



Half-year financial report 2012

Reply
Half year financial report 2012

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This Half year report has been translated into English from the original Italian version. In case of doubt the Italian version shall prevail.

Board of Directors and Controlling Bodies

Board of Directors

Chairman and Chief Executive Officer

Mario Rizzante

Chief Executive Officer

Tatiana Rizzante

Executive Directors

Daniele Angelucci

Claudio Bombonato

Oscar Pepino

Filippo Rizzante

Fausto Forti⁽¹⁾ ⁽²⁾ ⁽³⁾

Marco Mezzalama⁽¹⁾ ⁽²⁾

Carlo Alberto Carnevale Maffè⁽¹⁾ ⁽²⁾

Statutory Auditors

President

Cristiano Antonelli

Statutory Auditors

Paolo Claretta Assandri

Ada Alessandra Garzino Demo

Independent auditors

Reconta Ernst & Young S.p.A.

¹Directors not invested with operational proxy.

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

³Lead Independent Director.

Financial highlights

FY 2011	%	Economic figures (thsd Euros)	1 st half 2012	%	1 st half 2011	%
440,296	100.0	Revenues	244,170	100.0	218,816	100.0
54,997	12.5	Gross operating income	30,724	12.6	26,499	12.1
48,665	11.1	Operating Income	27,586	11.4	23,028	10.5
46,473	10.6	Income before taxes	26,814	11.0	22,547	10.3
24,150	5.5	Group net income	14,021	5.7	11,461	5.2

31/12/2011	Financial figures (thsd Euros)	30/06/2012	30/06/2011
156,100	Group shareholders' equity	164,341	145,155
1,917	Non-controlling interest	1,795	1,499
423,701	Total assets	413,061	365,241
116,172	Net working capital	119,705	80,886
174,731	Net invested capital	183,819	134,497
4,679	Cash flow (*)	11,229	25,588
(16,714)	Net financial position	(17,683)	12,157

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

31/12/2011	Data per single share (in Euros)	30/06/2012	30/06/2011
9,222,857	Number of shares	9,222,857	9,222,857
5.28	Operating income per share	3.00	2.50
2.62	Net result per share	1.52	1.24
0.51	Cash flow per share	1.25	1.04
16.93	Shareholders' equity per share	18.01	15.74

31/12/2011	Other information	30/06/2012	30/06/2011
3,422	Number of employees	3,577	3,289

Reply living network

Reply Living Network

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

Reply, consisting of a network of specialized companies, assists important European industries in defining and developing new business models utilizing new technologic and communication paradigms such as Social Networking, Cloud Computing and Internet of Things for the optimization and integration of processes, applications and devices.

The Business Model

Reply operates as a network composed of individual companies, each of which specializes in specific processes, applications and technologies, and represents a center of excellence in its respective field of expertise.

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

Applications – Reply designs and implements application solutions aimed at meeting the needs of the core business of enterprises.

Technologies – Reply optimizes the use of innovative technologies to create solutions to ensure customers benefit from maximum efficiency and flexibility.

The range of services offered by Reply includes:

Consulting – strategic, communications, process and technology;

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

Application Management – management, monitoring and continues evolution of the technological assets.

Market focus

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

Telco and Media

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

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

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

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

Banking, Insurance and Finance Institutions

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

Examples include Multichannel retail, with CRM and segment-orientated marketing solutions, advanced mobile banking and online trading platforms, innovative digital product development, web marketing, the development of a new generation of call centers and the digitalization of processes.

Whereas in Wealth Management, Reply supports specialists in the field by providing tailored solutions for asset management factories and distribution networks.

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

Manufacturing and Retail

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

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

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

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

Energy and Utilities

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

Reply supports gas and electricity sales and distribution companies as they implement the operational, organizational and technology changes needed to comply with the new legislation that is driving the move to renewable sources and to compete in the free market with advanced solutions for Billing Real—Time and Energy Management.

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

Government and Defense

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

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

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

Technological innovation

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

Cloud Computing

Cloud computing is currently perceived by the market as a strategic lever to boost competitiveness and improve company standing. In response to this demand, Reply offers a full range of services: consulting; support in selecting the Cloud model best suited to company needs; the deployment and integration of custom platforms and applications; and easy-to-measure maintenance and management services available on a 'pay as you go' basis.

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

- Consulting support (from the process itself through to its operational management) to help customers to understand, choose and develop the best technology and application solutions;
- Reply's own proprietary platform to help organizations to rapidly implement new service provision methods: the Enterprise Private Cloud;
- An end-to-end service provider, backed by partnerships with leading global vendors, including Amazon, Google, Microsoft, Oracle and Salesforce, so customers benefit from solutions tailored to their specific needs, in terms of the model type and technology adopted;
- SaaS services and solutions based on Reply's proprietary application platforms (TamTamy, SideUp Reply, Gaia Reply and Discovery Reply).

Partnerships with several of the world leading vendors among which Amazon, Google, Microsoft, Oracle and Salesforce allow, Reply to furthermore offer more suitable solutions to the diverse needs of companies both in terms of models and adopted technology.

Internet of Things

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

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

The Internet of Things will be applied in many different fields, from industrial applications (production processes), logistics and info-mobility, through to energy efficiency, remote assistance and environmental protection.

In 2011, Reply released HI Reply™, a platform of services, devices and middleware on which specific vertical applications can be based: advanced logistics, environmental safety, contactless payment and product traceability, for instance. HI Reply™ was designed and engineered by Reply's Internet of Things research and development center, which was established at the beginning of 2009 following Reply's acquisition of the Motorola Research Centre in Turin.

CRM

The increasing integration with new communication technologies, especially mobile communications, 'social' participation and collaboration trends, and the spread of 'multichannel' are key to the creation of CRM solutions that deliver real value.

Companies must now identify and implement a communication strategy that is 'peer-to-peer', rather than 'one-to-many'; an approach based on what drives their clients- customer analytics - as well as on the factors which distinguish the company itself.

As a result, Reply has defined the organizational processes and models which, when applied, will ensure an appropriate and efficient level of integration between the framework of the CRM solutions proposed and the existing company structures.

Reply is also helping an increasing number of clients to define CRM system principles, review processes and create CRM technology structures and solutions, by applying the systems to manage their respective operational and organizational processes on an end-to-end basis.

And Reply has identified new techniques and methods which can be used to engage end users, with a view to improving customer loyalty and strengthening the customer relationship itself. 'Gamification' techniques are used in this process.

Thanks to Reply's lengthy experience in markets where end-to-end assistance is a key component of the CRM framework, it is able to integrate sophisticated reporting management models, based on the main technologies available (such as Oracle, Microsoft, Salesforce, SAP and other best-of-breed solutions).

Business Intelligence and Big Data

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

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

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

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

Social Media

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

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

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

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

Mobile

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

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

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

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

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

Mpayments

The mobile payments sector is expected to be one of the fastest-growing markets over the next few years. Leading analysts estimate that by 2014 the value of mPayments market is expected to reach 360 million Euros, driven by the continuing success of the Smartphone and wireless internet devices. By 2013, mPayments are expected to account for 15% of all credit card transactions

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

Digital Communication

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

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

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

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

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

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

Security

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

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

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

Interim Management Report 2012

Reply Group Half-Year Financial Report

Introduction

The Half-Year report for the period ended June 30, 2012 has been prepared in accordance with the Legislative Decree. 58/1998, as amended, and the "Regolamento Emittenti" issued by Consob.

The Report also conforms with the requirements of the International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") adopted by the European Union and has been prepared in accordance with IAS 34 – Interim Financial Reporting. The accounting principles applied are consistent with those used for preparation of the Consolidated Financial Statements at December 31, 2011, except those otherwise stated under "Accounting principles, amendments and interpretations adopted from January 1, 2012.

Trend of the first half

Since the beginning of 2012, the Group reports a consolidated revenue worth 244.2 million Euros, with an increase of 11.6% compared to 2011.

In the first quarter of 2012 EBITDA amounted to 30.7 million Euros, (+15.9% compared to 2011) and EBIT amounted to 27.6 million Euros (+19.8%). Income before taxes amounted to 26.8 million Euros with an increase of 18.9% compared to 2011.

During the second quarter of 2011, the trend of the Group was positive and reported consolidated revenue worth 122.5 million Euros, with an increase of 8.8% compared to the same period in 2011.

EBITDA, in the second quarter of 2012 totaled 15.4 million Euros (+9.1% compared to 2011) and EBIT totaled 13.7 million Euros (+13.0%) and income before taxes totaled 13.4 million Euros (+12.1%).

As at June 30, 2012 the Group's net financial position was negative by 17.7 million Euros, compared to the negative value of 8.0 million Euros as at March 31, 2012 and the negative value of 16.7 million Euros as at December 31, 2011.

The first half of 2012 was very positive for Reply, with significant growth in all market segments where it is present. The most significant aspect is the soundness of this growth, based on the consolidation of relations with major customers who appreciate Reply's ability to always offer highly innovative paradigms in terms of technology, processes and business models.

Reply is one of the first to identify the drivers of a change, which was not only technological, in Mobiles, Cloud Computing, Social Networking and Digital Media, which, in a short space of time, revolutionized the way companies operate and compete on the market.

Currently we are witnessing the birth and proliferation of new internet-enabled paradigms, such as Social Enterprise, Big Data, Gamification, Mobile Apps and The Internet of Things. Reply's goal is to be the reference point for companies which intend transforming this into relevant innovation for their business.

Reclassified consolidated statement of income of the second quarter

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

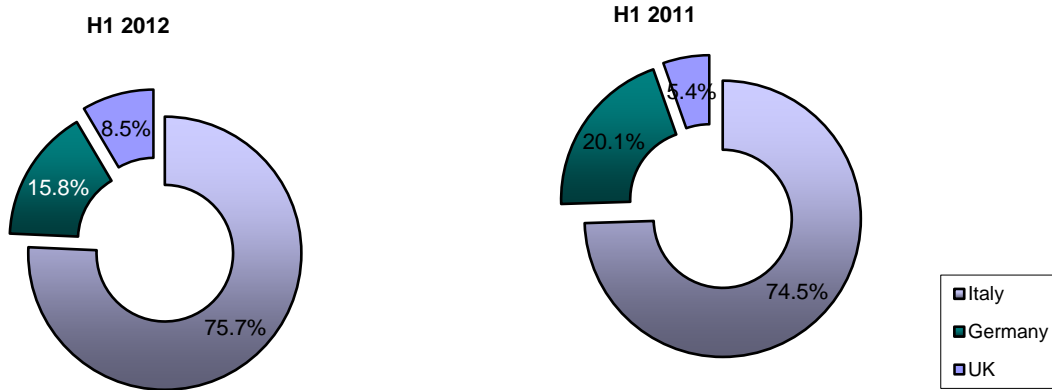
(thousand Euros)	2° Q 2012	%	2° Q 2011	%
Revenues	122,495	100.0	112,618	100.0
Purchases	(2,812)	(2.3)	(2,458)	(2.2)
Personnel	(60,900)	(49.7)	(56,709)	(50.4)
Services and other costs, net	(42,421)	(34.6)	(39,394)	(35.0)
Other non recurring income/(expense)	(1,000)	(0.8)	19	0.0
Operating Costs	(107,133)	(87.5)	(98,542)	(87.5)
Gross operating income (EBITDA)	15,362	12.5	14,076	12.5
Amortization, depreciation and write-downs	(1,682)	(1.4)	(1,969)	(1.7)
Operating income (EBIT)	13,680	11.2	12,107	10.8
Financial income/(expenses)	(273)	(0.2)	(146)	(0.1)
Result before tax (EBT)	13,407	10.9	11,961	10.6

Reclassified consolidated statement of income at June 30, 2012

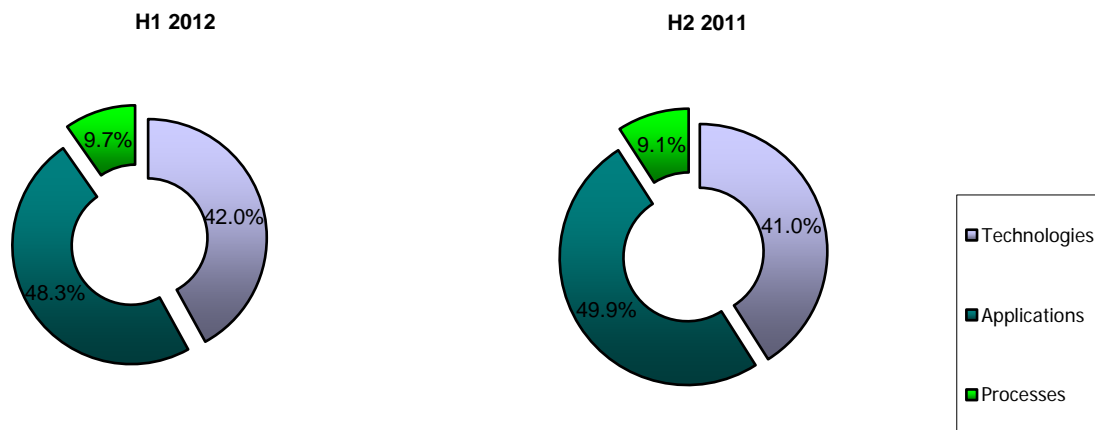
Reply's performance is shown below in the following reclassified consolidated income statement and is compared to corresponding figures of the previous year:

(thousand Euros)	1st half 2012	%	1st half 2011	%
Revenue	244,170	100.0	218,816	100.0
Purchases	(5,054)	(2.1)	(4,367)	(2.0)
Personnel	(121,847)	(49.9)	(110,482)	(50.5)
Services and other costs, net	(85,545)	(35.0)	(77,497)	(35.4)
Other non recurring income/(expense)	(1,000)	(0.4)	29	0.0
Operating costs	(213,446)	(87.4)	(192,317)	(87.9)
Gross operating income (EBITDA)	30,724	12.6	26,499	12.1
Amortization, depreciation and write-downs	(3,138)	(1.3)	(3,471)	(1.6)
Operating income (EBIT)	27,586	11.3	23,028	10.5
Financial income/(expenses)	(772)	(0.3)	(481)	(0.2)
Result before tax (EBT)	26,814	11.0	22,547	10.3

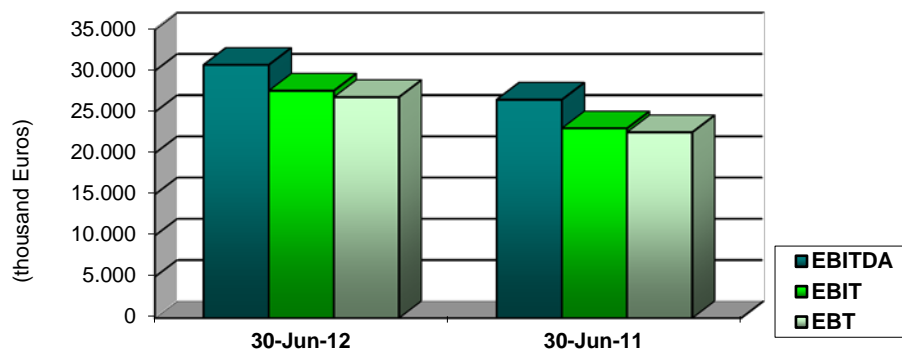
Revenues by geographical area



Revenues by business line



Trend in profitability margins



Analysis of the financial structure

The table below illustrates the Group's financial structure as at June 30, 2012 compared to December 31, 2011:

(thousand Euros)	30/06/2012	%	31/12/2011	%	Change
Current operating assets	249,229		255,722		(6,493)
Current operating liabilities	(129,524)		(139,550)		10,026
Net working capital (A)	119,705		116,172		3,533
Non current assets	133,862		126,254		7,608
Non current financial liabilities	(69,748)		(67,695)		(2,053)
Net fixed capital (B)	64,114		58,559		5,555
Net invested capital (A+B)	183,819	100.0	174,731	100.0	9,088
Shareholders' equity (C)	166,136	90.4	158,017	90.7	8,119
NET FINANCIAL POSITION (A+B-C)	17,683	9.6	16,714	9.3	969

Net invested capital as at June 30, 2012, amounted to 183,819 thousand Euros, and was financed by Shareholders' equity for 166,136 thousand Euros, with a remaining negative net financial position of 17,683 thousand Euros.

The following table provides a breakdown of net working capital.

(thousand Euros)	30/06/2012	31/12/2011	Change
Inventories	29,910	10,184	19,726
Trade receivables	198,689	219,764	(21,075)
Other operating assets	20,630	25,774	(5,144)
Current operating assets (A)	249,229	255,722	(6,493)
Trade payables	45,761	48,005	(2,244)
Other current liabilities	83,763	91,545	(7,782)
Current operating liabilities (B)	129,524	139,550	(10,026)
Net working capital (A-B)	119,705	116,172	3,533
<i>% return on revenues</i>	<i>24.5%</i>	<i>26.4%</i>	

Net financial position and cash flows statement

(thousand Euros)	30/06/2012	31/12/2011	Change
Cash and cash equivalents, net	1,861	6,394	(4,533)
Current financial assets	490	345	145
Due to banks	(7,835)	(7,798)	(37)
Other providers of finance	(409)	(177)	(232)
Short term financial position	(5,893)	(1,236)	(4,657)
Non financial assets	910	936	(26)
Due to banks	(12,229)	(16,141)	3,912
Other providers of finance	(471)	(273)	(198)
M/L term financial position	(11,790)	(15,478)	3,688
Total net financial position	(17,683)	(16,714)	(969)

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

(thousand Euros)	30/06/2012
Cash flows from operating activities (A)	11,229
Cash flows from investment activities (B)	(6,413)
Cash flows from financial activities (C)	(9,349)
Change in cash and cash equivalents (D) = (A+B+C)	(4,533)
Cash and cash equivalents at the beginning of the period (*)	6,394
Cash and cash equivalents at year end (*)	1,861
Total change in cash and cash equivalents (D)	(4,533)

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

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

Other information

Research and development activities

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

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

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

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

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

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

Transactions with related parties and group companies

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

The Annual Report provides the information required by art. 154-ter of the TUF as requested by Consob Regulation no. 17221 of 12 March 2010, disclosing that no significant transactions took place in the period under exam.

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

Human resources

At June 30, 2012 the number of employees of the Group was 3,577 with an increase of 155 compared to December 31, 2011 and an increase of 288 resources compared to June 30, 2011.

Outlook on operations

The first half of 2012 is the result of the trust shown by the markets, the continuous investments and innovation and of the excellent operational performances of the Group that has achieved very positive results both in economic and financial terms in all its geographical areas. Reply will build on this as to maintain such trends in the second half of 2012.

Turin, August 2, 2012

/s/ Mario Rizzante

For the Board of Directors
The Chairman
Mario Rizzante

Half year condensed consolidated financial statements as at June 30, 2012

Reply

Consolidated income statement (*)

(thousand Euros)	Note	1st half 2012	1st half 2011	2011
Revenues	5	244,170	218,816	440,296
Other revenues	5	4,052	2,398	7,171
Purchases	6	(5,054)	(4,367)	(8,703)
Personnel	7	(121,847)	(110,482)	(215,056)
Services and other costs	8	(89,597)	(79,895)	(167,606)
Amortization, depreciation and write-downs	9	(3,138)	(3,471)	(6,332)
Other non-recurring income/(expenses)	10	(1,000)	29	(1,105)
Operating income		27,586	23,028	48,665
Financial income/(expenses)	11	(772)	(481)	(2,192)
Result before tax of continuing operations		26,814	22,547	46,473
Income tax	12	(12,184)	(10,666)	(21,327)
Net result of continuing operations		14,630	11,881	25,146
Non controlling interest		(609)	(420)	(996)
Group net result		14,021	11,461	24,150
Net result per share	13	1.56	1.26	2.67
Diluted net result per share	13	1.54	1.24	2.63

(*) Pursuant to Consob Regulation no.15519 of July 27, 2006, the effects of related-party transactions on the consolidated statement of income are reported in the Annexed tables herein and fully described in Note 33.

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Consolidated statement of comprehensive income

(thousand Euros)	Note	1st half 2012	1st half 2011
Profit of the period (A)		14,630	11,881
Gain/(Losses) on cash flow hedges	24	-	191
Gain/(Losses) on exchange differences on translating foreign operations	24	(193)	(252)
Actuarial gains/(losses) from employee benefit plans	24	(348)	(48)
Total other comprehensive net of tax (B)		(541)	(109)
Total comprehensive income (A)+(B)		14,089	11,772
Total comprehensive income attributable to:			
Owners of the parent		13,463	11,352
Non-controlling interests		626	420

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Consolidated statement of financial position (*)

(thousand Euros)	Note	30/06/2012	31/12/2011	30/06/2011
Tangible assets	14	11,834	10,361	8,533
Goodwill	15	96,646	96,646	89,032
Other intangible assets	16	6,110	6,180	6,460
Equity investments	17	27	58	24
Other financial assets	18	6,185	4,430	4,582
Deferred tax assets	19	13,970	9,519	9,723
Non Current assets		134,772	127,194	118,354
Inventories	20	29,910	10,184	19,091
Trade receivables	21	198,689	219,764	159,736
Other receivables and current assets	22	20,630	25,774	14,903
Financial assets	18	490	341	15
Cash and cash equivalents	23	28,570	40,444	53,142
Current assets		278,289	296,507	246,887
TOTAL ASSETS		413,061	423,701	365,241
Share capital		4,796	4,796	4,796
Other reserves		145,524	127,154	128,898
Group net result		14,021	24,150	11,461
Group shareholders' equity	24	164,341	156,100	145,155
Non controlling interest	24	1,795	1,917	1,499
SHAREHOLDERS' EQUITY		166,136	158,017	146,654
Payables to minority shareholders	25	31,466	32,307	25,300
Financial liabilities	26	12,699	16,414	13,788
Employee benefits	27	16,252	15,740	14,791
Deferred tax liabilities	28	11,034	8,404	10,889
Provisions	29	10,997	11,244	12,557
Non current liabilities		82,448	84,109	77,325
Financial liabilities	26	34,953	42,025	28,418
Trade payables	30	45,761	48,005	37,239
Other current liabilities	31	82,669	90,868	71,061
Provisions	29	1,094	677	4,544
Current liabilities		164,477	181,575	141,262
TOTAL LIABILITIES		246,925	265,684	218,587
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		413,061	423,701	365,241

(*)Pursuant to Consob Regulation no. 15519 of July 27, 2006, the effects of related-party transactions on the Consolidated statement of financial position are reported in the Annexed tables herein and fully described in Note 33.

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Statement of changes in consolidated equity

(thousand Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for cash flow hedges	Cumulative transaction adjustment reserve	Reserve for actuarial gains/(losses)	Non-controlling interest	Total
Balance at January 1, 2011	4,796	(2,523)	49,538	84,682	(237)	149	1,088	1,331	138,824
Dividends distributed	-	-	-	(4,070)	-	-	-	(420)	(4,490)
Change in treasury shares	-	575	-	-	-	-	-	-	575
Total comprehensive income for the period	-	-	-	11,461	191	(252)	(48)	420	11,772
Other changes	-	-	(491)	296	-	-	-	168	(27)
Balance at June 30, 2011	4,796	(1,948)	49,047	92,369	(46)	(103)	1,040	1,499	146,654

(thousand Euros)	Share capital	Treasury shares	Capital reserve	Earning reserve	Reserve for cash flow hedges	Cumulative transaction adjustment reserve	Reserve for actuarial gains/(losses)	Non-controlling interest	Total
Balance at January 1, 2012	4,796	(3,183)	49,184	104,666	-	(91)	728	1,917	158,017
Dividends distributed	-	-	-	(4,494)	-	-	-	(582)	(5,076)
Change in treasury shares	-	(422)	-	-	-	-	-	-	(422)
Total comprehensive income for the period	-	-	-	14,021	-	(193)	(365)	626	14,089
Other changes	-	-	34	(340)	-	-	-	(166)	(472)
Balance at June 30, 2012	4,796	(3,605)	49,218	113,853	-	(284)	363	1,795	166,136

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Consolidated statement of cash flows

(thousand Euros)	1st half 2012	1st half 2011
Group net result	14,021	11,461
Income tax	12,184	10,666
Depreciation and amortization	3,138	3,471
Other non-monetary changes, net	-	217
Change in inventories	(19,727)	(12,991)
Change in trade receivables	21,075	32,361
Change in trade payables	(2,243)	(320)
Change in other assets and liabilities	(16,119)	(14,562)
Income tax paid	(1,100)	(4,715)
Net cash flows from operating activities (A)	11,229	25,588
Payments for tangible and intangible assets	(4,540)	(3,359)
Payments for financial assets	(1,904)	396
Payments for the acquisition of subsidiaries net of cash acquired	31	(5,815)
Net cash flows from investment activities (B)	(6,413)	(8,778)
Dividends paid	(5,076)	(4,490)
Payments for acquisition of treasury shares	(422)	(17)
In payments from financial loans	-	5,700
Payment of installments	(3,906)	(8,305)
Other changes	55	(74)
Net cash flows from financing activities (C)	(9,349)	(7,186)
Net cash flows (D) = (A+B+C)	(4,533)	9,624
Cash and cash equivalents at the beginning of the period	6,394	26,332
Cash and cash equivalents at the end of the period	1,861	35,956
Total change in cash and cash equivalent (D)	(4,533)	9,624
Detail of net cash and cash equivalents		
	1st half 2012	1st half 2011
Cash and cash equivalents at the beginning of period:	6,394	26,332
Cash and cash equivalents	40,444	50,125
Bank overdrafts	(34,050)	(23,793)
Cash and cash equivalents at the end of period:	1,861	35,956
Cash and cash equivalents	28,570	53,142
Bank overdrafts	(26,709)	(17,186)

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NOTE 1 – General information

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

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

NOTE 2 – Accounting principles and basis of consolidation

Compliance with International accounting principles

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

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

In particular, this Half-year financial report has been prepared in accordance with IAS 34- *Interim Financial Reporting* applying the same accounting principles and policies used in the preparation of the Consolidated financial statements at December 31, 2011 other those discussed in the following paragraph “Accounting principles, amendments and interpretations adopted January 1, 2012.

This Half-year financial report is expressed in thousands of Euros.

The preparation of the interim financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements. If in the future such estimates and assumptions, which are based on management’s best judgment at the date of the interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. Reference should be made to the section “Use of estimates” in the consolidated financial statements for the year ended December 31, 2011 for a detailed description of the more significant valuation procedures used by the Group.

Moreover, these valuation procedures, in particular those of a more complex nature regarding matters such as any impairment of non-current assets, are only carried out in full during the preparation of the annual financial statements, when all the information required is available, other than in the event that there are indications of impairment, when an immediate assessment is necessary.

Income taxes are recognized based upon the best estimate of the weighted average income tax rate expected for the full financial year.

General principles

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

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

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

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

Format of the financial statements

This Half-year financial report includes, statement of income, statement of comprehensive income, statement of financial position, statement of changes in shareholders' equity, statement of cash flows and explanatory notes.

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

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

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

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

Accounting principles, amendments and interpretations adopted by January 1, 2012

IFRS 7 – Financial instruments

On 7 October 2010, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures, adopted by the Group from 1st January 2012. The amendments will allow users of financial statements to improve their understanding of transfers (“derecognition”) of financial assets, including an understanding of the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of a transfer transaction is undertaken at the end of a reporting period. The application of these amendments had no significant effect on the disclosures presented in this Half-year financial report nor on the measurement of the related items. The effects arising from the adoption of this amendment will be reflected in the Annual financial report disclosures.

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

IAS 12 – Deferred Tax : Recovery of Underlying Assets (Amendment)

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012. The European Union had not yet completed its endorsement process for this amendment at the date of these half-year condensed financial statements and therefore not yet applied by the Group. To ne noted however that such principle does not apply to the Group.

The Group has not early adopted any other standard, interpretation or improvements issued but not yet endorsed.

NOTE 3 – Risk management

Credit Risk

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

Liquidity Risk

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

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

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

Currency risk and interest rate risk

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

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

NOTE 4 - Consolidation

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

Change in consolidation compared to June 30, 2011 is related to Portaltech Ltd., a UK company specializing in consultancy and multichannel e-commerce strategies and solutions, acquired in the month of November 2011 through the holding Reply Ltd., which acquired the 80% of the share capital.

Change in consolidation in the first half of 2012 affects the Group's revenues and Net profit by 1.6% and 4.8%.

NOTE 5 - Revenue

Revenues from sales and services, including change in work in progress, amounted to 244,170 thousand Euros (218,816 thousand Euros at June 30, 2011).

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

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

Country	1st half 2012	1st half 2011
Italy	75.7%	74.5%
Germany	15.8%	20.1%
UK	8.5%	5.4%
	100.0%	100.0%

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

Other revenue is related to fringe benefits recharged to employees, contributions on community projects and other non recurring income.

NOTE 6 - Purchases

Detail is as follows:

(thousand Euros)	1st half 2012	1st half 2011	Change
Software licenses for resale	3,136	2,105	1,031
Hardware for resale	295	685	(390)
Other	1,623	1,577	46
Total	5,054	4,367	687

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

The item *Other* mainly includes the acquisition of fuel amounting to 1,186 thousand Euros and office material amounting to 205 thousand Euros.

NOTE 7 - Personnel

Detail is as follows:

(thousand Euros)	1st half 2012	1st half 2011	Change
Payroll employees	107,816	98,497	9,319
Executive directors	11,330	9,908	1,422
Project collaborators	2,701	2,077	624
Total	121,847	110,482	11,365

The increase in personnel expenses amounting to 11,365 thousand Euros refers to the overall increase of the Group's business and the number of employees.

Detail of personnel by category is provided below:

(number)	30/06/2012	30/06/2011	Change
Directors	261	252	9
Managers	550	488	62
Staff	2,766	2,549	217
Total	3,577	3,289	288

At June 30, 2012 the number of employees of the Group was 3,577, compared to 3,289 at June 30, 2011.

Change in consolidation brought an increase of 43 employees.

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

NOTE 8 – Services and other costs

Service expenses comprised the following:

(thousand Euros)	1st half 2012	1st half 2011	Change
Commercial and technical consulting	52,665	43,338	9,327
Travelling and professional training expenses	10,933	9,821	1,112
Other service costs	15,208	16,408	(1,200)
Office expenses	4,988	5,109	(121)
Lease and rentals	3,154	3,151	3
Other	2,649	2,068	581
Total	89,597	79,895	9,702

Change in Services and other costs amounted to 9,702 thousand and owes to an overall increase in the Group's activities.

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

Office expenses include charges from related parties in connection to service contracts for the use of premises and centralized secretarial services amounting 3,008 thousand Euros.

NOTE 9 – Amortization, depreciation and write downs

Depreciation of tangible assets, amounting to 1,875 thousand Euros at June 30, 2012 has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to tangible assets. This item also includes the government grant established by the Regional laws 34/2004 and 4/2006 in relation to the financed research projects amounting to 208 thousand Euros.

Amortization of intangible assets for the first half of 2012 amounted to 1,471 thousand Euros. The details are provided at the notes to intangible assets herein.

NOTE 10 – Other non recurring income/(expenses)

Other non recurring income/(expenses) amounting to 1,000 thousand Euros (29 thousand Euros in the first half of 2011) is related to events falling out of the ordinary course of business.

NOTE 11 – Financial income/(expenses)

Detail is as follows:

<u>(thousand Euros)</u>	<u>1st half 2012</u>	<u>1st half 2011</u>	<u>Change</u>
Financial gains	115	191	(76)
Interest expenses	(843)	(830)	(13)
Other	(44)	158	(202)
Total	(772)	(481)	(291)

The item *Financial gains* mainly includes interest on bank accounts for 107 thousand Euros.

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

The item *Other* includes a gain on Exchange differences from the translation of balance sheet items not stated in Euros amounting to 109 thousand Euros.

NOTE 12 – Income taxes

At June 30, 2012 income taxes amounted to 12,184 thousand Euros and were recognized in accordance to the expected annual average income tax rate.

NOTE 13 – Earnings per share

Basic earnings per share

Basic earnings per share at June 30, 2012 was calculated with reference to the profit for the period of the Group which amounted to 14,021 thousand Euros (11,461 thousand Euros at June 30, 2011) divided by the weighted average number of shares outstanding at June 30, 2012 which were 8,987,175 (9,068,354 at June 30, 2011).

<u>(in Euros)</u>	<u>1st half 2012</u>	<u>1st half 2011</u>
Net profit for the year	14,021,000	11,461,000
Weighted average number of shares	8,987,175	9,068,354
Basic earnings per share	1.56	1.26

Diluted earnings per share

Diluted earnings per share at June 30, 2012 was calculated with reference to the profit for the period of the Group which amounted to 14,021 divided by the weighted average number of shares outstanding at June 30, 2012, taking in consideration the diluting effect which could derive from hypothetical exercising of financial instruments potentially convertible in shares (stock options).

(in Euros)	1st half 2012	1st half 2011
Net profit for the year	14,021,000	11,461,000
Weighted average number of shares	8,987,175	9,068,354
Diluting effect	145,000	168,400
Weighted number of diluted shares	9,132,175	9,236,754
Diluted earnings per share	1.54	1.24

NOTE 14 – Tangible assets

Tangible assets as at June 30, 2012 amounted to 11,834 thousand Euros and are detailed as follows:

(thousand Euros)	30/06/2012	31/12/2011	Change
Buildings	2,403	2,474	(71)
Plant and machinery	1,178	974	204
Hardware	3,615	3,182	433
Other	4,638	3,731	907
Total	11,834	10,361	1,473

Change in tangible assets in the first half of 2012 is summarized in the table below:

(thousand Euros)	Buildings	Plant and machinery	Hardware	Other	Total
Historical cost	4,023	6,002	19,486	8,265	37,776
Accumulated depreciation	(1,549)	(5,028)	(16,304)	(4,534)	(27,415)
Balance at 31/12/2011	2,474	974	3,182	3,731	10,361
<i>Historical cost</i>					
Additions	-	504	1,498	1,325	3,327
Disposals	-	(106)	(755)	(28)	(889)
Other changes	-	-	10	54	64
<i>Accumulated depreciation</i>					
Depreciation					
Utilization	(71)	(294)	(1,064)	(446)	(1,875)
Other changes	-	100	744	4	848
	-	-	-	(2)	(2)
Historical cost	4,023	6,400	20,239	9,616	40,278
Accumulated depreciation	(1,620)	(5,222)	(16,624)	(4,978)	(28,444)
Balance at 30/06/2012	2,403	1,178	3,615	4,638	11,834

During the first half 2012 the Group carried out investments amounting to 3,327 thousand Euros mainly in relation to computers and network equipment.

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

Change in *Hardware* owes to investments made by the Italian subsidiaries for 713 thousand Euros and 511 thousand Euros to purchases made by the German companies. Furthermore this item includes financial leases for 482 thousand Euros (299 at December 31, 2011).

The item *Other* at June 30, 2012 includes improvements to third party assets (3,470 thousand Euros) and office furniture (640 thousand Euros). Increase of 1,325 thousand Euros includes 377 thousand Euros the acquisition of office equipment and for 584 thousand Euros for improvements carried out to the new offices located in London.

Other changes are mainly referred to translation differences arising from the translation of non Euro financial statements.

At June 30, 2012 70.6% of tangible assets have been depreciated compared to 72.6% at December 31, 2011.

NOTE 15 - Goodwill

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

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

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

In the first half of 2012 no impairment indicators have arisen which may have changed the value of goodwill.

NOTE 16 – Other intangible assets

Intangible assets as at June 30, 2012 amounted to 6,110 thousand Euros (6,180 thousand Euros at December 31, 2011) and detail is as follows:

(thousand Euros)	Historical cost	Accumulated amortization	Net book value at 30/06/2012
Development costs	13,210	(9,303)	3,907
Software	13,117	(12,174)	943
Trademarks	535	-	535
Other intangible assets	3,150	(2,425)	725
Total	30,012	(23,902)	6,110

Change in intangible assets during the first half of 2012 is summarized in the table below:

(thousand Euros)	Net book value at 31/12/2011	Increase	Other changes	Accumulated amortization	Net book value at 30/06/2012
Development costs	3,815	1,000	-	(908)	3,907
Software	864	388	12	(321)	943
Trademarks	535	-	-	-	535
Other intangible assets	966	-	-	(241)	725
Total	6,180	1,388	12	(1,470)	6,110

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

The item *Software* is related mainly to software licenses purchased and used internally by the Group companies. This item also includes work in progress of internally developed software for 174 thousand Euros of which 45 thousand Euros refers to activity in progress.

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

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

NOTE 17 – Equity investments

This item amounting to 27 thousand Euros refers to investments in the company NextNext S.r.l. of which Bitmama S.r.l. holds 24% of the share capital and investments in the company Concept Reply GmbH of which Reply S.p.A. holds 100% of the share capital.

In the first half of 2012 the above mentioned company was recorded at cost as it will become active in the second half of 2012.

NOTE 18 – Financial assets

Other financial assets amounted to 6,675 thousand Euros compared to 4,711 thousand Euros at December 31, 2011.

Detail is as follows:

(thousand Euros)	30/06/2012	31/12/2011	Change
Receivables from insurance companies	3,044	2,978	66
Guarantee deposits	2,219	501	1,718
Long term securities	911	936	(25)
Other financial assets	11	15	(4)
Short term securities	490	341	149
Total	6,675	4,771	1,904

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

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

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

In accordance to IFRS 7 the fair value used by the Group is classified as a hierarchy of Level 1 (prices available on active markets for the assets or liabilities being measured). As at June 30, 2012, there have not been any transfers within the hierarchy levels.

NOTE 19 – Deferred tax assets

This item amounted to 13,970 thousand Euros at June 30, 2012 (9,519 thousand Euros at December 31, 2011), and includes the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.

This item mainly includes deferred tax assets related to costs that will become deductible in future years in relation to doubtful account provisions, amortization and consolidation adjustments.

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

There were no deferred tax assets on losses carried forward.

NOTE 20 - Inventories

The item inventories amounted to 29,910 thousand Euros and is detailed below:

(thousand Euros)	30/06/2012	31/12/2011	Change
Contract work in progress	62,585	37,980	24,605
Finished products and goods for sale	133	134	(1)
Advance payments from customers	(32,808)	(27,930)	(4,878)
Total	29,910	10,184	19,726

Increase compared to December 31, 2011 is due to an increase in contract work in progress and is in line with the corresponding amount at June 30, 2012.

NOTE 21 – Trade receivables

Trade receivables at June 30, 2012 amounted to 198,689 thousand Euros with a decrease of 21,075 thousand Euros.

Trade receivables are shown net of allowances for doubtful accounts amounting to 2,493 thousand Euros at June 30, 2012 (2,529 thousand euros at December 31, 2011).

(thousand Euros)	30/06/2012	31/12/2011	Change
Domestic receivables	168,025	189,843	(21,818)
Foreign trade receivables	33,202	32,502	700
Credit notes to be issued	(45)	(52)	7
Total	201,182	222,293	(21,111)
Allowance for doubtful accounts	(2,493)	(2,529)	36
Total trade receivables	198,689	219,764	(21,075)

The *Allowance for doubtful accounts* in the first half of 2012 developed as follows:

(thousand Euros)	31/12/2011	Accrual	Utilized and Write off	Other changes	30/06/2012
Allowance for doubtful accounts	2,529	318	(355)	1	2,493

Trade receivables are all collectable within one year.

Over-due trade receivables and the corresponding allowance for doubtful accounts, compared to 2011, is summarized in the tables below:

Aging at June 30, 2012
(thousand Euros)

	Trade receivables	Current	0-90 days	91-180 days	181-360 days	Over 360 days	Total overdue
Trade receivables	201,182	160,497	29,983	6,459	1,982	2,261	40,685
Allowance for doubtful accounts	(2,493)	-	(263)	(388)	(538)	(1,304)	(2,493)
Total trade receivables	198,689	160,497	29,720	6,071	1,444	957	38,192

**Aging at December 31,
2011**
(thousand Euros)

	Trade receivables	Current	0-90 days	91-180 days	181-360 days	Over 360 days	Total overdue
Trade receivables	222,293	178,324	28,041	7,966	3,095	4,867	43,969
Allowance for doubtful accounts	(2,529)	-	(356)	(204)	(492)	(1,477)	(2,529)
Total trade receivables	219,764	178,324	27,685	7,762	2,603	3,390	41,440

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

NOTE 22 – Other receivables and current assets

Detail is as follows:

(thousand Euros)	30/06/2012	31/12/2011	Change
Tax receivables	5,139	10,722	(5,583)
Advances to employees	41	50	(9)
Other receivables	10,559	10,272	287
Accrued income and prepaid expenses	4,891	4,730	161
Total	20,630	25,774	(5,144)

The item tax receivables mainly includes:

- Vat tax receivables (2,465 thousand Euros);
- Advance payment on income tax for some Italian companies (1,054 thousand Euros);
- Receivables for withholding tax (296 thousand Euros).

Other receivables include a capital contribution amounting to 8,783 thousand Euros (8.026 thousand Euros at 31/12/2011) in accordance to the Regional laws 34/2004 and 4/2006 with reference to the research projects.

NOTE 23 – Cash and cash equivalents

This item amounted to 28,570 thousand Euros, with a decrease of 11,874 thousand Euros compared to December 31, 2011, and reflects the amount of cash at banks and on hand at the balance sheet date.

Change in cash and cash equivalents is fully detailed in the consolidated statement of cash flow.

NOTE 24 – Shareholders' equity

Share capital

At June 30, 2012 the fully subscribed paid-in share capital of the Parent Company Reply S.p.A. amounted to 4,795,885.64 Euros and is made up of 9,222,857 ordinary shares, par value 0.52 Euros per share.

Treasury shares

Treasury shares on hand amounting to 3,605 thousand Euros is related to shares held by the Parent company that as at June 30, 2012 were equal to 235,813. During the first half of 2012 Reply S.p.A. acquired no. 32,100 ordinary shares while 7,201 ordinary shares were disposed for the acquisition of the minority shares in subsidiaries.

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

Capital reserve

At June 30, 2012 the capital reserve amounted to 49,218 thousand Euros, and is summarized as follows:

- Share premium reserve amounted to 20,623 thousand Euros.
- Reserve for treasury shares on hand amounting to 3,605 thousand Euros is related to shares held by the Parent company.
- Reserve for purchase of treasury shares, amounting to 26,395 thousand Euros, was constituted through withdrawal from the *Reserve for treasury shares on hand*, following the resolution made by the General Shareholders Meeting of Reply S.p.A. on 29 April 2010 which authorized, pursuant to art. 2357 of the Italian Civil Code, the purchase of a maximum of 30 million Euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

Earning reserve

Earning reserve amounted to 113,853 thousand euros and comprises the following:

- Legal reserve of Reply S.p.A. amounting to 959 thousand Euros.
- Retained earnings totaled 98,873 thousand Euros (79,557 thousand Euros at December 31, 2011).
- The profit attributable to owners of the parent amounting to 14,021 thousand Euros (24.150 thousand Euros at December 31, 2011).

Other comprehensive income

Other comprehensive income can be analyzed as follows:

(thousand Euros)	30/06/2012	31/12/2011
Gains/(losses) on cash flow hedges arising during the period	-	191
Reclassification adjustment for gains/(losses) on cash flow hedges included in income statement	-	-
Gains/(Losses) on cash flow hedges	-	191
Exchange gains/(losses) on translating foreign operations arising during the year	(193)	(252)
Exchange gains/(losses) on translating foreign operations reclassified to profit or loss	-	-
Exchange gains/(losses) on translating foreign operations	(193)	(252)
Other comprehensive income generated during the period	(348)	-
Other comprehensive income reclassified during the period	-	-
Share of other comprehensive income	(348)	48
Income tax relating to components of Other comprehensive income	-	-
Total Other comprehensive income, net of tax	(541)	(109)

Non controlling interest

The non controlling interest of 1,795 thousand Euros at June 30, 2012 (1,917 thousand Euros at June 30, 2011), refers mainly to the following companies consolidated on a line-by-line basis:

(thousand Euros)	30/06/2012	31/12/2011
Italian companies		
Bitmama S.r.l.	280	196
Bridge Reply	10	39
Forge Reply S.r.l.	-	(44)
Storm Reply	(19)	-
Portaltech Reply S.r.l	12	-
Ringmaster S.r.l	385	146
Twice Reply S.r.l.	185	170
Foreign companies		
Reply Deutschland AG	65	659
is4 GmbH & Co. KG	29	28
Riverland Reply GmbH	848	723
Total	1,795	1,917

NOTE 25 – Payables to minority shareholders

Payables to Minority shareholders at June 30, 2012 amounted to 31,466 thousand Euros (32,307 thousand Euros at December 31, 2011).

(thousand Euros)	30/06/2012	31/12/2011	Change
Syskoplan AG	7,417	7,417	-
Riverland Reply GmbH	2,496	2,496	-
Is4 GmbH & Co. KG	2,860	2,860	-
Other Germany	65	64	1
Other Italy	649	652	(3)
Avantage (UK) Ltd.	12,405	11,995	40
Portaltech Reply Ltd	5,574	6,823	(1,249)
Total	31,466	32,307	(841)

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

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

Payables to minority shareholders of Riverland Reply GmbH, for 2,496 thousand Euros, which refers to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of 75.016% of the share capital

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

Payables Other Germany is referred to the *Earn-out* component for the acquisition of a Reply Deutschland AG group company amounting to 65 thousand Euros (64 thousand Euros at December 31, 2011).

Payables Other Italy for 649 thousand Euros is related to the estimated variable compensation to be paid in 2014, subordinated to achieving determined economic parameters.

Payables to minority shareholders of avantage Ltd. amounting to 12,405 thousand Euros is related to the estimated variable compensation to be paid in three years, subordinated to achieving determined economic parameters, for the acquisition of the remaining 49% of the share capital and payment of the second tranches of the initial consideration.

Payables to minority shareholders of Portaltech Ltd., amounting to 5,574 thousand Euros is referred to the *Earn-out* component that reflects the estimated variable compensation to be paid in two years, subordinated to achieving determined economic parameters, for the acquisition of the 80% of the share capital and the option for Reply S.p.A to acquire the remaining 20%. In the first half of 2012 the liability has decreased as the first tranche was paid to the minority shareholders.

NOTE 26 – Financial liabilities

Detail is as follows:

(thousand Euros)	30/06/2012			31/12/2011		
	Current	Non current	Total	Current	Non current	Total
Bank overdrafts	26,713	-	26,713	34,050	-	34,050
Bank loans	7,831	12,229	20,060	7,798	16,141	23,939
Total due to banks	34,544	12,229	46,773	41,848	16,141	57,989
Other financial borrowings	409	470	879	177	273	450
Total financial liabilities	34,953	12,699	47,652	42,025	16,414	58,439

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

(thousand Euros)	30/06/2012				31/12/2011			
	Due within a year	Between 1 and 5 years	Over 5 years	Total	Due within a year	Between 1 and 5 years	Over 5 years	Total
Advances on receivables	26,713	-	-	26,713	34,050	-	-	34,050
Stand-by credit line	7,654	11,424	-	19,078	7,654	15,309	-	22,963
Carispe Bank	15	47	-	62	29	48	-	77
Commerzbank	162	477	281	920	115	581	281	977
Other financial borrowings	409	470	-	879	177	273	-	450
Fair Value IRS and other	-	-	-	-	-	(78)	-	(78)
Total	34,953	12,418	281	47,652	42,025	16,133	281	58,439

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

The total amount utilized was 22,963 thousand Euros.

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

As contractually defined, such ratios are as follows:

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

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

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

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

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

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

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

Net financial position

In compliance with Consob regulation issued on July 28, 2006 and in accordance with CESR's *Recommendations for the consistent implementation of the European's regulation on Prospectuses* issued on February 10, 2005, the Net financial position at June 30, 2012.

(thousand Euros)	30/06/2012	31/12/2011	Change
Cash and cash equivalents	28,570	40,444	(11,874)
Current financial assets	490	345	145
Non current financial assets	910	936	(26)
Total financial assets	29,970	41,725	(11,755)
Current financial liabilities	(34,954)	(42,025)	7,071
Non current financial liabilities	(12,699)	(16,414)	3,715
Total financial liabilities	(47,653)	(58,439)	10,786
Total net financial position	(17,683)	(16,714)	(969)

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

NOTE 27 – Employee benefits

<u>(thousand Euros)</u>	<u>30/06/2012</u>	<u>31/12/2011</u>	<u>Change</u>
Employees severance indemnities	12,325	11,925	400
Employees' pension funds	2,710	2,658	52
Directors severance indemnities	1,174	1,114	60
Other	43	43	-
Total	16,252	15,740	512

Employee's severance indemnities

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

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

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

In accordance to IAS 19 Employee severance indemnities in the first half of 2012 is summarized in the table below:

<u>(thousand Euros)</u>	
Balance at 31/12/2011	11,925
Service cost	856
Actuarial gains/losses	323
Interest cost	247
Indemnities paid during the year	(1,026)
Balance at 30/06/2012	12,325

Pension funds

The item Pension funds is related to the liability for defined plans for some Reply Deutschland AG Group companies.

Director's severance indemnities

This item is related to Directors severance indemnities paid during the year. Change amounting to 60 thousand Euros refers to the resolution made by the Shareholders Meeting of several subsidiary companies to pay an additional indemnity to some Members of the Board in 2012.

NOTE 28 – deferred tax liabilities

Deferred tax liabilities at June 30, 2012 amounted to 11,034 thousand Euros (8,405 at December 31, 2011) and are referred mainly to the fiscal effects arising from temporary differences between the statutory income and taxable income.

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

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

NOTE 29 - Provisions

Provisions amounted to 12,092 thousand Euros (of which 10,997 thousand Euros non current).

Change in the first half of 2012 is summarized in the table below:

(thousand Euros)	Balance at 31/12/2011	Accruals	Utilization	Write-off	Balance at 30/06/2012
Fidelity provisions	1,111	739	(418)	(6)	1,426
Other provisions	1,773	1,159	(235)	-	2,697
Provision for Motorola research center	9,036	-	(1,067)		7,969
Total	11,920	1,898	(1,720)	(6)	12,092

Fidelity provisions are referred mainly to provisions made for some Reply Deutschland AG group companies in relation to anniversary bonuses. The liability is determined through actuarial calculation applying 5.5% rate.

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

The provision for Motorola research center originates from the acquisition of the business branch Motorola Electronics S.p.A. in 2009 and reflects the best estimate of the residual costs to incur in relation to the agreements reached with the parties involved in the transaction to implement research and development projects, in accordance to IAS 37.

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

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

NOTE 30 – Trade payables

Trade payables at June 30, 2012 amounted to 45,761 thousand Euros with a change of 2,244 compared to December 31, 2011.

Detail is as follows:

<u>(thousand Euros)</u>	<u>30/06/2012</u>	<u>31/12/2011</u>	<u>Change</u>
Domestic suppliers	47,987	47,885	102
Foreign suppliers	1,574	3,332	(1,758)
Advances to suppliers	(3,800)	(3,212)	(588)
Total	45,761	48,005	(2,244)

NOTE 31 – Other current liabilities

Other current liabilities as at June 30, 2012 amounted to 82,669 thousand Euros with an increase of 8,199 thousand euros compared to December 31, 2011.

Detail is as follows:

(thousand Euros)	30/06/2012	31/12/2011	Change
Income tax payables	11,641	3,207	8,434
VAT payable	1,608	6,151	(4,543)
Withholding tax and other	2,727	4,385	(1,658)
Total due to tax authorities	15,976	13,743	2,233
INPS	9,118	12,305	(3,187)
Other	833	1,035	(202)
Total due to social security authorities	9,951	13,340	(3,389)
Employee accruals	30,708	25,799	4,909
Other payables	19,015	26,469	(7,454)
Accrued expenses and deferred income	7,019	11,517	(4,498)
Total due to others	56,742	63,785	(7,043)
Total trade payables and other liabilities	82,669	90,868	(8,199)

Due to tax authorities amounting to 15,976 thousand Euros, mainly refers to payables due for withholding tax on employees and free lancers' compensation.

Due to social security authorities, amounting to 9,951 thousand Euros, is related to both Company and employees contribution payables.

Other payables at June 30, 2012 amounted to 56,742 thousand Euros and included:

- Amounts due to employees that at the balance sheet date had not yet been paid;
- Amounts due to directors;
- Advances received from customers exceeding the value of the work in progress amounting to 5,211 thousand Euros.

The item *Accrued expenses and deferred income* is mainly related to services that are related to future financial statements.

NOTE 32 – Segment Reporting

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

1st half 2012

(thousand Euros)	Italy	%	Germany	%	UK	%	Intersegment	Total	%
Revenues	190,251	100.0	39,601	100.0	21,347	100.0	(7,029)	244,470	100.0
Operating costs	(164,486)	(86.5)	(37,069)	(93.6)	(18,924)	(88.6)	7,029	(213,449)	(87.4)
Gross operating income	25,765	13.5	2,532	6.4	2,423	11.4	-	30,724	12.6
Amortization, depreciation and write-downs	(2,494)	(1.3)	(530)	(1.3)	(114)	(0.5)	-	(3,138)	(1.3)
Operating income	23,271	12.2	2,002	5.1	2,309	10.8	-	27,586	11.3

1st half 2011

(thousand Euros)	Italy	%	Germany	%	UK	%	Intersegment	Total	%
Revenues	165,439	100.0	44,758	100.0	12,052	100.0	(3,433)	218,816	100.0
Operating costs	(144,686)	(76.1)	(39,154)	(98.9)	(11,910)	(55.8)	3,433	(192,317)	(79.5)
Gross operating income	20,753	10.9	5,604	14.2	142	0.7	-	26,499	12.1
Amortization, depreciation and write-downs	(2,830)	(1.5)	(613)	(1.5)	(28)	(0.1)	-	(3,471)	(1.6)
Operating income	17,923	9.4	4,991	12.6	114	0.5	-	23,028	10.5

Financial figures

(thousand Euros)	30/06/2012					31/12/2011				
	Italy	Germany	UK	Interseg.	Total	Italy	Germany	UK	Interseg	Total
Current operating assets	223,713	21,046	14,996	(9,805)	249,950	233,123	18,459	13,422	(9,282)	255,722
Current operating liabilities	(114,270)	(15,319)	(10,459)	9,805	(130,245)	(124,693)	(15,734)	(8,404)	9,282	(139,550)
Net working capital (A)	109,443	5,726	4,537	-	119,705	108,430	2,725	5,018	-	116,172
Non current assets	105,766	16,612	11,486	-	133,864	98,303	16,348	11,604	-	126,254
Non current liabilities	(57,753)	(6,213)	(5,964)	-	(69,749)	(54,247)	(6,236)	(7,213)	-	(67,695)
Net fixed assets (B)	48,194	10,400	5,522	-	64,116	44,056	10,112	4,391	-	58,560
Net invested capital (A+B)	157,637	16,126	10,059	-	183,820	152,487	12,837	9,409	-	174,731

Breakdown of employees per country is as follows:

Country	1st half 2012	1st half 2011	Change
Italy	2,871	2,637	234
Germany	521	534	(13)
UK	185	118	67
Total	3,577	3,289	288

NOTE 33 – Transactions with related parties

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

Transactions carried out by Reply S.p.A. with related parties are considered ordinary business and are carried out at normal market conditions.

Financial and business transactions among the Parent Company Reply S.p.A. and its subsidiary and associate companies are carried out at normal market conditions.

Reply Group Main economic and financial transactions

(thousand Euros)

Financial transactions	30/06/2012	31/12/2011	Nature of transaction
Trade receivables and other	256	233	Receivables from professional services
Trade payables and other	1,875	574	Payables for professional services and office rental
Other	2,053	3,594	Payables to Directors, Key Management and Board of Statutory Auditors
Economic transactions	1 st half 2012	1 st half 2011	Nature of transaction
Revenues from professional services	231	38	Receivables from professional services
Services from Parent company and third parties	3,008	2.363	Services related to office rental and office of the secretary
Personnel	3.776	3.324	Emoluments to Directors and Key Management
Services and other costs	53	51	Emoluments to Statutory Auditors

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

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

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

NOTE 34 – Guarantees, commitments and contingent liabilities

Guarantees

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

Commitments

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

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

- (i) Reply is obliged to compensate Reply Deutschland AG for each annual net loss that would otherwise arise during the term of the agreement, unless such loss is compensated for by withdrawing amounts from other profit reserves which have been allocated thereto during the agreement;
- (ii) if and to the extent that the annual dividends actually paid by Reply Deutschland AG, per financial year falls short of the Guaranteed Dividend, Reply will pay to each Minority Shareholder the corresponding difference;
- (iii) upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration (8.19 Euros), within the term of three months after the date on which the commercial register of Reply Deutschland AG has been announced in accordance with Sec 10 of the German Commercial Code (HGB). It is to be noted that at present, in accordance to German law, the exercise period for such option is still valid as the competent court has not yet ruled in relation to the adequacy of the exercise price of the option.
- (iv) upon request of a Minority Shareholder, Reply shall acquire his shares in return for a cash consideration, within the term of two months after the date on which the agreement has expired and notice has been given to the commercial register in accordance with Sec 10 of the German Commercial Code (HGB).

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

- (i) annual dividend integration for a maximum amount of 441 thousand Euros;
- (ii) obligation to acquire the Minority Shareholders' shares for a maximum amount of 8.1 million Euros, equivalent to the fair value of non controlling interest;

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

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

Contingent liabilities

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

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

NOTE 35 – Events subsequent to June 30, 2012

No significant events have occurred subsequent to June 30, 2012.

Annexed tables

Consolidated Income Statement

Pursuant to Consob Resolution n. 15519 of July 27, 2006

(thousand Euros)	1st half 2012	Of which related parties	%	1st half 2011	Of which related parties	%
Revenues	244,170	231	0.0%	218,816	38	0.0%
Other revenues	4,052		0.0%	2,398	-	0.0%
Purchases	(5,054)		0.0%	(4,367)	-	0.0%
Personnel expenses	(121,847)	(3,776)	3.1%	(110,482)	(3,324)	3.0%
Services and other costs	(89,597)	(3,061)	3.4%	(79,895)	(2,414)	3.0%
Amortization and write-offs	(3,138)		0.0%	(3,471)	-	0.0%
Other unusual operating income/(expenses)	(1,000)		0.0%	29	-	0.0%
Operating income	27,586			23,028		
Financial income/(expenses)	(772)		0.0%	(481)	-	0.0%
Result before tax of continuing operations	26,814			22,547		
Income taxes	(12,184)		0.0%	(10,666)	-	0.0%
Net result of continuing operations	14,630			11,881		
Profit/(loss) for the period attributable to non- controlling interest	(609)		0.0%	(420)	-	0.0%
Profit/(loss) for the period attributable to owners of the parent	14,021			11,461		

Consolidated Statement of financial statements pursuant to Consob Resolution n. 15519 of July 27, 2006

(thousand Euros)	30/06/2012	Of which related parties	%	31/12/2011	Of which related parties	%
Tangible fixed assets	11,834		0.0%	10,361		0.0%
Goodwill	96,646		0.0%	96,646		0.0%
Other intangible assets	6,110		0.0%	6,180		0.0%
Equity investments	27		0.0%	58		0.0%
Other financial assets	6,185		0.0%	4,430		0.0%
Deferred tax assets	13,970		0.0%	9,519		0.0%
Non current assets	134,772			127,194		
Inventories	29,910		0.0%	10,184		0.0%
Trade receivables	198,689	256	0.1%	219,764	233	0.1%
Other receivables and current assets	20,630		0.0%	25,774		0.0%
Financial assets	490		0.0%	341		0.0%
Cash and cash equivalents	28,570		0.0%	40,444		0.0%
Current assets	278,289			296,507		
TOTAL ASSETS	413,061			423,701		
Share capital	4,796		0.0%	4,796		0.0%
Other reserves	145,524		0.0%	127,154		0.0%
Net result	14,021		0.0%	24,150		0.0%
Group Shareholders' equity	164,341			156,100		
Non-controlling interest	1,795		0.0%	1,917		0.0%
TOTAL SHAREHOLDERS' EQUITY	166,136			158,017		
Liabilities to minority shareholders	31,466		0.0%	32,307		0.0%
Financial liabilities	12,699		0.0%	16,414		0.0%
Employee benefits	16,252		0.0%	15,740		0.0%
Deferred tax liabilities	11,034		0.0%	8,404		0.0%
Other provisions	10,997		0.0%	11,244		0.0%
Non current liabilities	82,448			84,109		
Financial liabilities	34,953		0.0%	42,025		0.0%
Trade payables	45,761	1,875	4.1%	48,005	574	1.2%
Other payables and current liabilities	82,669	2,053	2.5%	90,868	3,594	4.0%
Other provisions	1,094		0.0%	677		0.0%
Current liabilities	164,477			181,575		
Total liabilities	246,925			265,684		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	413,061			423,701		

REPLY

Companies included in consolidation and subsidiaries evaluated at cost at June 30, 2012

Company name	Registered office	Group interest
Parent Company		
Reply S.p.A.	Turin - Corso Francia 110	-
SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS		
@logistics Reply S.r.l.	Turin - Corso Francia 110	100.00%
4cust Reply S.r.l.	Turin - Corso Francia 110	100.00%
4cust Reply GmbH	Munich - Germany	100.00%
Aktive Reply S.r.l.	Turin - Corso Francia 110	100.00%
Atlas Reply S.r.l.	Turin - Corso Francia 110	100.00%
avantage Reply Ltd. (*)	London- UK	51.00%
Bitmama S.r.l.	Turin - Corso Francia 110	51.00%
Blue Reply S.r.l.	Turin - Corso Francia 110	100.00%
Bridge Reply S.r.l.	Turin - Corso Francia 110	60.00%
Business Reply S.r.l.	Turin - Corso Francia 110	100.00%
Cluster Reply S.r.l.	Turin - Corso Francia 110	100.00%
Consorzio Reply Public Sector	Turin - Corso Francia 110	100.00%
Discovery Reply S.r.l.	Turin - Corso Francia 110	100.00%
e*finance consulting Reply S.r.l.	Turin - Corso Francia 110	100.00%
Ekip Reply S.r.l.	Turin - Corso Francia 110	100.00%
EOS Reply S.r.l.	Turin - Corso Francia 110	100.00%
Forge Reply S.r.l.	Turin - Corso Francia 110	100.00%
Hermes Reply Polska zo.o.	Katowice - Poland	100.00%
Hermes Reply S.r.l.	Turin - Corso Francia 110	100.00%
IrisCube Reply S.p.A.	Turin - Corso Francia 110	100.00%
Iriscube Reply SA	Savosa - Switzerland	100.00%
Lem Reply S.r.l.	Turin - Corso Francia 110	100.00%
Live Reply GmbH	Düsseldorf, Germany	100.00%
Open Reply S.r.l.(*)	Turin - Corso Francia 110	92.50%
Portaltech Reply Ltd. (*)	London-UK	80.00%
Portaltech Reply S.r.l.	Turin - Corso Francia 110	85.00%
Power Reply S.r.l.	Turin - Corso Francia 110	100.00%
Reply Consulting S.r.l.	Turin - Corso Francia 110	100.00%
Reply Deutschland AG and subsidiary	Gutersloh, Germany	80.83%
Reply do Brasil Sistemas de Informatica Ltda	Belo Horizonte - Brazil	100.00%

Reply Ltd.	London – Old Baily, 16	100.00%
Reply Services S.r.l.	Turin - Corso Francia, 110	100.00%
Ringmaster S.r.l.	Turin - Corso Francia, 110	50.00%
Riverland Reply GmbH (*)	Munich - Germany	75.02%
Santer Reply S.p.A.	Milan-- Via Durando, 38	100.00%
Security Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Square Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Storm Reply S.r.l. (*)	Turin - Corso Francia, 110	80.00%
Syskoplan Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Sytel Reply Roma S.r.l.	Turin - Corso Francia, 110	100.00%
Sytel Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Target Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Technology Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Tender Reply S.r.l.	Turin - Corso Francia, 110	100.00%
Twice Reply S.r.l.	Turin - Corso Francia, 110	94.00%
Whitehall Reply S.r.l.	Turin - Corso Francia, 110	100.00%

SUBSIDIARIES VALUED AT COST

NextNext S.r.l.	Turin	24.00%
Concept Reply GmbH	Germany	100.00%

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

Attestation of the Half-year condensed financial statements pursuant to 154 bis of Legislative Decree No. 58/98

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

- the adequacy with respect to the Company's structure and
- the effective application,

of the administrative and accounting procedures applied in the preparation of the Company's Half-year condensed financial statements at June 30, 2012.

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the condensed financial statements as of and for the period ended June 30, 2012 was based on a process defined by Reply in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally-accepted reference framework.

3. The undersigned moreover attest that:

3.1 the Half-year condensed financial statements at June 30, 2012:

- have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002;
- correspond to the amounts shown in the Company's accounts, books and records; and
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries;

3.2 the related interim management report includes a reliable analysis of the significant events affecting the Company in the first six months of the current fiscal year and the impact of such events on the Company's condensed financial statements as well as a description of the main risks and uncertainties for the second half of the year

Turin, August 2, 2012

/s/ Mario Rizzante
Chief executive officer

Mario Rizzante

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

Independent Auditors' report

Auditors' review report on the half year condensed consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Reply S.p.A.

1. We have reviewed the half year condensed consolidated financial statements, comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the statement of changes in consolidated equity, the consolidated statement of cash flows and the related notes, of Reply S.p.A. and its subsidiaries (the "Reply Group") as of June 30, 2012. Management of Reply S.p.A. is responsible for the preparation of the half year condensed consolidated financial statements in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this review report based on our review.
2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. Our review consisted mainly of obtaining information on the accounts included in the half year condensed consolidated financial statements and the consistency of the accounting principles applied, through discussions with management, and of applying analytical procedures to the financial data presented in these consolidated financial statements. Our review did not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the half year condensed consolidated financial statements as we expressed on the annual consolidated financial statements.

With respect to the consolidated financial statements of the prior year and the half year condensed consolidated financial statements of the corresponding period of the prior year, presented for comparative purposes, reference should be made to our reports issued on March 26, 2012 and on August 5, 2011, respectively.

3. Based on our review, nothing has come to our attention that causes us to believe that the half year condensed consolidated financial statements of Reply Group as of June 30, 2012 are not prepared, in all material respects, in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Turin, August 3, 2012

Reconta Ernst & Young S.p.A.

Signed by: Luigi Conti, Partner

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

Corporate information and information for Shareholders

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