details are provided at the notes to intangible assets herein.

Depreciation of tangible assets amounted to 1.136 thousand euro and has been determined on a straight-line basis at economic-technical rates that reflect the useful life of the asset. Details of depreciation are provided at the notes to tangible fixed assets herein.

Write downs of receivables and liquid funds amounted to 475 thousand euros and are referred to the provision for doubtful accounts.

Other operating costs

These costs amounted to 729 thousand euros and included:

(thousand euros)	2004	2003	Change
Commission expenses on unused portion of loan	182	157	25
Membership expenses	105	77	28
Hospitality expenses	97	71	26
Gifts to clients	68	38	30
Magazines and subscriptions	40	38	2
Taxes on automobiles	31	25	6
Miscellaneous	206	293	(87)
Total	**729**	**699**	**30**

The item *Miscellaneous* includes deductible and non-deductible taxes and duties for 77 thousand euros.

C) FINANCIAL INCOME AND EXPENSES

Detail is as follows:

(thousand euros)	2004	2003	Change
Gain on securities	65	259	(194)
Extraordinary gain on securities	13	-	13
Interest income on bank accounts	97	79	18
Interest due to banks	(334)	(309)	(25)
Interest expenses on loans	(7)	(3)	(4)
Loss on securities	(10)	(15)	5
Interest on income tax from previous years	(23)	(32)	9
Other	(65)	32	(97)
Total	**(264)**	**11**	**(275)**

Change in the item *Financial income and expenses* amounting to 275 thousand euros is mainly due to the lack of gains deriving from security investments (government bonds and mutual investment funds) that were sold during the year.

D) ADJUSTMENTS TO FINANCIAL ASSETS

Adjustments to financial investments, amounting to negative 210 thousand euros, is referred to the financial investment in Santer S.p.A., consolidated according to the equity method, of which Reply S.p.A. holds 49% of the shares; such amount includes the amortization of goodwill and the result of the period related to Reply S.p.A.

E) EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income, amounting to 597 thousand euros, are related to unexpected gains falling out of the ordinary course of business.

Extraordinary expenses, amounting to 933 thousand euros, are related to unexpected losses falling out of the ordinary course of business.

INCOME TAXES

Income taxes due for fiscal year-ended 2004 amounted to 6.376 thousand euros, compared to 4.288 thousand euros in 2003.

(thousand euros)	2004	2003	Change
Current income taxes			
- IRES	4.653	2.656	1.997
- IRAP	2.865	2.280	585
Total current income taxes	**7.518**	**4.936**	**2.582**
Deferred taxes			
- Provision for doubtful accounts made solely for fiscal purposes	115	74	41
Total deferred taxes	**115**	**74**	**41**
Prepaid taxes			
- Fiscal losses carried forward	-	(69)	69
- Write-down of equity investments deductible in 5 years	-	(597)	597
- Prepaid taxes on costs that will become deductible in future years	(1.062)	-	(1.062)
- Prepaid tax on greater provision for doubtful accounts	(115)	-	(115)
- Deferred fiscal deductibility of amortization	(64)	(56)	(8)
- Consolidation adjustments and other	(16)	-	(16)
Total prepaid taxes	**(1.257)**	**(722)**	**(535)**
Total	**6.376**	**4.288**	**2.088**

Tax burden before taxation is equivalent to 60.2% (65.9% in 2003). The difference, compared to the theoretical tax incidence of 37.25%, is mainly due to non-deductible costs and to permanent tax differences due to consolidation.

OTHER INFORMATION

Emoluments of the Parent Company's Directors and Statutory Auditors

Emoluments of the Parent Company's Directors and Statutory Auditors for the year-ended 2004 amounted to 829 thousand euros and 63 thousand euros respectively, with reference only to Reply S.p.A.

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

REPLY
CONSOLIDATED STATEMENT OF CASH FLOW

(thousand euros)	2004	2003
Net result for the year	3.779	3.003
Depreciation and amortization	4.397	3.846
Accrual for employee termination indemnities	2.231	1.870
Accrual for reserve for risks and charges	185	869
Write-down of equity investments	210	218
Accrual for allowances for doubtful accounts	475	393
Cash flows from operating activities before working capital movements	**11.277**	**10.199**
Changes in inventories	1.123	2.553
Change in trade receivables	(19.509)	(2.509)
Change in current assets	229	(3.440)
Change in trade payables	3.309	2.209
Change in current liabilities	7.174	(1.804)
Change in reserve for risks and charges	(639)	(102)
Change in employee termination indemnities	(969)	(60)
Change in working capital	**(9.282)**	**(3.153)**
Cash flows from operating activities (A)	**1.995**	**7.046**
Investments in intangible assets including change in consolidation	(890)	(1.012)
Consolidation differences	-	(3.420)
Investments in tangible assets, net of disposals	(1.059)	(1.221)
Change in other long-term assets	(15)	(195)
Cash flows used in investing activities (B)	**(1.964)**	**(5.848)**
Increase in share capital	338	-
Distribution of dividends	(974)	(816)
Distribution of profits to directors	(585)	(800)
Change in minority interest	201	138
Other changes in net equity	(287)	(220)
Cash flows used in financial activities (C)	**(1.307)**	**(1.698)**
Change in net financial position (A + B + C)	**(1.276)**	**(500)**
Net financial position at beginning of year	3.631	4.131
Change in net financial position	(1.276)	(500)
Net financial position at year-end	**2.355**	**3.631**

REPLY
RECLASSIFIED CONSOLIDATED BALANCE SHEET

(thousand euros)	2004	2003
Intangible fixed assets	10.342	11.235
Tangible fixed assets	1.923	2.000
Financial fixed assets	5.836	6.031
Total fixed assets (A)	**18.101**	**19.266**
Inventories	3.270	4.393
Trade receivables	65.106	46.072
Other current assets	6.029	6.258
Total current assets (B)	**74.405**	**56.723**
Trade payables	(12.989)	(9.680)
Other current liabilities	(20.305)	(13.131)
Total current liabilities (C)	**(33.294)**	**(22.811)**
Net current assets (D) (B + C)	**41.111**	**33.912**
Employee termination indemnities (E)	**(5.911)**	**(4.705)**
Reserve for risks and charges (F)	**(815)**	**(1.213)**
Net invested capital (A + D + E + F)	**52.486**	**47.260**
Shareholders' equity	54.841	50.891
Medium/long term net financial position	12.094	6.649
Short term net financial position	(14.449)	(10.280)
Shareholders' equity and net financial position	**52.486**	**47.260**

REPLY

COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2004 AND EQUITY INVESTMENTS

Company name	Registered office		Share capital	Group interest
PARENT COMPANY				
Reply S.p.A.	Torino - Corso Francia, 110	€	4.345.645	-
SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS				
@Logistic Reply S.r.l.	Torino - Corso Francia, 110	€	78.000	100,00%
Aktive Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Atlas Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	92,50%
Blue Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Business Reply S.r.l.	Torino - Corso Francia, 110	€	78.000	100,00%
Cape Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
Cluster Reply S.r.l.	Torino - Corso Francia, 110	€	100.000	100,00%
Cluster Padova Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	100,00%
e*finance consulting Reply S.r.l.	Torino - Corso Francia, 110	€	34.000	58,00%
IrisCube Reply S.p.A.	Mialno - Via Fabio Filzi, 25/A	€	651.735	51,00%
Logistics Reply do Brasil LTDA	Sao Paolo - Brazil	R$	588.059	80,00%
Logistics Reply SL	Barcellona - Spain	€	53.010	100,00%
Reply Consulting S.r.l.	Torino - Corso Francia, 110	€	10.000	51,00%
Spike Reply S.r.l.	Torino - Corso Francia, 110	€	50.000	90,00%
Sysproject S.r.l.	Torino - Corso Francia, 110	€	10.400	100,00%
Sytel Reply S.r.l.	Torino - Corso Francia, 110	€	115.046	100,00%
Technology Reply S.r.l.	Torino - Corso Francia, 110	€	79.743	100,00%
Twice Reply S.r.l.	Torino - Corso Francia, 110	€	10.000	76,00%
XYZ Reply S.r.l.	Torino - Corso Francia, 110	€	12.939	100,00%
YH Reply S.r.l.	Torino - Corso Francia, 110	€	21.224	100,00%
ASSOCIATE COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD				
Santer S.p.A.	Milano - Via Don Minzoni, 24	€	2.209.500	49,00%

STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING ON THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2004

To the Shareholders,

The Board of Directors is submitting to You the consolidated financial statements as of 31 December 2004, including the Balance Sheet, the Statement of Income and the Notes to the consolidated financial statements.

The Consolidated Financial Statements for the year-ended 2004 presents a consolidated net equity of 53.804 thousand euros and a net result of 3.779 thousand euros and were delivered to the Statutory Auditors, within the required time, jointly with the financial statements and the Directors' Report on Operations.

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

The consolidation area is exhaustively defined at the aforementioned financial statements and as at 31 December 2004 includes, apart from the Parent Company, 20 companies consolidated on a line-by-line basis and one company consolidated according to the net equity method.

Controls carried out by the Audit Firm Deloitte & Touche S.p.A. lead to confirm that the values expressed on the face of the Consolidated Financial Statements as at 31 December 2004 reflect the accounting results of the Parent Company, of the subsidiary companies' financial statements and replicate the information communicated by the latter.

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

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

Deloitte & Touche S.p.A., Independent Auditors engaged in certifying the Consolidated Financial Statements, issued its opinion on May 18, 2005, in which it asserts that the Reply Group Consolidated Financial Statements as at 31 December 2004 are in compliance with laws governing the criteria for their preparation.

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

- the consolidation area has been determined correctly;
- the adopted consolidation procedures are pursuant to the law and have been applied correctly;
- the figures expressed in the Directors' Report on Operations correspond to results expressed on the face of the consolidated financial statements;
- the information used for consolidation purposes is referred to the entire administrative period of the year 2004;
- the accounting principles and the evaluation criteria are in line with the previous year;
- the associate company Santer S.p.A is consolidated according to the equity method.

Turin, May 20, 2005

THE STATUTORY AUDITORS

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

Deloitte.

Deloitte & Touche S.p.A.
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**REPORT OF THE INDEPENDENT AUDITORS
ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT
TO ARTICLES 156 OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998**
(Translation from the Original Issued in Italian)

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

1. We have audited the consolidated financial statements of Reply S.p.A. and subsidiaries as of and for the year ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditors' report dated April 27, 2004.

3. In our opinion, the consolidated financial statements of Reply S.p.A. and subsidiaries as of and for the year ended December 31, 2004, comply with the Italian statutory provisions governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and results of operations of the company and its subsidiaries.

4. For a better understanding of the consolidated financial statements attention is drawn to the fact that, as described in the Directors' report on operations, Reply S.p.A. borrowings from banks include a medium-long term loan undersigned by a pool of banks, which terms foresee, among others, the achievement of predetermined economic and financial ratios (covenants) calculated on the consolidated financial statements. As of December 31, 2004 such ratios have been respected.

DELOITTE & TOUCHE S.p.A.

Signed by
Giuseppe Pedone
Partner

Turin, Italy
May 18, 2005

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

The e-builder

REPLY S.p.A.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2004

REPLY S.p.A.
BALANCE SHEET

(in euros)

	ASSETS	31/12/2004	31/12/2003
A)	**AMOUNT DUE FROM SHAREHOLDERS**	-	-
B)	**FIXED ASSETS**		
I	*Intangible fixed assets*		
1	Start-up and expansion costs	84.010	912.179
3	Industrial patents and intellectual property rights	23.465	178.850
4	Concessions, licenses, trademarks and similar rights	159.154	502.369
5	Goodwill	72.304	86.765
7	Other	323.894	439.293
Total intangible assets		**662.827**	**2.119.456**
II	*Tangible fixed assets*		
2	Plant and machinery	48.902	104.398
3	Industrial and commercial equipment	7.069	8.263
4	Other assets	376.220	407.457
Total tangible assets		**432.191**	**520.118**
III	*Financial fixed assets*		
1	Equity investments		
	a) subsidiary companies	15.292.576	12.867.842
	b) associate companies	5.621.021	5.621.021
		20.913.597	18.488.863
2	Receivables		
	a) subsidiary companies	28.348.620	18.170.619
	d) other	93.396	96.468
		28.442.016	18.267.087
Total financial assets		**49.355.613**	**36.755.950**
Total fixed assets (B)		**50.450.631**	**39.395.524**

(in euros)

		31/12/2004	31/12/2003
C)	**CURRENT ASSETS**		
II	*Receivables*		
1	Trade receivables	29.711.467	14.147.882
2	From subsidiary companies	14.492.864	10.759.543
4	From parent companies	777	-
4-bis	Receivables from tax authorities	582.455	384.398
4-ter	Prepaid tax receivables	815.676	771.591
5	Other	261.620	46.844
Total receivables		45.864.859	26.110.258
III	*Financial assets not held as fixed assets*		
5	Treasury shares	349.680	349.680
6	Other securities	-	2.345.345
Total financial assets not held as fixed assets		349.680	2.695.025
IV	*Liquid funds*		
1	Banks and post office deposits	7.310.705	5.370.087
3	Cash on hand	11.539	9.990
Total liquid funds		7.322.244	5.380.077
Total current assets (C)		**53.536.783**	**34.185.360**
D)	**ACCRUED INCOME AND PREPAID EXPENSES**	**482.767**	**158.079**
TOTAL ASSETS		**104.470.181**	**73.738.963**

(in euros)

	LIABILITIES	31/12/2004	31/12/2003
A)	**SHAREHOLDERS' EQUITY**		
I	*Share Capital*	4.345.645	4.244.344
II	*Additional paid-in capital*	15.903.681	14.189.548
IV	*Legal reserve*	558.718	467.933
VI	*Reserve for treasury shares on hand*	349.680	349.680
VII	*Other reserves*	23.649.295	22.898.353
VIII	*Retained earnings*	4.874.740	4.874.740
IX	*Net result for the year*	3.000.006	1.815.689
Total Shareholders' equity (A)		**52.681.765**	**48.840.287**
B)	**RESERVES FOR RISKS AND CHARGES**		
2	Taxation reserve	42.380	66.000
Total reserves for risks and charges (B)		**42.380**	**66.000**
C)	**RESERVE FOR EMPLOYEE TERMINATION INDEMNITY**	**513.780**	**358.076**
D)	**PAYABLES**		
4	Due to banks		
	- within 12 months	56	449.069
	- beyond 12 months	12.094.000	6.628.000
6	Advances	1.594.077	56.000
7	Trade payables	1.730.455	1.066.517
9	Due to subsidiary companies	33.202.093	15.315.375
12	Due to tax authorities	1.611.416	475.884
13	Due to social security authorities	363.193	231.568
14	Other	517.563	252.135
Total payables (D)		**51.112.853**	**24.474.548**
E)	**ACCRUED EXPENSES AND DEFERRED INCOME**	119.403	52
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**104.470.181**	**73.738.963**

(in euros)

MEMORANDUM ACCOUNTS	31/12/2004	31/12/2003
Guarantees issued on behalf of related parties	827.729	827.720
Guarantees received from third parties	1.807.148	1.248.141
Risks for pledges on shares	12.094.000	6.628.000
Commitments for lease contracts	564.684	514.765
Commitments for financial derivatives	14.579.500	6.628.000
TOTAL MEMORANDUM ACCOUNTS	**29.873.052**	**15.846.626**

REPLY S.p.A.
STATEMENT OF INCOME

(in euros)

		2004	2003
A)	**VALUE OF PRODUCTION**		
1	Revenues from sales and services	58.195.874	40.574.544
5	Other income	1.217.061	639.355
Total value of production (A)		**59.412.935**	**41.213.899**
B)	**COSTS OF PRODUCTION**		
6	Raw materials, consumables and goods for resale	847.221	1.602.005
7	Services	51.949.858	33.919.897
8	Leases and rentals	1.124.070	709.814
9	Personnel		
	a) salary and wages	3.369.050	2.572.109
	b) social security charges	1.087.306	817.726
	c) employee termination indemnities	214.843	169.824
	e) other employee costs	61.444	183.621
		4.732.643	**3.743.280**
10	Amortization, depreciation and write downs		
	a) amortization of intangible assets	1.598.636	1.622.440
	b) depreciation of tangible assets	306.042	330.956
	d) write downs of receivables and liquid funds	-	84.103
		1.904.678	**2.037.499**
14	Other operating costs	308.832	247.870
Total costs of production (B)		**60.867.302**	**42.260.365**
Difference between value and costs of production (A-B)		**(1.454.367)**	**(1.046.466)**

(in euros)

	2004	2003
C) FINANCIAL INCOME AND EXPENSES		
15 Income from equity investments		
- subsidiary companies	3.499.650	4.000.000
16 Other financial income		
b) income from receivables held as financial fixed assets	78.115	256.208
d) other		
- subsidiary companies	953.798	821.589
- other	17.367	9.237
Total financial income	4.548.930	5.087.034
17 Interest and other financial expenses		
d) other	(301.271)	(269.155)
17-bis Gain (loss) on exchange differences	(1.032)	493
Total financial expenses	(302.303)	(268.662)
Total financial income and expenses (C)	**4.246.627**	**4.818.372**
D) ADJUSTMENTS TO FINANCIAL ASSETS	**-**	**(2.260.000)**
E) EXTRAORDINARY INCOME AND EXPENSES		
20 Income	51.723	191.288
21 Expenses	(21.054)	(382.683)
Total extraordinary income and expenses (E)	**30.669**	**(191.395)**
RESULT BEFORE TAXATION	**2.822.929**	**1.320.511**
22 Income taxes	(177.077)	(495.178)
a) current	(26.212)	92.092
b) prepaid	(193.245)	(653.270)
c) deferred	42.380	66.000
NET RESULT FOR THE YEAR	**3.000.006**	**1.815.689**

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NOTES TO THE FINANCIAL STATEMENTS

FORM AND CONTENTS OF THE FINANCIAL STATEMENTS

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

The coming into force of law decree no. 6/03 "reform of company law", has redesigned chapter V of the civil code related to "financial statements".
After having adopted the abovementioned decree it was necessary to modify the schemes and informative content of the financial statements, to adapt to the new fiscal rulings provided by law decree no. 344 of 12 December 2003 and to record the related effects according to deferred fiscal accounting.

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

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

In reference to the financial statement schemes, all the integrations required by law decree 6/2003 have been made even to prior year balances in order to provide homogeneous information; these changes did not have effects on shareholders' equity.

ACTIVITY OF THE COMPANY

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

ACCOUNTING PRINCIPLES

The accounting principles adopted herein are pursuant to art. 2426 of the Italian Civil Code and also take into consideration CONSOB indications, the accounting principles issued by the National Board of Accountants and where lacking principles issued by the International Accounting Standards Board (IASB). The evaluation criteria adopted and outlined below, are in compliance with art. 2426 C.C., adhere to CONSOB indications and with the exception of changes deriving from law decree 6/2003, are homogeneous to those of the previous year.

The financial statement items were valued according to the general principle of prudence and economic accrual based accounting in the perspective of company continuity, in addition to the prevalence of substance over form introduced by law decree 6/03.

The application of the prudence principle involved the evaluation of each single item in order to avoid compensation of losses that were to be recognized and gains that were not to be recognized as not yet realized.

Pursuant to the accrual based accounting principle, the effects of operations and other events are accounted for and attributed to the year to which these operations and events refer and not to the moment in which the collection or payment of the same takes place.

Intangible fixed assets

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

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

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

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

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

Tangible fixed assets

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

Depreciation is calculated on a straight-line basis using rates that reflect the estimated useful lives of the related assets. In the first year such assets enter into service these rates are reduced to one half, in consideration of their shorter period of use.

The annual depreciation rates applied are as follows:

	Rate
Plants and machinery	40%
Industrial and commercial equipment	30%
Electronic office equipment	40%
Mobile telephone	100%
Automobiles	50%

In the year of acquisition such rates are reduced by 50% in consideration of the minor use of such assets.

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

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

Assets in leasing

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

Equity investments

Investments of a long-term nature are classified within financial fixed assets; otherwise they are recorded as financial assets not held as fixed assets if they were acquired for subsequent disposal.
Equity investments are stated at purchase or subscription cost or at value attributed to the assets contributed. Such cost is written down to reflect a permanent impairment in value. The book value is reinstated in subsequent years if the reasons for such write down no longer apply.

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

Accounts receivable and accounts payables

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

Other financial assets not held as fixed assets

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

Treasury shares

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

Liquid funds

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

Accruals and Deferrals

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

Reserves for risks and charges

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

In the aforementioned item, the tax reserve and deferred tax reserve are also included.

Reserve for employee termination indemnities

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

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

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

Derivative Contracts

Derivative contracts as at 31 December 2004 were valued at cost in consideration of the fact that they were stipulated in order to hedge the interest rate risk on financial loans.

Memorandum Accounts

Memorandum accounts include amounts related to real risks, commitments and guarantees as of the balance sheet date.

More specifically, the amounts recorded for commitments for guarantees issued and received correspond to the debt to which they refer.

Risks for pledges on shares are recorded as memorandum accounts when the derivative contracts are stipulated for the nominal value of the underlying contract.

Revenue recognition

Revenues from services are recognized at the time of execution.

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

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

Dividends

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

Income taxes

Current income taxes are provided on the basis of taxable income for the year, in accordance with the current Italian legislation.
Pursuant to accounting principle CNDC no. 5 ruling deferred tax, prepaid and deferred tax having a temporary nature arising from differences between values attributed to assets or liabilities according to accounting principles and values attributed to the same for fiscal purposes are also accounted for.

Deferred tax is recorded at the balance sheet item B2, the explanatory notes include a summary of the differences that originated deferred tax.
Prepaid tax, accounted for only if there is a reasonable belief that they will be recovered, are recorded at the balance sheet item C II 4-ter. The explanatory notes provide a summary of the differences that originated prepaid tax.

The fiscal effects of the temporary differences are determined by applying the tax rate corresponding to the moment these differences will be reversed, or the theoretical current tax rate at the balance sheet date as the best estimate of the rate if the reversal date cannot be reasonably identified.

In relation to prepaid tax recorded in previous years, reasonable certainty to achieve future taxable income and therefore the possibility to recover the entire amount of prepaid tax has been verified.

Translation of foreign currency items

Receivables and payables denominated in foreign currency are translated and booked at the year-end exchange rate. The exchange differences arising at the time of collection or payment are booked to the statement of income.

According to art. 2426 8-bis of the Italian Civil Code, assets and liabilities existing at the balance sheet date and for which a hedging contract does not exist, are translated at the year end spot exchange rate recording the difference at the statement of income. Fixed assets do not follow such a rule, they are recorded at the exchange rate at the date of acquisition, they are translated at the year end exchange rate only if the decrease due to this exchange rate is deemed of enduring nature.
Any positive differences deriving from the translation of foreign currency items at the closing date make up part of the net result and is considered as a non-distributable item pursuant to art. 2426 no. 8-bis of the Italian Civil Code.

OTHER INFORMATION

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

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

Comparability of the items

Pursuant to art.2423 ter, comma 5 of the Italian Civil Code several items of the 2003 balance sheet were reclassified in order to provide better comparability with 2004.

Such reclassifications did not have any effects on the 2003 net result and shareholders' equity.

Repeal of fiscal interferences

As already known, pursuant to art. 6 letter a) of law 366/2001, with law decree no. 6/2003 concerning the reform of company law, the second comma of art. 2426 , which allowed to carry out adjustments and make accruals solely under fiscal rulings, was repealed.
No longer having such a faculty does not however exclude the right to deduct negative income items as the possibility to do so off the books is allowed under art. 109 comma 4, letter b) of the T.U.I.R. as reformulated by law decree no.344/2003 containing the reform of the national fiscal system.

In previous years the company did not make adjustments or provisions for fiscal purposes only, and this was clearly stated at the explanatory notes, and therefore no write-offs were necessary.

The elimination of fiscal interferences involved all those items having exclusively recurring fiscal value in the present fiscal year (or exceeding years); the exceeding years are constituted

by the current negative income items that will be deductible solely for fiscal purposes and off the books pursuant to art. 109 comma 4 letter b) of the new T.U.I.R.
Pursuant to accounting principle CNDC no. 25, for each exceeding year the corresponding deferred fiscal charge is determined and accounted for according to the accrual based method and charged to the statement of income at the item "Deferred tax".

In compliance to provisions of art. 109 comma 4 letter b) of the new T.U.I.R., that although does not provide for the suspension of tax subordinates the use of the deduction off the books:

- by providing a reconciliation when filing for tax return;
- by having a reserve at net equity, other than the legal reserve, that together with retained earnings is not less than the deductions not recorded at the statement of income.

Fiscal Consolidation

Starting from fiscal year 2004 and for the following three years the Company has decided to adhere to the National Fiscal Consolidation pursuant to articles 117/129 of the TUIR.
Reply S.p.A., Parent Company, acts as the consolidating company and determines just one taxable income for the Group companies that adhere to the Fiscal Consolidation, and will benefit from the possibility of compensating taxable income having fiscal losses in just one tax return.

Each adhering company will transfer to Reply S.p.A. its taxable income recording a payable to the company corresponding to IRES to pay, companies having fiscal losses can record a receivable from Reply, equal to IRES, on the part of the loss compensated at a Group level and remunerated according to the consolidation terms established among the Group companies.

NOTES TO ASSETS RECORDED IN THE CONSOLIDATED BALANCE SHEET

B) FIXED ASSETS

I. Intangible fixed assets

Net intangible assets as at 31 December 2004 amounted to 662.827 euros (2.119.456 euros as at 31 December 2003).

(in euros)	Historical cost	Accumulated amortization	Net book value at 31/12/2004
Start-up and expansion costs	4.670.403	4.586.393	84.010
Industrial patents and intellectual property rights	807.204	783.739	23.465
Concessions, licenses, trademarks and similar rights	1.716.068	1.556.914	159.154
Goodwill	144.608	72.304	72.304
Other	674.608	350.714	323.894
Total	**8.012.891**	**7.350.064**	**662.827**

Movements in intangible assets in 2004 are summarized as follows:

(in euros)	Net book value at 31/12/2003	Additions	Amortization	Net book value at 31/12/2004
Start-up and expansion costs	912.179	102.763	(930.932)	84.010
Industrial patents and intellectual property rights	178.850	26.209	(181.594)	23.465
Concessions, licenses, trademarks and similar rights	502.369	-	(343.215)	159.154
Goodwill	86.765	-	(14.461)	72.304
Other	439.293	13.035	(128.434)	323.894
Total	**2.119.456**	**142.007**	**(1.598.636)**	**662.827**

Start-up and expansion costs refer to charges related to the operations of share capital increase. More specifically, the increase of the year, refers to costs incurred by the Company in relation to the acquisition of the entire minority rights of Blue Reply S.r.l. and Planet Reply S.r.l, this latter incorporated during the year in Sytel Reply S.r.l.
Amortization of *Start-up and expansion costs* includes 910 thousand euros related to the last portion of the costs incurred by the Company in 2000 in relation to the Global Offer of 1,970,000 ordinary shares representing approximately 24.14% of Reply S.p.A.'s share capital.

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

The item *Concessions, licenses, trademarks and similar* expresses the value of the "Reply" trademark granted to Reply S.p.A. (before Reply Europe Sàrl) on 9 June, 2000, in connection to the Company's share capital increase that was resolved and undersigned by the Parent Company Alister.
Such trademark is amortized over a 5-year period calculated from the date of acquisition.

Goodwill amounted to 72.304 euros and is referred to the value of the business branch related to the Information Technology consultancy and management support activities, purchased in July 2000.

Amortization is calculated on a 5 to 10 year basis, in relation to the realizable value and the economic benefits of the same.

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

II. Tangible fixed assets

Tangible fixed assets as at 31 December 2004 amounted to euros 432.191 and are detailed in the table below:

(in euros)	31/12/2004	31/12/2003	Change
Plant and machinery	48.902	104.398	(55.496)
Generic equipment	7.069	8.263	(1.194)
Electronic equipment	129.403	139.838	(10.435)
Ordinary office equipment	1.182	934	248
Furniture and fittings	204.084	262.784	(58.700)
Automobiles	38.204	1.080	37.124
Mobile phones	3.347	2.821	526
Total	**432.191**	**520.118**	**(87.927)**

Movements in tangible assets in 2004 are illustrated in the table below:

(in euros)	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Historical cost	270.190	18.419	940.501	1.229.110
Accumulated depreciation	(165.792)	(10.156)	(533.044)	(708.992)
Balance at 31 December 2003	**104.398**	**8.263**	**407.457**	**520.118**
Historical cost				
Additions	27.686	3.708	215.885	247.279
Disposals		(3.098)	(32.407)	(35.505)
Accumulated depreciation				
Depreciation	(83.182)	(4.128)	(218.732)	(306.042)
Disposals		2.324	4.017	6.341
Historical cost	297.876	19.029	1.123.979	1.440.884
Accumulated depreciation	(248.974)	(11.960)	(747.759)	(1.008.693)
Balance at 31 December 2004	**48.902**	**7.069**	**376.220**	**432.191**

In 2004 the Company's additions totaled 247 thousand euros and referred mainly to:

- computers and network equipment for 107 thousand euros;
- furniture and fittings and plants for new office locations totaling 31 thousand euros.
- telephone and network systems for 28 thousand euros;

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

As at 31 December 2004, 70% of the value of tangible assets has been depreciated (58% in 2003).

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

III. Financial fixed assets

Equity investments

Equity investments as at 31 December 2004 amounted to 20.913.597 euros, with an increase of euros 2.424.734 compared to 31 December 2003.

(in euros)	Balance at 31/12/2003	Acquistions and subscriptions	Disposals	Financial loan Remission	Other Changes	Balance at 31/12/2004	Interest
@Logistics Reply S.r.l.	759.167			210.000		969.167	100,0%
Aktive Reply S.r.l.	56.495				84.197	140.692	100,0%
Atlas Reply S.r.l.	39.250					39.250	92,5%
BeWit Reply S.r.l.	7.000		(7.000)			-	-
Blue Reply S.r.l.	108.500	419.392				527.892	100,0%
Business Reply S.r.l.	274.461					274.461	100,0%
Cape Reply S.r.l.	-	10.000		60.000		70.000	100,0%
Cluster Reply S.r.l.	623.207				(84.197)	539.010	100,0%
Cluster Reply Padova S.r.l.	22.572			32.000		54.572	100,0%
e*finance consulting Reply S.r.l.	1.195.200					1.195.200	58,0%
IrisCube Reply S.p.A	3.610.000					3.610.000	51,0%
Logistics Reply do Brasil LTDA	229.316					229.316	80,0%
Logistics Reply SL	53.010					53.010	100,0%
PlaneT Reply S.r.l.	8.000	1.396.042			(1.404.042)	-	-
Reply Consulting S.r.l.	-	5.100		100.000		105.100	51,0%
Spike Reply S.r.l.	55.000					55.000	90,0%
Sysproject Reply S.r.l.	2.071.022					2.071.022	100,0%
Sytel Reply S.r.l.	746.713				1.406.542	2.153.255	100,0%
Sytel Reply Milano S.r.l.	2.500				(2.500)	-	-
Technology Reply S.r.l.	241.353					241.353	100,0%
Twice Reply S.r.l.	208.400		(800)	200.000		407.600	76,0%
XYZ Reply S.r.l.	2.467.019					2.467.019	100,0%
YH Reply S.r.l.	89.657					89.657	100,0%
Santer S.p.A.	5.621.021					5.621.021	49,0%
Total	**18.488.863**	**1.830.534**	**(7.800)**	**602.000**	**-**	**20.913.597**	

Detail of changes in Equity investments is provided below:

Acquisitions and subscriptions

- *Blue Reply S.r.l. e Planet Reply S.r.l*

  The changes are due to the increase of share capital issued through the acquisition of the minority interest of Blue Reply S.r.l. (12%) and Planet Reply S.r.l. (20%).

- *Cape Reply S.r.l.*

  In May 2004 Cape Reply S.r.l. was constituted, company in which Reply S.p.A. holds 100% of the share capital.
  The company focalizes its activities on NetWeaver, a new integrated platform developed by SAP.

- *Reply Consulting S.r.l.*

  In July 2004 Reply Consulting S.r.l. was constituted, company in which Reply S.p.A holds 51% of the share capital.
  The company focalizes in the introduction of new business models for Extended Enterprises based on the development of architectural services.

Disposals

- *Bewit Reply S.r.l.*

  The company, underwent liquidation during 2004 and closed its financial statements without any charges for the company. The shareholders' equity amounted to 55.346 euro, of which 37.375 euros was collected at year-end.

- *Twice Reply S.r.l.*

  The amount refers to the disposal at a nominal value of 8,0% of the share capital to the management of the company.

Financial loan Remission

The amounts recorded are referred to reserves set up to cover several equity investments' losses against waiver of the financial receivable from the same. Such reserve was utilized by the subsidiaries to partially cover the 2004 loss.

Other changes

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

- Planet Reply S.r.l. and Sytel Milano Reply S.r.l. are incorporated in Sytel Reply S.r.l. (with effect 1 October 2004);
- Cluster Reply S.r.l. transferred, through a partial branch spin-off, the activities related to the designing and development of Enterprise Information Portal and Information Supply Chain systems to Aktive Reply S.r.l.

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

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

Receivables

Receivables from subsidiaries

This item amounted to 28.348.620 euros (18.170.619 euros as at 31 December 2003) and is referred to loans granted to the subsidiary companies.

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

(in euros)	**31/12/2004**
@Logistics Reply S.r.l.	4.290.000
Cape Reply S.r.l.	290.000
Aktive Reply S.r.l.	1.055.994
Business Reply S.r.l.	3.626.839
Cluster Reply (new) S.r.l.	3.680.220
Cluster Reply Padova S.r.l.	188.984
e*finance consulting S.p.A.	350.000
Ekip Reply S.r.l.	200.000
IrisCube Reply S.p.A.	1.600.000
Reply Consulting S.r.l.	200.000
Spike Reply S.r.l.	290.000
Sysproject Reply S.r.l.	600.000
Sytel Reply S.r.l.	6.850.000
Technology Reply S.r.l.	2.250.000
Twice Reply S.r.l.	770.000
XYZ Reply S.r.l.	1.756.583
YH Reply S.r.l.	350.000
Total	**28.348.620**

Receivables from other companies

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

C) CURRENT RECEIVABLES

II. Receivables

Trade Receivables

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

(in euros)	31/12/2004	31/12/2003	Change
Trade receivables from third parties	30.216.575	14.594.007	15.622.568
Credit notes to be issued	(307.334)	(248.351)	(58.983)
Total	**29.909.241**	**14.345.656**	**15.563.585**
Allowance for doubtful accounts	(197.774)	(197.774)	-
Total receivables, net	**29.711.467**	**14.147.882**	**15.563.585**

These receivables refer to professional services related to third party agreements entered with Reply S.p.A. and subcontracted by the latter to the subsidiaries.
The above contractual practice was more frequent in 2004 even as a consequence of the ISO 9001 certification accomplished by Reply S.p.A.

Receivables from subsidiary companies

Detail is as follows:

(in euros)	31/12/2004	31/12/2003	Change
Dividends from subsidiaries recorded on accrual basis	3.499.650	4.000.000	(500.350)
Other receivables	10.993.214	6.759.543	4.233.671
Total	**14.492.864**	**10.759.543**	**3.733.321**

Dividends from subsidiary companies recorded on an accrual basis were resolved by the shareholders' meeting of the subsidiaries at the time of approval of the financial statements for the year 2004. The detail is as follows:

(in euros)	31/12/2004
Aktive Reply S.r.l.	150.000
Atlas Reply S.r.l.	416.250
Blue Reply S.r.l.	250.000
Cluster Reply S.r.l.	500.000
E*finance Reply S.r.l.	133.400
Sysproject Reply S.r.l.	150.000
Sytel Reply S.r.l.	1.800.000
YH Reply S.r.l.	100.000
Total	**3.499.650**

Other receivables refer to:

- the utilization of the trademark "Reply" by the subsidiaries and to service contracts that Reply carries out in favor of the subsidiaries at normal market conditions (6.505 thousand euros);
- IRES receivables are calculated on taxable income, such income was transferred to Reply S.p.A by the Italian subsidiary companies in compliance to the national fiscal consolidation (4.488 thousand euro).

Receivables from tax authorities

(in euros)	31/12/2004	31/12/2003	Change
Receivables from tax authorities	451.752	384.398	67.354
VAT receivables	130.703	-	130.703
Total	**582.455**	**384.398**	**198.057**

Receivables from tax authorities mainly refer to Irpeg originating from Reply S.p.A.'s and subsidiaries' tax return in adherence to the National Fiscal Consolidation.

Prepaid tax receivables

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

The table below summarizes the fiscal effects:

(in euros)	2004			2003		
	Temporary differences	Rate	Fiscal effect	Temporary differences	Rate	Fiscal effect
Prepaid tax						
- Write down of equity investments deductible in 5 years	1.356	33 %	447	1.808	33%	597
- Prepaid tax on costs that will become deductible in future years	280	33%	92	-	-	-
- Deferred fiscal deductibility of amortization	702	37,25%	239	531	33%	175
- Other	99	37,25%	38	-	-	-
Total prepaid tax	**2.437**		**816**	**2.339**		**772**

Other receivables

Detail is as follows:

(in euro)	31/12/2004	31/12/2003	Change
Advance to suppliers	103.806	40.325	63.481
Advances to employees	-	2.944	(2.944)
Other	157.814	3.575	154.239
Total	**261.620**	**46.844**	**214.776**

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

III. Financial assets not held as fixed assets

Treasury shares

Such item amounted to 349.680 euros and is referred to no. 45,837 treasury shares recorded at cost determined according to the LIFO method.

During the year the Company did not carry out transactions related to treasury shares.

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

Other securities

During the year the Company sold its other financial activities giving rise to non significant extraordinary financial gains.

IV. Liquid funds

This item amounted to 7.322.244 euros, and shows a change of 1.942.167 euros compared to 31 December 2003, and is referred to cash at banks and on hand at year-end.

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

D) ACCRUED INCOME AND PREPAID EXPENSES

This item, amounted to 482.767 euros, with an increase of 324.688 euros compared to 31 December 2003, and mainly refers to prepaid expenses arising from lease contracts, insurance contracts and other utility expenses, which are accounted for on an accrual basis.

NOTES TO BALANCE SHEET LIABILITIES

A) SHAREHOLDERS' EQUITY

The table below shows the changes in Shareholders' equity for the years ended 2004 and 2003.

(in euros)	Share capital	Additional paid-in capital	Legal reserve	Reserve for treasury shares on hand	Extraord. reserve	Reserve for treasury shares to purchase	Rounding reserve	Retained earnings	Net result of the year	Total
Balance at 31/12/ 2002	**4.244.344**	**14.189.548**	**260.124**	**97.762**	**63.204**	**19.954.930**	**(1)**	**4.874.740**	**4.156.172**	**47.840.823**
Allocation of 2002 result										
- reserves	-		207.809		3.132.143				(3.339.952)	-
- Distribution dividends									(816.220	(816.220)
Purchase of treasury shares	-			343.726		(343.726)				
Disposal of treasury shares	-			(91.808)		91.808				
Rounding							(5)			
Net result 2003	-								1.815.689	1.815.689
Balance at 31/12/2003	**4.244.344**	**14.189.548**	**467.933**	**349.680**	**3.195.347**	**19.703.012**	**(6)**	**4.874.740**	**1.815.689**	**48.840.287**
Allocation result 2003:										
- reserves			90.785		750.941				(841.726)	-
- Distribution dividends									(973.963)	(973.963)
Increase in share capoital	101.301	1.714.133							-	1.815.434
Roundings							1		-	1
Net result 2004	-	-	-	-			-	-	3.000.006	3.000.006
Balance at 31/12/2004	**4.345.645**	**15.903.681**	**558.718**	**349.680**	**3.946.288**	**19.703.012**	**(5)**	**4.874.740**	**3.000.006**	**52.681.765**

As at 31 December 2004 the fully subscribed paid-in share capital of Reply S.p.A. amounted to 4.345.645 euros.
This is made up of 8.357.010 ordinary shares, par value 0,52 euros each.

Changes in the item net equity are mainly referred to:

- Increase of share capital following the acquisition of the entire minority rights of Blue Reply S.r.l. (12%) and Planet Reply S.r.l.(20%), for a total value of 1.815.434,39 euros of which 101.301,20 euros as increase of share capital, passing from 4.244.344 euros to 4.345.645,20 euros and 1.714.133,19 euros as additional paid-in capital;

- Distribution of dividends (0,12 euros per ordinary share) for a total value of 973.963 euros;

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

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

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

Nature/description	Amount	Possibility of utilization	Amount available
Share Capital	4.345.645		
Capital reserves			
Reserve for treasury shares on hand	349.680		
Additional paid-in capital	15.903.681	A, B	15.903.681
Reserve for treasury shares to purchase	19.703.012		19.703.012
Income reserves			
Legal reserve	558.718	A, B	
Extraordinary reserve	3.946.288	A, B, C	3.946.288
Retained earnings	4.874.740	A, B, C	4.874.740
Total	**49.681.764**		**44.427.721**
Amount not available (*)			35.690.703
Residual distributable amount			**8.737.018**

Legend

A: for share capital increase

B: for loss coverage

C: distribution to shareholders

(*) Amount not available due to:

- Additional paid-in capital (15.904 thousand euros);
- Reserve for treasury shares to purchase (19.703 thousand euros);
- Amount destined to cover capitalized costs not fully amortized pursuant to art. 2426 no. 5 (84 thousand euros)

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

With reference to the taxation system of the items included at Shareholders' net equity, and in compliance to provisions of art. 109 comma 4 letter b) of T.U.I.R., the fiscal interferences of the period, carried out as deductions off the books, amount to 86.044 euros, net of deferred fiscal charges.

Stock option plans

The Extraordinary Shareholders' Meeting of Reply S.p.A. on 26 June 2001, on 11 June 2002 and on 10 June 2004 resolved the increase of the share capital with exclusion of stock option rights in compliance with art. 2441, paragraph 8 and art. 2441 paragraph 5 of the Italian Civil Code. Such stock option plans are detailed as follows:

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

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

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

The following table summarizes the valid stock-options as at 31 December 2004:

Board's resolution date	Nr. of rights	Exercise price (euros)	Exercise period
8 August 2002	14.400	13,198	08/08/2004 – 08/02/2005
26 September 2002	2.400	12,719	26/09/2004 – 26/03/2005
13 November 2002	9.800	10,618	13/11/2004 – 13/05/2005
13 February 2003	18.900	10,572	13/02/2005 – 13/08/2005
17 April 2003	9.000	8,934	17/04/2005 - 17/10/2005
26 September 2003	15.300	8,924	26/09/2005 – 26/03/2006
13 November 2003	1.700	9,058	13/11/2005 – 15/05/2006
12 February 2004	12.000	8,914	12/02/2006 – 12/08/2006
19 April 2004	18.600	9,208	19/04/2006 – 19/10/2006
13 May 2004	100.300	9,416	13/05/2006 – 13/11/2006
11 November 2004	12.400	10,943	11/11/2006 – 11/05/2007
	214.800		

In the first months of 2005 no. 12,000 stock options have been exercised for a total value of 134.471,60 euros of which 6.344 euros as increase in share capital, passing from 4.345.645,2 euros to 4.351.989,20 euros and 128.127,60 euros as additional paid-in capital.

B) RESERVES FOR RISKS AND CHARGES

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

Deferred tax fund

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

The table below summarizes the fiscal effects:

(in euros)	2004			2003		
	Temporary differences	Rate	Fiscal effect	Temporary differences	Rate	Fiscal effect
Deferred tax						
- write-down of receivables	(128)	33%	(42)			
- 2003 dividends	-	-	-	(200)	33%	(66)
Total deferred tax	**(128)**		**(42)**	**(200)**		**(66)**

C) RESERVES FOR RISKS AND CHARGES

Movements in the reserve were as follows:

(in euros)	
Balance at 31/12/2003	**358.076**
Provision for the year	214.843
Utilization	(59.139)
Balance at 31/12/2004	**513.780**

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

The number of employees as at 31 December 2004 were 70 units, with an increase of 6 units compared to 31 December 2003.

D) PAYABLES

As at 31 December 2004 payables amounted to 51.112.853 euros, of which 12.094.056 euros financial payables (7.077.069 euros as at 31 December 2003) and 39.018.797 euros trade and other payables (17.397.479 euros as at 31 December 2003).

Financial payables

(in euros)		31/12/2004			31/12/2003	
	Short term	M/L term	Total	Short term	M/L term	Total
Advances on invoices and bank overdrafts	56	-	56	449.069	-	449.069
Medium/long term borrowings	-	12.094.000	12.094.000	-	6.628.000	6.628.000
Total financial payables	**56**	**12.094.000**	**12.094.056**	**449.069**	**6.628.000**	**7.077.069**

On June 30, 2003 Reply S.p.A. undersigned with SanPaolo IMI, pool leader of a group of banks, a contract for a medium term credit facility of a maximum of 35,5 million euros.

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

During the year the credit facility was used for a further 5,5 million euros bringing the total use to 12,1 million euros and some contractual conditions were modified.

The credit facility can be used within 30 months of the contract date and therefore by 31 December 2005.

The reimbursement of the amount used of the credit facility will be made through six half-year installments starting June 30, 2006. Should, at the reimbursement date, the use of the credit facility exceed 26,6 million euros, the reimbursement plan will be calculated on such amount and the exceeding difference will be reimbursed in a lump sum solution by Reply S.p.A. at the maturity date.

The interest rate applied is the Euribor at 6 months with a spread of 1.35 percentage points for the first 12 months; after such a time period the spread could be modified (from 0.95% to 1.50%) in relation to the Debt/Ebitda ratio calculated on Reply consolidated figures.

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

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

The loan is also guaranteed by pledges on the treasury shares and on shares purchased with the loan, in favor of the participating institutions.

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

At the balance sheet date such ratios, as contractually defined (*), were as follows:

- Debt / Equity ≤ 1 (0,04)
- Debt / Ebitda ≤ 3 (0,13)

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

(*)
"Debt" (Net financial indebtedness): with reference to art. 2424 of the Italian Civil Code indicates the difference between the items at D1), D2), D3), D4), D8), D9), D10), (the last three of financial nature only) and the items at C.II) (points 2, 3, 4, 5 of financial nature only), C.III) (only point 6) and C.IV);

"Ebitda" (Gross operating margin): with reference to art. 2425 of the Italian Civil Code indicates the sum of the amounts of the statement of income identified by letter A) (Value of Production) minus the sum of the amounts identified by letter B) (Costs of Production). To the amount determined by this algebraic operation the amounts indicated at letter B) number 10) letter a) "amortization of intangible fixed assets", letter b) "depreciation of tangible fixed assets", number 12) "provision for risks" and number 13) other accruals must be added.

"Equity" (Shareholders' Equity): with reference to art. 2424 of the Italian Civil Code indicates, the sum of the amounts of the liability section identified by the letter A) "Shareholders' Equity" minus the sum of the items of the Assets section identified by the letters A) "Amounts due from Shareholders", B) "Fixed Assets" at no. III (Financial fixed assets) sub no. 4 (treasury shares),and C) "Current Assets" at no. III (financial assets not held as fixed assets) sub no. 5 (treasury shares).

Analysis of the net financial position

The net financial position as at 31 December 2004 amounted to 24.019.884 euros and is detailed as follows:

(in euros)	31/12/2004	31/12/2003	Change
Financial fixed assets			
Financial receivables beyond 12 months			
Subsidiary companies	28.348.620	18.170.619	10.178.001
Other	93.396	96.468	(3.072)
Total financial fixed assets	**28.442.016**	**18.267.087**	**10.174.929**
Current assets			
Securities	-	2.258.805	(2.258.805)
Mutual investment funds	-	86.540	(86.540)
Other	349.680	349.680	0
Liquid funds	7.322.244	5.380.077	1.942.167
Total financial assets not held as fixed assets	**7.671.924**	**8.075.102**	**(403.178)**
Total financial sources	**36.113.940**	**26.342.189**	**9.771.751**
Financial payables			
Due within 12 months	(56)	(449.069)	449.013
Due beyond 12 months	(12.094.000)	(6.628.000)	(5.466.000)
Total financial payables	**(12.094.056)**	**(7.077.069)**	**(5.016.987)**
Net financial position	**24.019.884**	**19.265.120**	**4.754.764**

Change compared to the previous year amounted to 4.754.764 euros and is due to:

(in euros)	2004
Cash flows from operating activities before working capital movements	5.161.907
Change in net working capital	1.536.241
Cash flows from operating activities (A)	6.698.148
Cash flows used in investing activities (B)	(969.421)
Cash flows in financial activities (C)	(973.963)
Change in net financial position (A+B+C)	**4.754.764**

Trade payables and other payables

The change in trade payables and other payables compared to year-ended 2003 amounted to 21.621.318 euros and is detailed in the table below:

(in euros)	31/12/2004	31/12/2003	Change
Trade payables and other payables			
Advances	1.594.077	56.000	1.538.077
Trade payables			
- Third parties	1.730.455	1.066.517	663.938
Due to subsidiary companies	33.202.093	15.315.375	17.886.718
Due to tax authorities			
Ires	1.425.298	-	1.425.298
Irap	15.128	56.405	(41.277)
VAT payable	-	44.657	(44.657)
Withholding tax (employees)	161.235	144.276	16.959
Withholding tax (professional)	5.955	1.175	4.780
Other	3.800	229.371	(225.571)
	1.611.416	**475.884**	**1.135.532**
Due to social security authorities			
Inps	176.879	142.807	34.072
Inail	1.750	2.031	(281)
Previndai	37.694	29.683	8.011
Contribution on employee accruals	146.295	56.531	89.764
Other	575	516	59
	363.193	**231.568**	**131.625**
Other payables			
Employee accruals	459.051	195.045	264.006
Other payables to employees	1.408	1.806	(398)
Due to Directors	428	228	200
Other payables	56.676	55.056	1.620
	517.563	**252.135**	**265.428**
Total trade and other payables	**39.018.797**	**17.397.479**	**21.621.318**

Trade and other payables include payables in foreign currency, such amounts are not significant.

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

Advances

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

Trade payables

Trade payables as at 31 December 2004 amounted to 1.730 thousand euros and included:

- domestic suppliers for 1.718 thousand euros;
- foreign suppliers for 2 thousand euros;

Due to subsidiary companies

This item refers to trade transactions carried out at normal market conditions.
Such payables refer to professional services related to third party agreements with Reply S.p.A. and subcontracted by the latter to subsidiaries. Such a practice has become much more frequent in 2004 compared to the prior year and this explains the difference in the payable position.

Due to tax authorities

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

Due to social security authorities

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

Other payables

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

MEMORANDUM ACCOUNTS

Detail is as follows:

(in euros)	31/12/2004	31/12/2003	Change
Guarantees issued on behalf of related parties	827.720	827.720	-
Guarantees received from third parties	1.807.148	1.248.141	559.007
Risks for pledges on shares	12.094.000	6.628.000	5.466.000
Commitments for lease contracts	564.684	514.765	49.919
Commitments for financial derivatives	14.579.500	6.628.000	7.951.500
Total	**29.873.052**	**15.846.626**	**14.026.426**

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

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

Risks for pledges on shares are related to the medium-long term financial loan, recorded at the balance sheet item financial payables for a total value of 12.094 thousand euros, burdened by a pledge in favor of the participating banking institutions on all the shares purchased through the loan. Reply S.p.A. maintains the right to vote at the annual general meetings on the condition that all obligations and fulfillments under the contract are met.

Commitments for financial derivatives are referred to an interest rate swap agreement (IRS) and forward rate agreement (FRA) against interest rate risks of the SanPaolo IMI syndicated loan as already described previously. At the balance sheet date, the market value of such commitment that reflects the amount that the company would have to pay at the contract expiry date, determined on the basis of the notifications received by the bank counterparties, would not have had significant effects on the financial statements (62 thousand euros).

NOTES TO THE STATEMENT OF INCOME

A) VALUE OF PRODUCTION

Revenues from sales and services

Revenues from sales and services amounted to 58.195.874 euros and are detailed below:

(in euros)	2004	2003	Change
Revenues from services	46.227.038	30.565.642	15.661.396
Revenues from hardware and software resale	1.075.643	1.736.026	(660.383)
Royalties on "Reply" trademark	3.333.626	2.190.631	1.142.995
Intercompany services	4.477.000	4.057.200	419.800
Other intercompany charges	3.082.567	2.025.045	1.057.522
Total	**58.195.874**	**40.574.544**	**17.621.330**

Revenues from services mainly refer to professional services related to third party agreements with Reply S.p.A. and subcontracted by the latter to the subsidiaries. Such a practice has become much more frequent in 2004 compared to the previous year and this explains the significant difference in revenues.

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

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

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

B) COSTS OF PRODUCTION

Raw materials, consumables and goods for resale

This item refers to:

(in euros)	2004	2003	Change
Hardware	57.556	48.000	9.556
Software licenses	610.606	1.379.336	(768.730)
Other	179.059	174.669	4.390
Total	**847.221**	**1.602.005**	**(754.784)**

Service charges

The cost of services is detailed as follows:

(in euros)	2004	2003	Change
Commercial and technical consulting	924.122	465.393	458.729
Services from group companies	46.895.875	29.815.385	17.080.490
Services from parent companies and related parties	468.000	261.000	207.000
Directors' fees	829.000	810.000	19.000
Traveling and training expenses	458.884	349.252	109.632
Marketing expenses	353.466	428.012	(74.546)
Administrative and legal services	463.933	330.829	133.104
Statutory Auditors' and Independent Auditors' fees	86.914	74.447	12.467
Utilities	200.737	155.207	45.530
Services to be recharged to Group companies	709.798	546.436	163.362
Other	559.129	683.936	(124.807)
Total	**51.949.858**	**33.919.897**	**18.029.961**

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

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

Leases and rentals

Charges for leases and rentals are detailed below:

(in euros)	2004	2003	Change
Leases and rentals	871.594	465.620	405.974
Lease of automobiles	252.098	238.962	13.136
Other	378	5.232	(4.854)
Total	**1.124.070**	**709.814**	**414.256**

Personnel

Personnel costs amounted to 4.732.643 euros, with a difference of 989.363 euros and are detailed in the statement of income.

The following table indicates the number of employees by category:

(number)	2004	2003	Change
Directors	20	18	2
Managers	6	6	-
Staff	44	40	4
Total	**70**	**64**	**6**

Amortization and depreciation

Amortization of intangible assets amounted to 1.598.636 euros. The details are provided at the notes to intangible assets herein.

Depreciation of tangible assets, amounted to 306.042 euros, and has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to tangible fixed assets herein.

Other operating costs

These costs include:

(in euros)	2004	2003	Change
Commission expenses on unused portion of loan	182.295	100.850	81.445
Donations	46.260	21.800	24.460
Deductible and non-deductible taxes and fees	22.123	80.178	(58.055)
Membership expenses	19.578	7.853	11.275
Hospitality expenses	9.500	9.488	12
Gifts to clients	8.819	6.511	2.308
Magazines and subscriptions	5.840	2.864	2.976
Taxes on automobiles	6.636	8.260	(1.624)
Miscellaneous	7.781	10.066	(2.285)
Total	**308.832**	**247.870**	**60.962**

C) FINANCIAL INCOME AND EXPENSES

Detail is as follows:

(in euros)	2004	2003	Change
Dividends	3.499.650	4.000.000	(500.350)
Gain on securities	78.115	256.208	(178.093)
Interest from subsidiaries	953.798	821.589	132.209
Interest income on bank accounts	14.620	7.486	7.134
Interest due to banks	(278.740)	(218.238)	(60.502)
Interest due on taxes from previous years	(105)	(113)	8
Financial losses	(10.426)	(27.976)	17.550
Loss/gain on exchange differences	(1.032)	493	(1.525)
Other	(9.253)	(21.077)	11.824
Total	**4.246.627**	**4.818.372**	**(571.745)**

E) EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income, amounting to 51.723 euros, are related to unexpected gains falling out of the ordinary course of business.

Extraordinary expenses, amounting to 21.054 euros are related to unexpected losses falling out of the ordinary course of business.

INCOME TAXES

Detail of income tax is provided below:

(in euros)	Balance at 31/12/2004	Balance at 31/12/2003	Change
IRES	(222.212)	(91.908)	(130.304)
IRAP	196.000	184.000	12.000
Current income tax	**(26.212)**	**92.092**	**(118.304)**
IRES	(139.364)	(587.270)	447.906
IRAP	(11.501)	-	(11.501)
	(150.865)	**(587.270)**	**436.405**
Total	**(177.077)**	**(495.178)**	**318.101**

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

(in euros)	Value	Tax
Result before taxation	2.822.929	
Theoretical fiscal tax rate	**33%**	**931.567**
Temporary differences deductible in future years	522.381	172.386
Reversal of the temporary differences from prior years	(528.759)	(174.491)
Permanent differences	(3.527.076)	(1.163.935)
Taxable IRES income	**(710.525)**	**(234.473)**
Effects of prepaid and deferred tax on prior years	**252.000**	**83.160**
Remuneration of losses brought from consolidation	**305.836**	**100.926**
Fiscal benefits deriving from adherence to fiscal consolidation	**(520.683)**	**(171.825)**
Current IRES tax		**(222.212)**

Determination of IRAP taxable income

(in euros)	Value	Tax
Difference between value and cost of production	(1.454.360)	
Costs not accountable for IRAP purposes	5.720.716	
Revenues not accountable for IRAP purposes	-	
	4.266.356	**181.320**
Temporary differences taxable in future years	-	
Temporary differences deductible in future years	242.252	10.296
Reversal of the temporary differences from prior years	(79.151)	(3.364)
Differences that will not be reversed in future years	162.229	6.895
Taxable IRAP income	**4.591.686**	**195.147**
Current IRAP tax		**196.000**

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

Fiscal deferability is expressed through provision against a tax fund for 42.380 euros related to the deductibility of provision for doubtful accounts made solely for fiscal purposes.

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

OTHER INFORMATION

Emoluments to Directors and Statutory Auditors

Emoluments to Directors and Statutory Auditors for the year-ended 2004 amounted to 829.000 euros and 63.214 euros respectively, with reference only to Reply S.p.A. Detail is as follows:

Name	Office	Term of office (days)	Emoluments
Mario Rizzante	Chairman	365	330.000
Sergio Ingegnatti	Chief Executive Officer	365	210.000
Oscar Pepino	Chief Executive Officer	365	210.000
Marco Mezzalama	Independent Director	365	20.000
Paul de Sury	Independent Director	365	20.000
Tatiana Rizzante	Independent Director	365	20.000
Fausto Forti	Independent Director	256	14.000
Vincenzo Damiani (*)	Independent Director	86	5.000
Total			**829.000**
Piergiorgio Re	Chairman	365	26.442
Tommaso Vallenzasca	Statutory Auditor	365	18.386
Ada A. Garzino Demo	Statutory Auditor	365	18.386
Total			**63.214**

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

REPLY S.p.A.
STATEMENT OF CASH FLOW

(in euros)	2004	2003
Net result for the year	3.000.006	1.815.689
Depreciation and amortization	1.904.678	1.953.396
Accrual for employee termination indemnities	214.843	169.824
Write-down of equity investments	-	2.260.000
Accrual for reserve for risks and charges	42.380	66.000
Accrual for allowances for doubtful accounts	-	84.103
Cash flows from operating activities before working capital movements	**5.161.907**	**6.349.012**
Change in trade receivables	(13.774.691)	(8.120.343)
Collection of dividends from subsidiaries	4.000.000	4.187.486
Change in current assets	(10.304.598)	2.038.735
Change in trade payables	15.555.392	6.223.642
Change in other current liabilities	6.185.277	(1.074.031)
Change in reserve for risks and charges	(66.000)	(2.217.908)
Change in employee termination indemnities	(59.139)	(71.522)
Change in working capital	**1.536.241**	**966.059**
Cash flows from operating activities (A)	**6.698.148**	**7.315.071**
Investments in intangible assets	(142.007)	(230.589)
Investments in tangible assets, net of disposals	(218.114)	(220.592)
Investments in equity investments as waiver of financial loans	(602.000)	(710.000)
Investments in equity investments	(7.300)	(4.836.491)
Cash flows used in investing activities (B)	**(969.421)**	**(5.997.672)**
Distribution of dividends	(973.963)	(816.220)
Cash flows used in financial activities (C)	**(973.963)**	**(816.220)**
Change in net financial position (A + B + C)	**4.754.764**	**501.179**
Net financial position at beginning of year	19.265.120	18.763.941
Change in net financial position	4.754.764	501.179
Net financial position at year-end	**24.019.884**	**19.265.120**

REPLY S.p.A.
RECLASSIFIED BALANCE SHEET

(in euros)	2004	2003
Intangible fixed assets	662.827	2.119.456
Tangible fixed assets	432.191	520.118
Financial fixed assets	20.913.597	18.488.863
Total fixed assets (A)	**22.008.615**	**21.128.437**
Trade receivables	34.623.381	20.848.690
Other current assets	11.724.245	5.419.647
Total current assets (B)	**46.347.626**	**26.268.337**
Trade payables	(31.937.284)	(16.381.892)
Other current liabilities	(7.200.916)	(1.015.639)
Total current liabilities (C)	**(39.138.200)**	**(17.397.531)**
Net current assets (D) (B + C)	**7.209.426**	**8.870.806**
Employee termination indemnities (E)	**(513.780)**	**(358.076)**
Reserve for risks and charges (F)	**(42.380)**	**(66.000)**
Net invested capital (A + D + E + F)	**28.661.881**	**29.575.167**
Shareholders’ equity	52.681.765	48.840.287
Medium/long term net financial position	(16.348.016)	(11.639.087)
Short term net financial position	(7.671.868)	(7.626.033)
Shareholders’ equity and net financial position	**28.661.881**	**29.575.167**

REPLY S.p.A.

EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANIES

Company	Registered office	Share capital	Net Equity at 31/12/04	Net result 2004	Interest	Balance sheet Value at 31/12/04	Valuation pursuant to ex art. 2426 4 c.c.	Difference
@Logistics Reply S.r.l.	Torino	78.000	175.340	(206.232)	100,0%	969.167	557.518	(411.649)
Aktive Reply S.r.l.	Torino	10.000	725.153	293.667	100,0%	140.692	575.153	434.461
Atlas Reply S.r.l.	Torino	10.000	897.727	647.670	92,5%	39.250	414.147	374.897
Blue Reply S.r.l.	Torino	10.000	1.366.767	477.072	100,0%	527.892	1.387.517	859.625
Business Reply S.r.l.	Torino	78.000	245.764	128.492	100,0%	274.461	379.059	104.598
Cape Reply S.r.l.	Torino	10.000	11.148	(58.852)	100,0%	70.000	11.148	(58.852)
Cluster Reply S.r.l.	Torino	100.000	1.012.714	652.041	100,0%	539.010	641.828	102.818
Cluster Reply Padova S.r.l.	Torino	10.000	25.813	(31.613)	100,0%	54.572	25.813	(28.759)
e*finance consulting Reply S.r.l.	Torino	34.000	791.439	479.486	58,0%	1.195.200	1.193.282	(1.918)
IrisCube Reply S.p.A.	Milano	651.735	1.086.487	513.469	51,0%	3.610.000	2.817.508	(792.492)
Logistics Reply do Brasil LTDA	San Paolo	286.646	314.446	52.667	80,0%	229.316	251.557	22.241
Logistics Reply SL	Barcellona	53.010	89.323	53.655	100,0%	53.010	89.323	36.313
Reply Consulting S.r.l.	Torino	10.000	11.715	(98.285)	51,0%	105.100	5.975	(99.125)
Santer S.p.A.	Milano	2.209.500	8.441.439	264.439	49%	5.621.021	5.384.305	(236.716)
Spike Reply S.r.l.	Torino	50.000	223.846	169.444	90%	55.000	201.462	146.462
Sysproject Reply S.r.l.	Torino	10.400	371.799	255.844	100%	2.071.022	1.701.799	(369.223)
Sytel Reply S.r.l.	Torino	115.046	3.561.280	2.180.848	100,0%	2.153.255	3.078.913	925.658
Technology Reply S.r.l.	Torino	79.743	456.381	139.179	100,0%	241.353	456.381	215.028
Twice Reply S.r.l.	Torino	10.000	55.735	(197.622)	76,0%	407.600	42.359	(365.241)
XYZ Reply S.r.l.	Torino	12.939	93.046	74.434	100,0%	2.467.019	2.193.504	(273.515)
YH Reply S.r.l.	Torino	21.224	410.270	216.111	100,0%	89.657	323.698	234.041
						20.913.597		**818.652**

STATUTORY AUDITORS' REPORT ON THE SHAREHOLDERS' MEETING PURSUANT TO ART. 153 OF ITALIAN LEGISLATIVE DECREE NR. 58/1998 AND ART. 2429, PARAGRAPH 3 OF THE ITALIAN CIVIL CODE IN RELATION TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2004

To the Shareholders,

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

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

1. Significant economic, financial and monetary transactions.

The most significant economic, financial and monetary transactions carried out in 2004 are summarized below:

- Partial spin-off of a branch of subsidiary company CLUSTER REPLY S.R.L. in favor of AKTIVE REPLY S.R.L. with accounting and fiscal effect starting October 1, 2004;
- Merger of PLANET REPLY S.R.L. and SYTEL REPLY MILANO S.R.L. in SYTEL REPLY S.R.L. Total spin-off of the subsidiary company ACQUENT REPLY S.R.L. with accounting and fiscal effect starting January 1, 2004 and financial effects as of October 1, 2004;
- Acquisition on March 1 2005 of a branch of the company Advanced Computer System S.p.A. with headquarters in Rome, for a total amount of 184 thousand euros, by SYTEL REPLY S.R.L. The branch carries out commercial and development activities in the Media Asset Management segment;
- Acquisition on April 28 2005 of branch of the company FIAT Gesco S.p.A. and subsequent constitution of the company EOS REPLY S.R.L., for a total amount of 600 thousand euros. the company will carry out accounting and reporting activities

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

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

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

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

- Reply S.p.A. has granted surety ships and patronage letters on behalf of some subsidiary companies in order to enable them to have adequate financial means for the development of their activities;

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

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

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

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

The Directors' Report on Operations related to the year-ended 2004 provides exhaustive information concerning the major economic, financial and monetary transactions and regarding relations with subsidiary and associate companies and other related parties.
Such report does not reveal the existence of any atypical and/or unusual transactions during and following the year-end close.

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

Deloitte & Touche S.p.A., the Independent Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of 31 December 2004, issued its report on 18 May 2005, in which it asserts that REPLY S.P.A.'s financial statements as of 31 December 2004 comply with laws governing the criteria for their preparation.

5. Complaints pursuant to art. 2408 C.C.

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

6. Petitions.

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

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

No further engagements have been assigned to the Auditing firm Deloitte & Touche Italia S.p.A., apart from the verification of the financial parameters established by the syndicated loan with SanPaolo IMI S.p.A.: fee of 3.500 euros.

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

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

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

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

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

During the year the following meetings were held:

- Board of Directors:

12 February 2004
8 March 2004
19 April 2004
13 May 2004
16 July 2004
5 August 2004
23 September 2004
11 November 2004

- Statutory Auditors:

12 January 2004
1 April 2004
28 April 2004
29 June 2004
23 September 2004
16 December 2004.

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

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

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

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

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

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

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

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

On April 21, 2005 the Board of Directors approved the annual report concerning the Corporate Governance System currently adopted by the Company.

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

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

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

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

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

4) ADMINISTRATIVE AND ACCOUNTING SYSTEM

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

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

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

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

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

With regards to the point on the agenda concerning modification of art. 5 of the Articles of Incorporation and consequent proxy to the Board of Directors to increase share capital excluding pre-emptive rights, considering disclosures made by the directors, the Board asserts that the resolution proposed is in accordance to article 2441, paragraph 4 and in accordance to article 158 of Legislative Decree 58/98.

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

Turin, May 20, 2005

THE STATUTORY AUDITORS
(Prof. Piergiorgio Re)
(Mr. Tommaso Vallenzasca)
(Mrs. Ada Alessandra Garzino Demo)