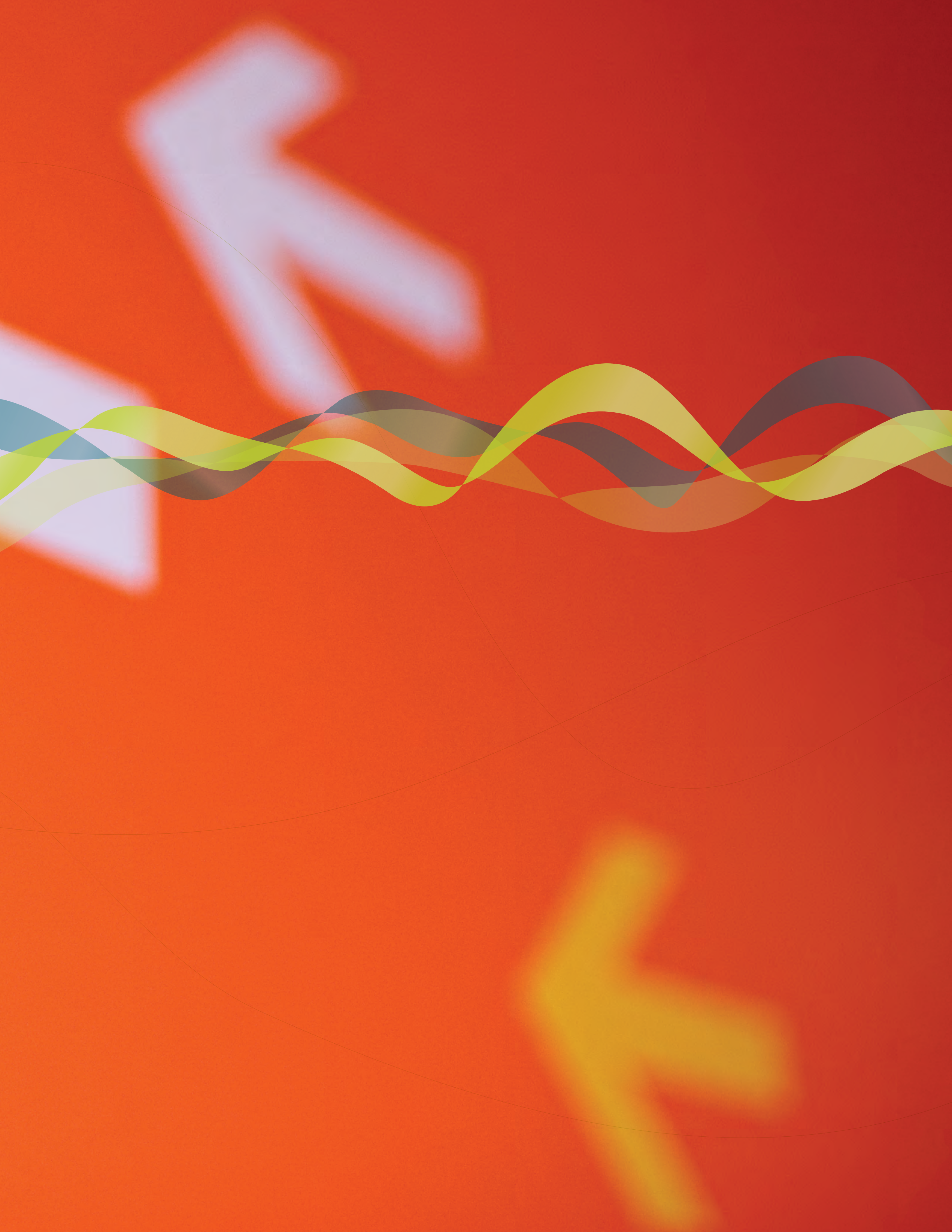
Reply

Living network

_Annual report 2008

_Annual report 2008



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This report has been translated into English from the original version in Italian. In case of doubt the Italian version shall previal.

_**Board** of directors and controlling bodies

Board of Directors

Chairman and Chief executive officer
Mario Rizzante

Chief executive officers
Sergio Ingegnatti
Tatiana Rizzante

Executive Directors
Oscar Pepino
Claudio Bombonato
Fausto Forti (1) (2) (3)
Marco Mezzalama (1) (2)
Carlo Alberto Carnevale Maffè (1) (2)

Statutory auditors

President
Tommaso Vallenzasca

Statutory auditors
Paolo Claretta Assandri
Ada Alessandra Garzino Demo

Independent auditors

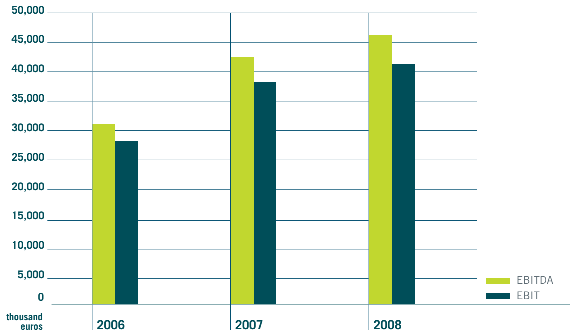
Deloitte & Touche S.p.A.

(1) Directors not invested with operational proxy.
(2) Independent directors, according to the Coporate Governance code for public companies.
(3) Lead Independent Director.

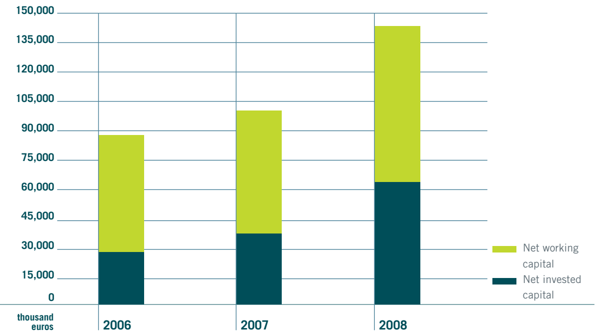
Trends in revenue

Revenues by business lines

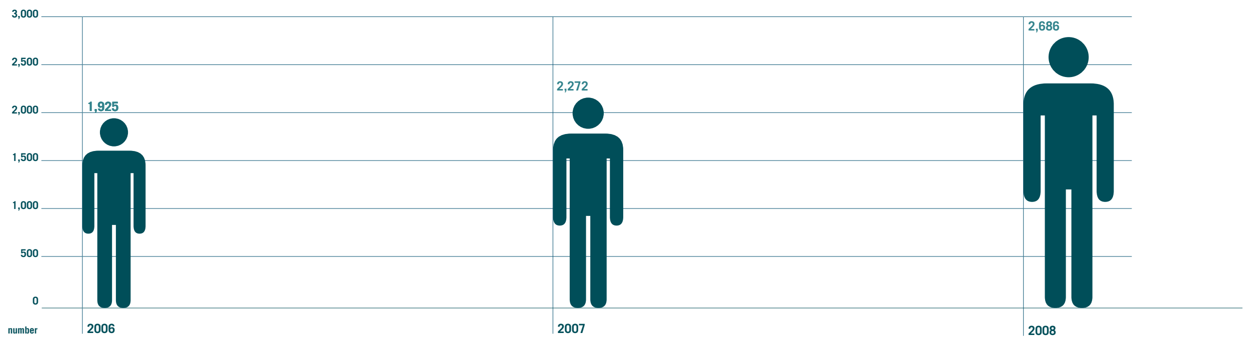
Margins



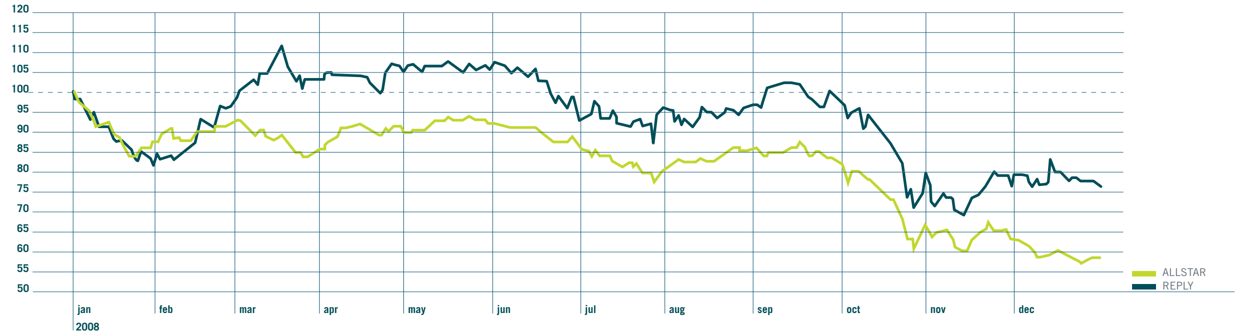
Trends in net invested capital



Human resources



The Reply share in 2008



_Financial highlights

Financial figures (euro/000)	2008	%	2007	%	2006	%
Revenues	330,210	100.0	277,176	100.0	230,164	100.0
Gross operating income	46,044	13.9	42,282	15.3	31,462	13.7
Operating income	41,159	12.5	38,036	13.7	27,846	12.1
Income before taxes	40,135	12.2	37,820	13.6	27,797	12.1
Group net income	18,924	5.7	15,719	5.7	10,274	4.5

Balance sheet items euro/000)	2008	2007	2006
Group shareholders' equity	111,646	94,493	79,107
Minority interest	13,278	12,713	14,481
Total assets	301,038	235,140	206,338
Net working capital	81,358	63,846	59,938
Net invested capital	143,551	96,788	86,890
Cash Flow (*)	10,267	19,650	8,837
Net financial position	(18,627)	10,418	6,698

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

Data per single share (in euros)	2008	2007	2006
Number of shares	9,222,857	9,079,920	8,926,905
Operating income per share	4.46	4.19	3.12
Net result per share	2.05	1.73	1.15
Cash Flow per share	1.11	2.16	0.99
Shareholders' equity per share	12.11	10.41	8.86

Other information	2008	2007	2006
Number of employees	2,686	2,272	1,925

_**Letter** to the Shareholders

Dear Shareholders,

In 2008, in a market scenario that for some time has shown minor growth rates, Reply, achieved a turnover of over 330 million euros with an increase of 19% compared to 2007, recording, at the same time, an increase of 20% of the net result.

We have achieved these results thanks to the expertise of our people and by persevering in a development plan aimed at making Reply a key European player specialising in segments with great growth potentials.

The continuous investments made in promoting the new models brought about by the net and supporting our clients in the introduction of new technologies is the reason why today, Reply is considered by the market, a key reference point in fields such as: service architectures, CRM, Business Intelligence, Mobile and Wireless solutions, security and Web 2.0. Fields that are ever more becoming fundamental in the re-definition of business models by enterprises.

In 2008 Reply has also developed a distinctive offer on the Web 2.0 technologies and on delivery methods referred to services based an SaaS and Cloud Computing. These market segments are characterised by *Skill Shortages* that are even more at the centre of simplification and optimization of IT processes enacted by enterprises, in all market segments, in order to tackle the current economic situation.

Within the industrial growth strategy of specialised competencies in market niches, mention is to be made to the acquisitions in 2008 of Communication Valley, major Italian Security Operation Centre and glue:, leading

English company in SOA and in BPM, and even the opening, at the start of 2009, of a research and development centre of Machine 2 Machine in Turin.

This latter operation, in particular, expands our offer in a specific segment, the Internet of objects, destined to become in the next years, fundamental in the diffusion process of new technologies within enterprises and in daily lives. A segment in which we intend to cover a primary role.

What we have achieved, with effort and earnestness, in the first twelve years of our history, enables us to undertake with serenity and confidence in our capabilities, a future which undoubtedly will require courage, determination and quick decision making.

We are facing a moment of great uncertainty on the national and international scenario as a consequence of the crisis that has invested the finance markets and that is provoking difficult situations and crisis in the real economy, with a reduction of the demand on almost all industrial and commercial segments.

Reply is a financially solid reality, innovation oriented with a distinctive offer on new technologies and with a consolidated presence in all major industrial segments. Nevertheless, the challenge that we will be facing is great, maybe even greater than what we have faced and overcome in constructing, in a segment dominated by world colossals, a Group of over 2,600 persons present in Italy, Germany and the United Kingdom.

In 2009 it will therefore be even more fundamental to work as a team encompassing the values that have always been at the centre of the Reply Model: the continuous research of innovation, the quality and expertise of our solutions, care and respect for our clients and the rapidity and capability of adapting to changes.

The Chairman

Mario Rizzante


_Reply Living network

_The rapid evolution of technology along with the establishment of a digital economy have led enterprises to experience new ways of communicating, interacting and working, based on the capability of transferring data and information in real time involving all players on the value chain.

Reply is specialised in consultancy, projecting and implementing new solutions based on new communication networks and digital media. Today Reply is one of the Italian leaders operating in the Information and Communication Technology segments.

Reply integrates culture, competence and pro-activeness with vertical focus by applying new paradigms and new information and communication technologies to excel in building innovative and effective solutions.

The distinguishing features of Reply are:

__ a strongly oriented technological innovation culture;
__ a flexible structure able to anticipate market development and new business models;
__ a delivery method of proven success and scalability;
__ a network of companies specialised by area of competence;
__ teams consisting of specialists educated at the most qualified universities, working together to achieve fast and excellent results;
__ a highly-experienced management, strongly focused on generating profit;
__ long-term relationships with its own customers.

The business model

With over 2,600 employees Reply operates with a network of companies respectively specialised in Processes, Applications and Technologies that are centres of excellence capable of winning "Best in Class" positions in their own areas of competence.

- Processes - Reply considers the knowledge and usage of technology as a new enabling factor to processes resulting from an in-depth expertise of the market and the industry-specific contexts.
- Applications - Reply designs and deploys application solutions aimed at satisfying the core business requirements of companies.
- Technologies - Reply optimises the use of state-of-the-art technologies to develop solutions that can guarantee customers maximum efficiency and operating flexibility.

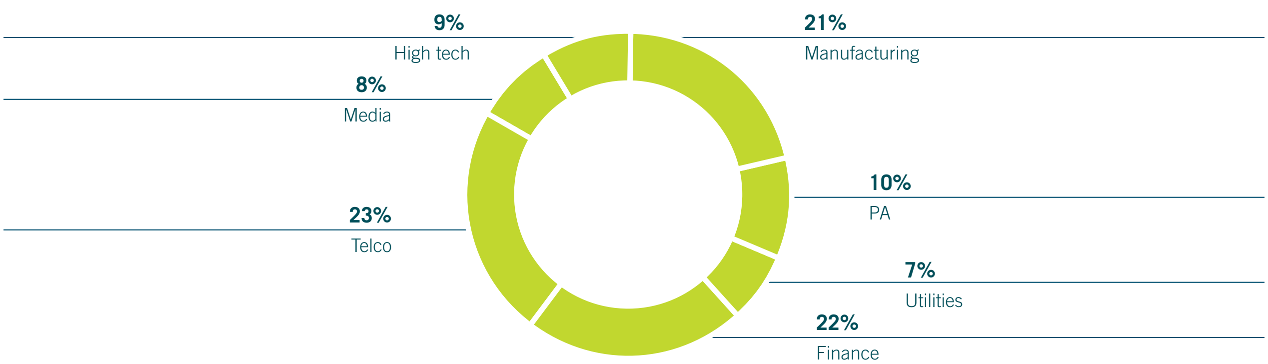
Reply services include:

- Consultancy - strategic, communication, process and technology consultancy.
- System Integration - full exploitation of the technology potential combining business consultancy with innovative and high value-added technological solutions;
- Application Management - management, monitoring and on-going innovation of technological assets.

_**Market** focus

Reply supports main European Industrial groups operating in Telco & Media, Industry and Services, Banking and Insurance and Public Administration market segments.

In 2008 Group revenues by market segments was as follows:



Telco & Media

In recent years, in the Telecommunications market operators have turned from connectivity providers into value-added service providers.

Network infrastructures and available applications enable a new generation of convergent services related to users (business, consumer, employee), devices (Smart phone, PDA, PC, etc.) and the pattern of use. Wireless applications and applications based on Internet standards require an increasingly sophisticated approach, both in design and in development. The volume of the information managed and transmitted requires increasingly complex infrastructures, such as storage area networks.

Today Reply is a renowned actor in the process of convergence between Telco and Media, with a special focus on components regarding VAS, the digital terrestrial technology, multimedia content and asset management and Billing and CRM services.

Technology evolution and market requirements boost innovation towards a consumer market-oriented approach. Clients no longer want to see their digital world confined to a computer screen but would like to be able to have access to its services and contents at any time, independent of the device utilised.
By means of an integrated consulting, communication and creativity supply, Reply devises contents and enables innovative services harnessing all the potential of new digital channels.

Furthermore, Reply is one of the main partners with Telco Operators regarding Device Testing & Certification and internally Reply has work groups who take advantage on skills developed through many years of work on critical aspects of telecommunications scenario.

Banking, Insurance and Financial companies

Reply cooperates with major Banking Institutions and Insurance Companies in the identification and implementation of solutions combining core process optimization with a substantial improvement in information asset efficiency.

In particular, Reply helps its customers anticipate change by defining strategies based on new technologies (Web Services, SOA, Mobile and Wireless solutions, multi-channel portals, on-line self services, Business Intelligence and Knowledge Management) aimed at introducing actual innovation in mission-critical industries such as Trading, Asset Management, distribution channels, risk and security management.

It should also be stressed that Reply's activity in consulting and support to change are increasingly recognized by important Banking Institutions as a result of Reply's successful highly critical projects in asset management and cost optimization.

Industry and Services

Successful enterprises must be able to make quick decisions and act effectively, aligning strategies, people, processes and technologies quickly and simultaneously within "networked" structures: complex aggregations of customers, partners and providers.

Information systems ensure maximum flexibility of processes and increasingly accurate checking. New technologies strengthen and extend their potential: electronic tagging, web services, mobile solutions and instant messaging have changed the pace of evolution of companies.

Technological innovation and the ability to effectively integrate it into application solutions make up the foundations of Reply, which supports its customers in the implementation, change and management of information systems: from strategic design to the understanding and re-definition of core processes to the building of solutions ensuring integration of the applications supporting the entire value chain of the Extended Enterprise.

- Customer relationship management - Reply is specialized in defining CRM solutions as a means of support Marketing, sales and Customer Service.
- Logistics and distribution - Reply helps its customers integrate operating partners, designing optimized Supply Chain Execution models in Warehouse Management, Transportation Management, Planning and Inventory components.
- Production systems - Meeting market needs quicker and quicker with products that are often customer-defined requires production systems capable of speeding up adaptation to product features that are less and less predictable and more and more variable. For Reply this means re-thinking the systems governing production under a real-time perspective, increasingly aligning them to extended enterprise model paradigms.

Energy & Utilities

In past years this industry has tackled competition and deregulation, and has had to comply with EU regulations which require the separation between the production and selling processes, under significant pressure in terms of revenues and margins and the need to provide increasing levels of service and security. Such evolution has generated consequent dynamic investments by the operators, who have discovered new competitive drives in ICT components.

Reply has defined a set of specific supplies regarding the main industry's vertical areas – Retailer, Merchant Energy Provider and Network Operations – made up of strategic and technology consulting services which optimize processes and select and implement the technology architectures and platforms most suitable to the context. The continuous consolidation and development of competences on business core processes has made Reply a main Italian operator and has allowed Reply to enter the international market.

Public administration

The new e-gov 2012 plan, prepared by the Minister for Innovation Technology, is a commitment towards innovation, diffusion of service networks, accessibility and transparency of the Public Administration to move toward citizens' and business needs. This plan requires financing resources, administration, organizational commitment and business capability.

Consultancy ability and business technology represent an essential factor to achieve strategic objectives set out by the Government. In this scenario, Reply which is one of the main qualified partners, will use its knowhow and experience to accompany Central and Local Public Administration in this phase of transition towards innovation.

Reply, in particular in the Public Administration, has a distinctive specialization in providing integration solutions, interoperable and orientated at application co-operation between the local and central governments and it is able to guarantee the Public Administrations a high level of consultancy support in redesigning and optimizing administration processes.

Reply supports Public Administration in achieving new modernization objectives and improving efficiency with: innovative community solutions, multichannel infotainment services and a consolidated experience in defining integration models among heterogeneous application contents.

_Technology innovation

Web 2.0

The increasing popularity of user-driven on-line services, such as MySpace, Wikipedia and YouTube, has introduced a new way of experiencing the network: Web 2.0. A perspective of the Internet based on user collaboration and enabled by tools such as Web Services, peer-to-peer-networking, blogs, podcasts and social networks.

A starting point for new methodologies and software applications, for the purpose of sharing and collaboration between people.

Reply has developed its Web 2.0 supply in four specific areas:

Social Networks

The application of Web 2.0 models and technologies introduces new forms of participation in companies, based on diffuse and unstructured knowledge. The knowledge management platforms, in order to allow users have a say (as more and more often happens) open up to bottom-up approaches of construction and sharing of information based on wikis and blogs. New forms of communication based on Unified Messaging tools appear, whereas speeding up interaction between corporate processes. Reply bases its offer in social networking with its own platform, Enterprise Social Network:TamTamy™.

Rich User Experience

Web 2.0 principles and models allow the creation of new generations of services and applications capable of offering clients liberty and interaction which were unthinkable in the past. The possibilities which are offered by concepts such as Rich Internet Application and Interaction Design encourage the revision of the user interface settings. The characteristics of user-friendliness and swiftness have become integrated elements which an application offers, reducing the barrier between service and its customer.

Software Assembly

The transition from a construction-based era to an era based on the assembly of software components along with the concept of mashup of feed and/or external services, leads to a substantial re-consideration of the notion of portal, which is no longer a content publication tool but an aggregator of accessible information and services via a Rich Client interface capable of making the most of the potential of tools such as wikies and blogs.

Multichanneling

User-friendliness and surfing are concepts which unrelated logic application from the presentation method and has placed more emphasis on people and their method of interacting. Web 2.0, with its principles, creates new generation of services and solutions capable of utilising the potential functions as: location based marketing, local search, integrated search marketing and micropayments.
User-friendliness and surfing must be re-organized to form an optimum use of the mobile browser available today.

Mobile and wireless

Network infrastructures and applications currently allow creating a new generation of convergent services, which can be built by users and used anytime and anywhere.

Reply supports its customers in the implementation of new multichannel interaction scenarios and models, integrating the architectures for value-added service distribution with content delivery components.

For Reply, building a Mobile eco-system means:
- enabling an "always on" infrastructure, making it available for companies and service providers to manage and distribute services;
- enabling wireless and wired devices to communicate and collaborate to offer integrated services;
- enhance the experience of mobile users with context-dependent services delivered proactively.

Reply combines skills on communication devices and protocols with the knowledge of the main corporate processes and supports customers in the building of mobile solutions for the competitive management of both corporate and consumer business services. Reply aims to build collaborative environments ensuring easy access to information in any place and at any time.

Digital television

The revolution of digital services has been present for numerous years. The opportunity to provide contents with the quality and the simplicity typical of broadcasting, added to interactivity and personalization options, as well as an "unlimited" number of channels (as many as one per user) provided by broadband networks, will cause changes in content value chain over time.

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

Reply believes that the future of our society will be characterized by the diffusion of new interaction channels. That is why Reply works with major industry operators on the convergence and re-definition of their business model, providing consulting services and full command of content distribution and communication technologies (IpTV, Dvb-H, DTT, etc.).

Service Oriented Architecture

Service Oriented Architecture is an architectural approach orientated to services and integration which allows to examine the business's system in a different way, revising the method of design, assemblage, control and management.

Web Services and SOA are the foundations to build new models where weekly interconnected application components are published, consumed, combined with others made available by the network.
Services are combined modular elements based on needs and the architecture guarantees interoperability regardless of the particular technology with which the services were made or exposed to use.
The adoption of SOA models permits a drastic reduction in the general complexity of the infrastructure, circumscribing the logic application in specific modules and reducing the number of managed connections. When creating a solution based on SOA, it is fundamental to take in consideration the use of a correct methodological approach and excellent knowledge of the architectural paradigms of reference.

Reply's offer in Web Services, SOA, and approaches based on SaaS models include:

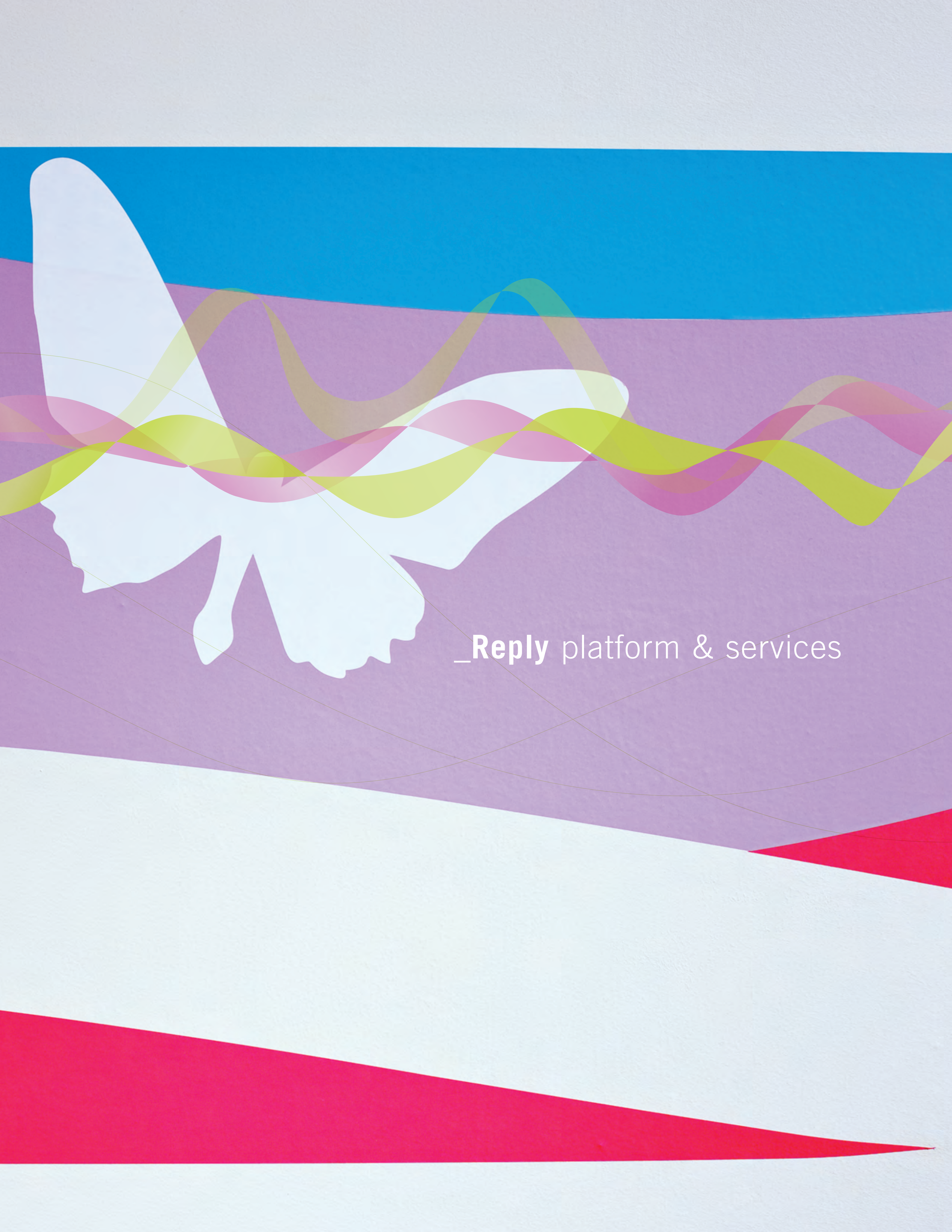
- Designing architectural solutions orientated at services, business logic analysis support, designing and implementing basic services and change in Service orientated of platforms;
- Supporting evolution of the traditional application platforms (ERP, Application Server and Portals) towards new SOA architectural models;
- Consultancy in creating high value added solutions based on WOA models of mashup of business data;
- Planning and managing proactive monitoring solutions and SLA management for the control of Web Services.

Security

Reply has defined a full, integrated and consistent offering to tackle all issues regarding Information Security Risks and Data Protection associated to an information system: from the identification of threats and vulnerabilities to the definition, design and implementation of the relevant technological, legal, organization or risk-minimization counter-measures.

Thanks to in-depth knowledge of technologies, operators, reference standards and legislation, Reply can help Customers build the most efficient "shield" against any type of threat and provide maximum guarantee in all service action stages.

In 2008 Reply has extended its services in Business Security & Data Protection by introducing components related to Managed Security Services, a sector in which Reply has a position as leader in the market especially in banking and insurance sectors.
This is thanks to Reply's capability to offer this service through Security Operation Centre which operates 7X24.



_**Reply** platform & services

_The network, today is a distributed information system, in which it can be accessed in real time and to a larger quantity of data, information and complex contents. This new use of internet introduces new competitive models based on service approach enabled by three fundamental components: software platforms, insight and domain of processes and service management.

Reply supports its clients in this innovation process with services and platforms devised to fully utilize new potentiality offered by the network communication technology.

Click Reply™

Click Reply™ is the Reply platform which supports Supply Chain Planning (in particular in Warehouse Optimization and Transportation Planning & Scheduling areas) and Supply Chain Execution, integrating Inventory, Warehouse, Transportation and Shop Floor Management. The solution architecture, fully oriented towards services and based on open standards, enables integration with both ERP systems and SCE and MES systems. Click Reply™ allows for the management and control of a wide range of devices used to read and write RFID-based tags.

Discovery Reply™

Reply's Digital Asset Management platform Discovery Reply™ offers companies an opportunity to improve efficiency in the management of the entire life-cycle of digital assets, thanks to innovative methods of workflow organization, a high level of interoperability with the other business systems, and advanced content multi-channel distribution systems. Discovery Reply™ facilitates the transition towards integrated models of content production, use and archiving, through an open and flexible platform and a simple and intuitive interface for the entry, processing, cataloguing, access, search and distribution of digital assets on various channels, whether traditional (analogic e digital TV) or IP based (IPTV, WebTV, MobileTV, DVB-H).

Gaia Reply™

Gaia Reply™ is a service delivery platform created by Reply based on a flexible open source framework which enables the delivery of contents and services over various mobile devices both in business and consumer environments, such as M-Site Community Management, Electronic payments, management of the sales force and Mobile Advertising.

TamTamy™

TamTamy™, a Social Network platform developed by Reply, is the answer to the increasingly urgent requests expressed by companies that are keen to facilitate and speed up the sharing of individual knowledge, the collaboration and the activation of new ways to communicate. With TamTamy, Reply has featured a single and unique customizable interface, where the main and most widespread community tools presently available online (wikis, blogs, tags, video and photo sharing, podcasts, rss, etc.) are integrated with a set of basic services like identity and presence management, categorization, rating, search as well as online messaging.

Business Process Outsourcing

Reply provides highly specialised BPO services in three areas:

- Finance & Administration - management of transitional accounting procedures, drafting of the consolidated and statutory financial statements, management of fiscal obligations, dematerialisation of accounting documents and filing of the same.
- Human Resources - training, ECM, career profiles, enterprise knowledge, reports to management
- Pharmaceutical - Management and control of the Pharmaceutical Budget.

CFO Services

The need to use reporting instruments and complex simulations in order to receive timely and adequate information with respect to the running of the enterprise and its capability of creating value have radically changed CFOs roles. Reply, within the supply of Business Performance Management, has identified specific services enabling to support CFOs in their evolution that have ever more become involved in issues which were once dealt with by CEOs:

- Identification of the enterprise control model
- Budgeting and Strategic Planning
- Drafting of the Consolidated Financial Statements
- IPO support

Application Management

Reply has identified an AM model characterised by:

- a modular approach that enables the client to acquire single components (i.e. Only the application maintenance, only the support to the running) or the ensemble of structured services;
- a flexible supply model, with the objective of better integrating Reply's services in the client's processes.

_Partnership / Research and Development

Reply considers research and continuous innovation a fundamental asset in assisting its clients in adopting new technologies.

Reply has important partnerships with the main world leaders to offer the best solutions to the different needs of companies. In particular, Reply both in Italy and Germany has obtained the maximum level of certification on three technological leaders in the Enterprise field: Microsoft (Gold Certified Partner), Oracle (Certified Advantage Partner) and SAP (Special Expertise Partner in SAP Netweaver).

Microsoft

In 2008 Reply, which has one of the main Microsoft centres in Italy, both in technological aspects and Microsoft Business Suite, began to work on Azure (Microsoft platform for the development and integration of applications, and on-line services in optic 2.0), Microsoft Online Services (new Microsoft proposal for SaaS), and Microsoft Surface (new Microsoft Hardware-Software solutions based on innovative ways to interact for the management of digital contents), and participated in worldwide programs of pre-launch testing (Technical Adoption Program) addressed to Gold Certified Partner (maximum certification level recognised by Microsoft). These activities aimed at enabling a rapid knowledge transfer to clients, go alongside what was already done in 2006 by Reply with Microsoft Vista, with the construction in Reply's Milan and Turin offices of the only Italian laboratories on Vista and Office 2007. In 2009 beta-testing activities on the new operational system Windows 7 will also commence.

Oracle

Reply, which has been partners with Oracle since 1996, has always followed Oracle's evolution both in terms of technology and in product, now having one of the principle European Competence Centres capable of combining the coverage of the entire stack with the domain of application suites and main vertical solutions by industry. During 2008 Reply stipulated an agreement with Oracle to develop, at a global level, solutions based on the open standard platform Oracle Application Integration Architecture (AIA) which is capable of integrating business processes of third parties in End2End process in a standard and open way. According to the agreement a Reply team, which worked at the general headquarters of Oracle at Redwood Shores, California, participated in the development of Order-to-Cash Process Integration Pack based on AIA that integrates Oracle Siebel CRM with Oracle E-Business Suite. Reply has set up a Demoground in the Innovation Centre in Milan where companies can access, in real time, the latest Oracle integration technological developments and evaluate the Integration Business Process progressively released by Oracle.

SAP

Reply has gained experience in SAP application and technological sectors at an international level and is capable of supporting change processes introduced by the market, approaching in an integrated way design and development of business information technology systems based on SAP. The competences cover Supply Chain (SRM) logistic and production (ERP), customer care (CRM), and areas of finance, administration, management and budget control. SAP Business Intelligence (BW, Business Objects and Outlooksoft) instruments supports clients, not only in the definition and implementation of reporting structures and dashboard control, but also, simulations and planning. An important area based on technological competences and planning, founded on SAP Netweaver, is capable of orientating Application Integration (SAP XI/PI) and People and Knowledge Integration (SAP Portal) main themes, exploiting e-SOA services which SAP has introduced in its architecture.

Reply, since its constitution, has dedicated resources to Research and Development activities concentrating on two fields: Development and evolution of the platforms and definition of a continuous Scouting, Selection and Learning process of new technologies aimed at bringing to the market innovative solutions capable of supporting the creation of value within an enterprise.

Development of proprietor platforms

Click Reply™

In 2008 a new module of Analytics, part of the Suite Click Reply™ was released as a complementary instrument to the Warehouse Management module. Click Reply™ WM Analytics aims to support warehouse managers and logistic managers in monitoring and analysing warehouse activities in medium/long term period, so to evaluate the quality, effectiveness and efficiency of the logistic structure management. Furthermore, there have been activities to develop Click Reply™ in Software as a Service platform. These activities were started in 2008 and are ongoing in 2009.

Discovery Reply™

In 2008 additional features were made available to respond to the Broadcasting sector needs which are based on the integration of audio-visual management and "back-up" system, such as planning of programmes and production or System Right Management. Furthermore Discovery Reply™ features have been expanded related to the management of content and digital media under different industrial aspects compared to Broadcasting, such as Fashion and Security.

Gaia Reply™

The new developments carried out in 2008 on Gaia Reply™ include the new Web 2.0 paradigms and utilisation patterns of mobile services by users, with the scope of creating instruments for the aggregation, construction and management of multiplatform widgets and client applications for the main mobile devices present on the market.

TamTamy™

In 2008 Reply presented the TamTamy "SaaS" (Software as a Service) version based on the latest technologies and online service distribution models - such as Enterprise Cloud Computing; this version enables to create enterprise communities paying only for its effective use (Pay per Use) and significantly reducing start-up costs and times. In addition to this new offer, mainly targeted to the SME market, TamTamy is also available as "On Premises" version that allows an even higher level of customizing in terms of interfaces and provides a comprehensive integration with business systems. Each version is granted 7x24 support as well as the continuous release of new applications and capabilities, that Reply will release in the next months according to the "Perpetual Beta" approach adopted for the TamTamy development.

"Scouting, selection & adoption" of new technologies

Saas & Cloud Computing

Satisfying the need of services and applications for end users through the net is substituting, more and more, the old desktop applications. The trend and diffusion of Services and Software AS A Service is at the sametime the drive and the consequence of the creation of multiple offers of cloud computing with Amazon (Amazon Web Services) which set the standards for the others, rapidly followed by Microfsoft (Azure) and Google (Google Apps e Google Application Engine). The strong points of an application "in the cloud" are the low costs which it can offer (with estimation potentials obtained only when necessary) and the simplicity with which a service in cloud computing can array according to business necessities. Reply supports companies with evaluation and introduction of SaaS and Cloud Computing potential offers. In particular, Reply's partnership with Google and Microsoft on-line services allow Reply to have access to the new technologies before releases on the market.

Rich Internet Application

The phenomena such as Cloud Computing and the "always connected" status of users have pushed software to abandon desktop and to transform into network services. There is a growing need to enrich web applications with the same or higher levels of interaction with the users compared to the ones already accustomed to. Reply supports its clients with this new way of interpreting the web through the domain of new solutions which are available today, such as Adobe Flex, Adobe Air, and Microsoft Silverlight. The development of these technologies has brought about a great diffusion of Widget; a light-weight application accessible from more devices and channels (desktop, mobile, internet...). Reply, to effectively follow this trend, has created internally a Widget Factory to analyze and extend the different widgeting solutions to expand their applications in the Enterprise sector.

Digital Television

Reply has created work groups, that collaborating with Italian and international analysts, are engaged in the studies and introduction of new interactive models on digital channels. Furthermore, Reply supports major Media and Broadcasting operators in the path towards the convergence and the re-definition of their business models, with consulting services and a full mastering of communication and content distribution technologies (IpTV, Dvb-H, DTT...) able to offer contents with the quality and ease-of-use of broadcasting services, as well as interactive and customization features, an "unlimited" number of channels (they may be as many as one for each user) provided by broadband networks.

Machine 2 Machine

The continuous push for the convergence between Telco, Media and Consumer Electronics will bring in the coming years the necessity to interpret how on line devices, objects which are not linked to any form of connectivity (appliances, controllers for home automation, integrated system,...) will integrate with other machines. Machine 2 Machine is destined to become a fundamental sector for the diffusion of new technologies both in companies and in daily life. Reply intends to become an important point of reference for this sector and its correlated services. This is one reason why in February 2009, Reply acquired the Motorola research centre in Turin and has set up its own Research and Development Centre aimed at working on the new internet of objects. The aim of Reply's new research centre is to create a platform of services, devices and middleware to support specific vertical applications such as info-mobility, advanced logistics, environmental safety, contactless payment and product traceability.

_**The value** of people

Reply relies on the excellence of its people. Reply women and men shape the “brand” with customers and partners and represent its image.

Reply Group is comprised of professionals coming from the best universities and polytechnics. The Group intends to continue investing in human resources by bonding special relations and collaboration with different polytechnics with the aim to reinforce its human resources with high profile personnel.

Recruiting is mainly carried out with reference to young graduates. In particular the faculties of main interest are: IT Engineering, Electronic Engineering, Telecommunication Engineering, Management Engineering and Economics and Commerce. Furthermore collaboration between Reply and the universities also exists through interims, preparation of thesis, participation at lectures and seminars.

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

Anybody who decides to be part of the “Reply world”, whatever his/her company, does so because she/he has found the opportunity to best express his/her potential within an organizational model based on culture, ethics, trust, honesty and transparency.

These are essential values for a continuous improvement and increasing focus on the quality of work.

All the Group managers work on a daily basis to safeguard the principles that have always constituted the foundations of Reply and have supported it since its establishment.

Reply Team

- Sharing customer targets
- Professional and quick implementation
- Culture and flexibility

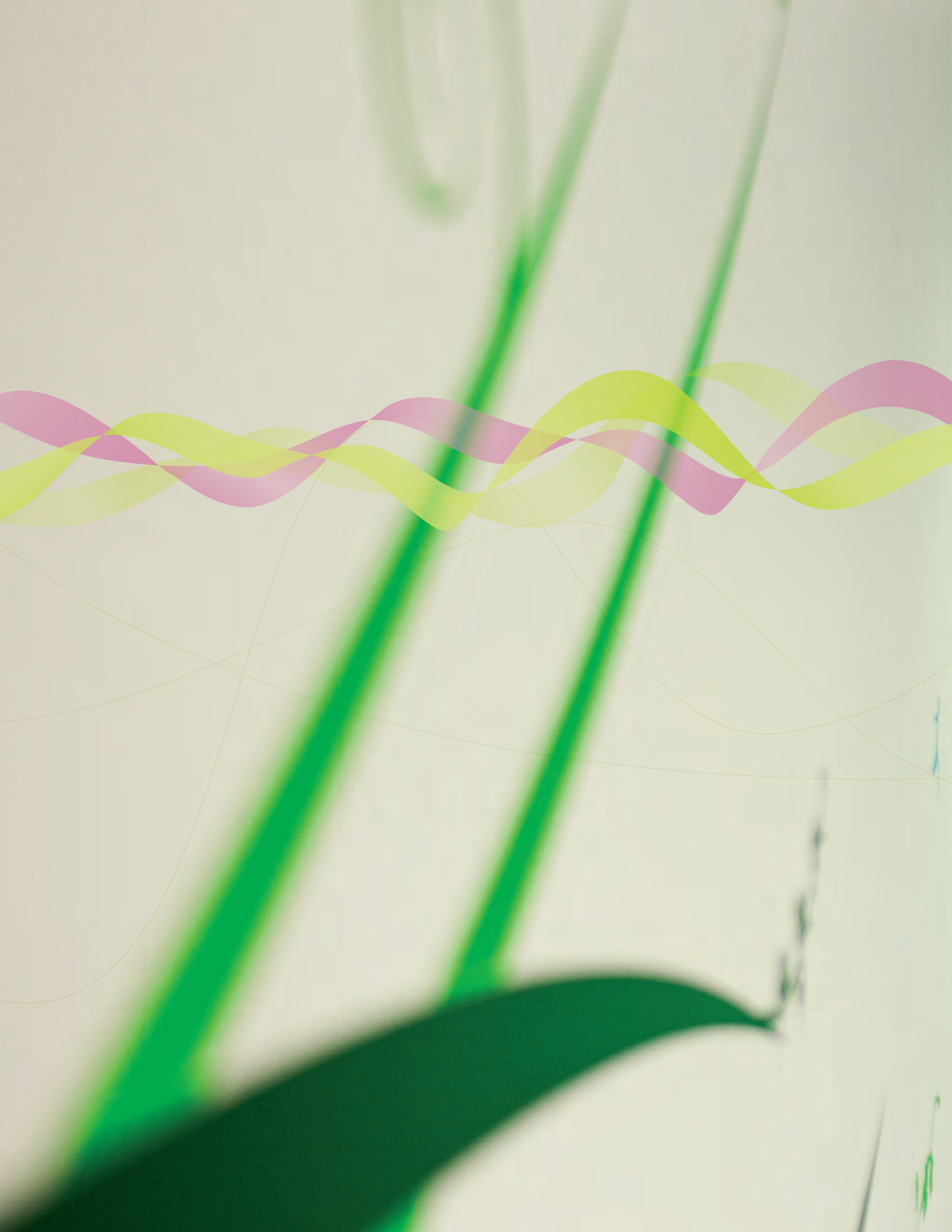
Excellence: background culture, study, focus on quality, reliability, building on results.

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

Customer: sharing objectives, satisfying the customer, conscientiousness, professional expertise, sense of responsibility, integrity.

Innovation: imagination, experimentation, courage, study, effort of improvement.

Speed: methodology, experience in project management, co-operation, commitment in achieving customer results and targets.



Reply

_Annual report 2008

_**Report** on operations

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

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

Reply S.p.A. as Parent Company, is exposed to the same risks and uncertainties as those to which the Group is exposed. The risk factors described in the paragraphs below must be jointly read with the other information disclosed in the Annual Report.

External risks

Risks associated with general economic conditions

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

Risks associated with evolution in ict services

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

Risks associated with competition

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

Risks associated with increasing clients needs

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

Risks associated with segment regulations

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

Internal Risks

Risks associated with key management

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

Risks associated with relationship with clients

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

Risks associated with internationalisation

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

Risks associated with contractual obligations

The Group's solutions are rich in technological content and of great value, the underlying related contracts can foresee the application of penalties in relation to timeliness of delivery and qualitative standards.
The application of such penalties could have adverse effects on the Group's economic, financial and earnings position.
The Group has undersigned adequate precautionary insurance contracts against any risk that could arise under professional responsibility for an annual maximum amount of 10,0 million euros.
Should the insurance coverage not be adequate and the Group is called to compensate damages greater than the amount covered, the Group's economic, financial and earnings position could be deeply jeopardised.
At present, there have been no conflicts deriving from contractual obligations with clients but these cannot be excluded in the future.

Financial risks

Credit risk

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

Liquidity risk

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

The present difficulties both in the markets in which the Group operates and in the financial markets necessitate special attention being given to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing up to 2009, which promises to be a difficult year. The Group therefore plans to meet its requirements to settle financial liabilities as they fall due and to cover expected capital expenditures by using cash flows from operations and available liquidity, renewing or refinancing bank loans.

Risks associated with fluctuations in currency and interest rates

The exposure to interest rate risk arises from the need to fund operating activities and the necessity to deploy surplus.

Changes in market interest rates may have the effect of either increasing or decreasing the Group's net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.

As the Group operates mainly in a "Euro area" the exposure to currency risks is limited.
The Group's exposure to interest rate risk is mainly associated to financial loans bearing free float interest rates. The Group manages this risk with the use of interest rate swaps which allows floating interest rates to be transformed to fixed interest rates.

_**Financial** review of the Group

Premise

The following review is based on the 2008 financial statements prepared in accordance with the International Financial Reporting Principles ("IFRS") issued by the International Accounting Standard Board ("IASB") and adopted by the European Union and with regulations implementing Article 9 of Legislative Decree no. 38/2005.

Trend of the period

Reply is specialised in designing and implementing solutions based on new communication channels and digital media.

Reply, consisting of a network of specialized companies, provides applications to optimize corporate processes and develops innovative technology-based solutions to enable communication between customers, business partners and suppliers. Reply's activities are focused on the areas of Telecom & Media, Manufacturing, Finance and Public Administration.

Reply's services include: consulting, system integration, application management and business process outsourcing.

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

In 2008 the consolidated turnover totalled 330.2 million euros with an increase of 19.1% compared to 2007. EBITDA amounted to 46.0 million euros (42.3 million euros in 2007) with EBIT of 41.2 million euros (38.0 million euros in 2007). The net result totalled 18.9 million euros, with an increase of 20.4% compared to 2007 (15.7 million euros).

The Net Financial Position stood at a negative 18,6 million euros, as at December 31st 2008, and remains basically stable compared to September 30th 2008 when it reported a negative value worth 16 million euros.

Financial year 2008 has been a very positive year for the Group; Reply has achieved excellent results in terms of market positioning within all the main industries in which it operates: Telco-Media-Utilities, Banking and Insurance, Manufacturing and Services, Health and Public Administration. Through the acquisition of the main Italian Security Operation Center, Reply has extended and enhanced its offer in this field and has now set up a UK base specialized in SOA and BPM, segments that, despite the current economic situation, show wide margins of development.

Financial year 2009 will be characterized by a strong financial, economic and business discontinuity. This situation will require companies to dramatically change and involve strong innovation. Today Reply plays a reference role in sectors such as Service Architectures, CRM, Business Intelligence, Mobile and Wireless solutions, Security, Web 2.0, SaaS and Cloud Computing. All these domains are becoming more and more important for companies that intend to redefine their business models and identify new competitive edges; as a matter of fact these sectors are of paramount importance to optimize costs.

Reclassified consolidated income statement

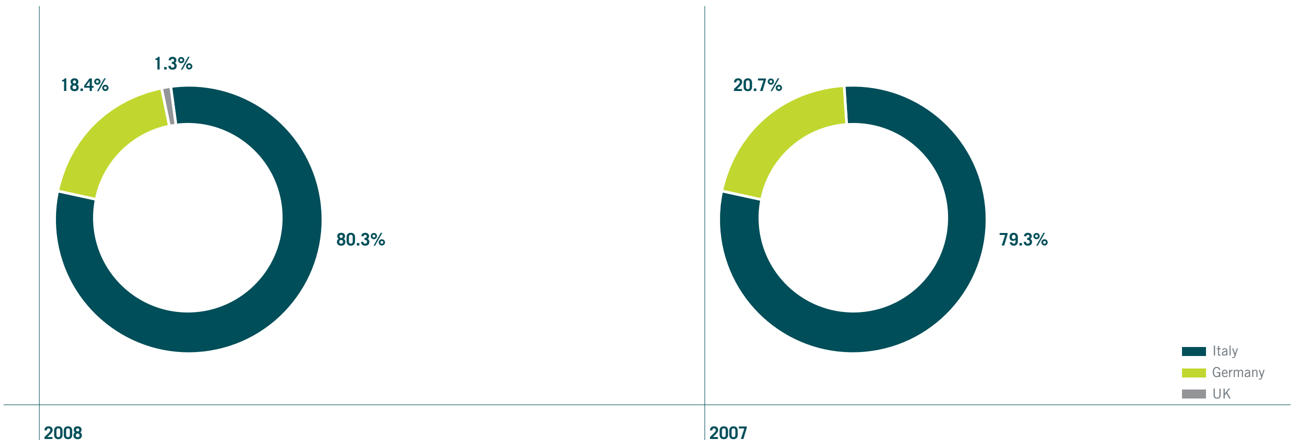
Reply's performance is shown in the following reclassified consolidated income statement and is compared to corresponding figures of the previous year:

(thousand euros)	2008	%	2007	%
Revenues	**330,210**	**100.0**	**277,176**	**100.0**
Purchases	(10,262)	(3.1)	(6,955)	(2.5)
Personnel	(162,396)	(49.2)	(134,909)	(48.7)
Services and other costs	(111,299)	(33.7)	(92,515)	(33.4)
Other unusual operating income/(expenses)	(209)	(0.1)	(515)	(0.1)
Operating costs	**(284,166)**	**(86.1)**	**(234,894)**	**(84.7)**
Gross operating income (EBITDA)	**46,044**	**13.9**	**42,282**	**15.3**
Amortisation. depreciation and write-downs	(4,885)	(1.5)	(4,246)	(1.6)
Operating income (EBIT)	**41,159**	**12.5**	**38,036**	**13.7**
Financial income/(expenses)	(1,024)	(0.3)	(216)	(0.1)
Result before tax of continuing operations	**40,135**	**12.2**	**37,820**	**13.6**
Income tax	(18,266)	(5.5)	(19,475)	(7.0)
Net result of continuing operations	**21,869**	**6.7**	**18,345**	**6.6**
Result from discontinued operations	(119)	(0.0)	(92)	(0.0)
Minority interest	(2,826)	(0.9)	(2,534)	(0.9)
GROUP NET RESULT	**18,924**	**5.7**	**15,719**	**5.7**

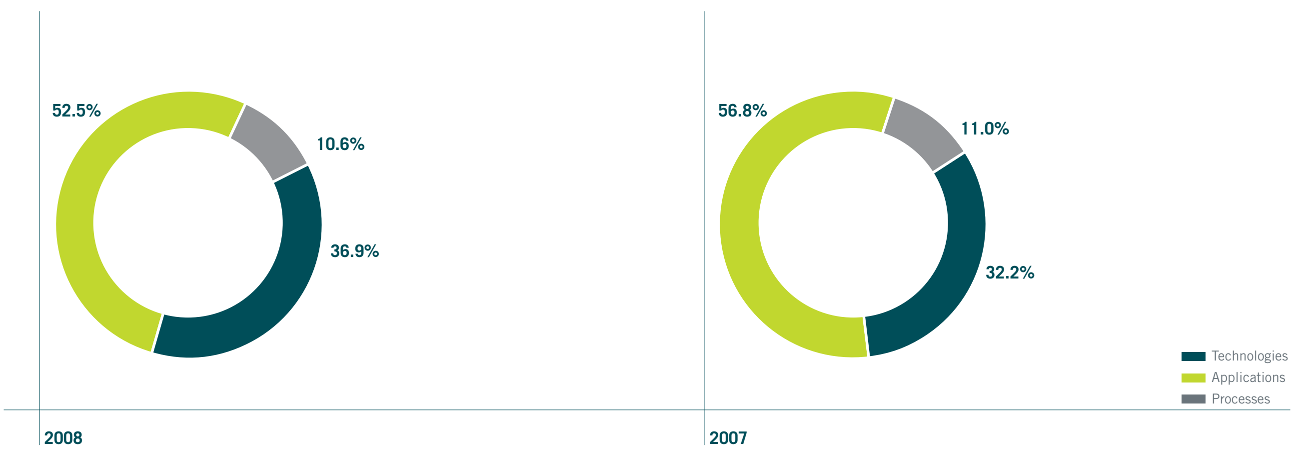
The principle events of 2008 are summarised below:

- January 2008: Seat Pagine Gialle, thanks to Reply, has introduced an innovative system to supply multimedia contents for the 89.24.24 service to its clients. In particular, Reply, which had previously developed the platform used by the Seat call centre operators, provided a solution enabling 89.24.24 Pronto Pagine Gialle customers to receive detailed information, which further improve the result of the research made by their customer service assistant. This is possible by means of GAIA Image Transcoder (GIT), the component developed entirely by Reply and released as open source within the GAIA Reply™ solution.
- March 2008: The acquisition of Communication Valley S.p.A. was finalised from the Unicredit group. With the acquisition of Communication Valley S.p.A., Reply intends to expand its services in Business Security and Data protection.
- March 2008: Oracle and Reply agreement: Under the terms of the agreement, Oracle and Reply will work side by side to develop the Oracle solution. For this purpose, Oracle is hosting the Reply team at Oracle's facility in Redwood Shores, California, allowing them to participate in the development lifecycle of an AIA based Order to Cash Process Integration Pack that is intended to integrate Siebel CRM with the Oracle® E-Business Suite.
- July 2008: The first Italian Competence Centre dedicated to Oracle AIA (Application Integration Architecture) has today been jointly presented to the press by Reply leader in design and implementation of solutions based on new digital media and communication channels, and Oracle Corp, the world's largest enterprise software company. The centre allows companies to access in real time to the latest developments available on new Oracle integration technologies and assess the Integration Business Processes (PIP=Process Integration Pack) Oracle is continuously releasing.
- July 2008: Cluster Reply announced that through the Microsoft Partner Program it has fulfilled the qualifications necessary to achieve Voice specialization within the Microsoft Unified Communications Competency. Earning the Unified Communications Competency Voice specialization requires the completion of competency testing and a rigorous technical readiness program that includes specific staffing requirements and an internal deployment of the complete Microsoft unified communications offering.
- July 2008: Reply acquired 100% of glue: share capital, which is a company specializing in Enterprise Architecture, Solution Design and SOA consulting services. glue: - leader in its field - works for leading organizations within the Telco & Media, Manufacturing, Insurance and Retail markets such as: Argos, Axa, BBC, Boots, BSkyB, Cable & Wireless, Carphone Warehouse, Fosters, GlaxoSmithKline, J&J, Kraft Foods, Liverpool & Victoria, Marks & Spencer, Unilever, WH Smiths. The acquisition allows Reply to extend its own related specialist consulting and delivery offerings to the UK market.
- October 2008: Reply has made TamTamy available the "Software as a Service" version of TamTamy, its Enterprise Social Networking. At the last Web2.0 Expo in Berlin, Reply presented the TamTamy "SaaS" (Software as a Service) version based on the latest technologies and online service distribution models.
- October 2008: Aktive Reply signed a partnership with Adobe Systems. With this partnership Aktive Reply, a specialist in the development and the implementation of Information Lifecycle Management projects, became the Enterprise Solutions Partner of Adobe and consequently expanding its offer with innovative solutions built with Adobe® LiveCycle® Enterprise Suite, Adobe Flex and Adobe® AIR™.

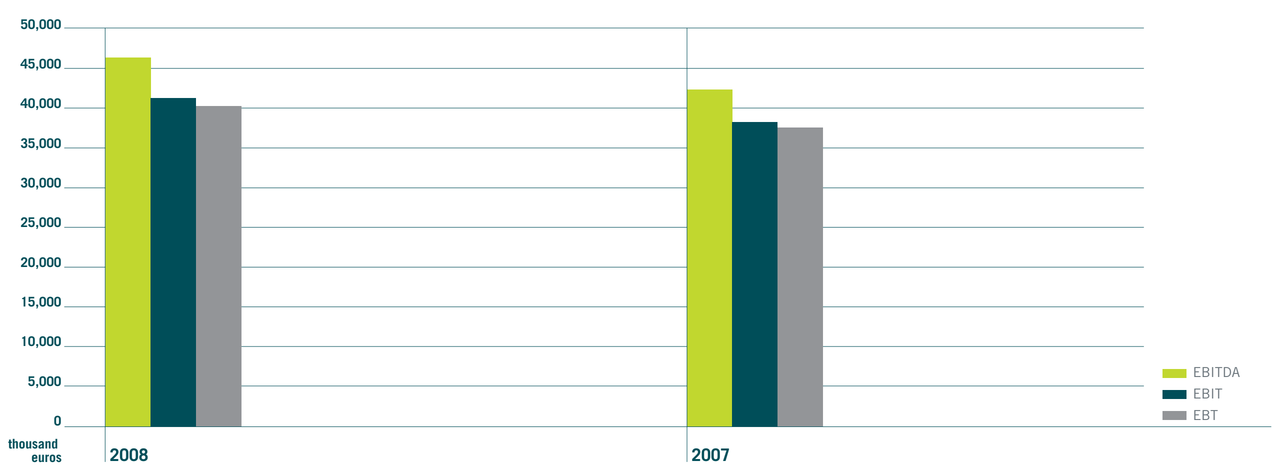
Revenues by geographical areas



Revenues by business line



Trend in margins



Analysis of the financial structure

The table below details the Group's financial structure as at December 31, 2008 compared to December 31, 2007:

(thousand euros)	31/12/2008	%	31/12/2007	%	Change
Current operating assets	172,483		134,996		37,487
Current operating liabilities	(91,125)		(71,150)		(19,975)
Net working capital (A)	**81,358**		**63,846**		**17,512**
Non current assets	88,637		58,398		30,239
Non M/L term financial liabilities	(26,444)		(25,456)		(988)
Net fixed capital (B)	**62,193**		**32,942**		**29,251**
Net invested capital (A+B)	**143,551**	**100.0**	**96,788**	**100.0**	**46,763**
Shareholders' equity (C)	124,924	87.0	107,206	110.8	17,718
NET FINANCIAL POSITION (A+B-C)	**18,627**	**13.0**	**(10,418)**	**(10.8)**	**29,045**

Net invested capital as at December 31, 2008 amounted to 143,551 thousand euros and was financed by Shareholders' equity for 124,924 thousand euros, with a negative financial position of 18,627 thousand euros.

The following table details the net working capital:

(thousand euros)	31/12/2008	31/12/2007	Change
Inventories	18,020	8,691	9,329
Trade receivables	144,711	121,128	23,583
Other operating assets	9,752	5,177	4,575
Current operating assets (A)	**172,483**	**134,996**	**37,487**
Trade payables	32,652	25,334	7,318
Other current liabilities	58,473	45,816	12,657
Current operating liabilities (B)	**91,125**	**71,150**	**19,975**
Net working capital (A-B)	**81,358**	**63,846**	**17,512**
% return on revenues	*24.6%*	*23.0%*	

Net financial position and cash flows statement

(thousand euros)	**31/12/2008**	**31/12/2007**	**Change**
Cash and cash equivalents	39,356	40,810	(1,454)
Cash and cash equivalents of discontinued operations	-	356	(356)
Due to banks	(23,858)	(3,914)	(19,944)
Other providers of finance	(254)	(151)	(103)
Short-term financial position	**15,244**	**37,101**	**(21,857)**
Non financial assets	562	580	(18)
Due to banks	(33,994)	(26,920)	(7,074)
Other providers of finance	(439)	(343)	(96)
M/L term financial position	**(33,871)**	**(26,683)**	**(7,188)**
Total net financial position	**(18,627)**	**10,418**	**(29,045)**

Change in the item net cash and cash equivalents is summarised in the table below:

(thousand euros)	**31/12/2008**
Cash flows from operating activities (A)	10,267
Cash flows from investment activities (B)	(30,024)
Cash flows from financial activities (C)	10,716
Change in net cash and cash equivalents (D) = (A+B+C)	**(9,041)**
Net cash and cash equivalents at beginning of period	40,810
Net cash and cash equivalents at year end	31,769
Total change in cash and cash equivalents (D)	**(9,041)**

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

_**Significant** operations

Acquisition of Communication Valley S.p.A.

In March 2008 the 100% share capital of Communication Valley S.p.A. was finalised. Communication Valley S.p.A. is a company specialised in consultancy, integration and ICT Security system management.

Communication Valley was founded in 1996 and based in Parma. It has 62 staff members and in 2008 the company generated a turnover of 9.6 million euros, with EBITDA of 23.6% and EBIT of 21.8% and a net result of 13.5%. During the time frame 2003-2007 the company has grown by an annual average of 46%.

The company consolidated since March 1st 2008, has contributed on Group revenues and net income as at December 31, 2008 respectively by 2.6% and 6.2%.

Reply financed the acquisition of Communication Valley, based on an equivalent value of 16 million euros, through the line of credit, established in December 2005, for M&A operations.

With the acquisition of Communication Valley, Reply extends its offering in terms of services targeted to Business Security & Data Protection.
Communication Valley has the position of leadership in Italy – in particular in the banking and insurance sectors – with regards to Managed Security Services which is distributed through its own Security Operation Centre.

This structure, among the few in Italy focused on remote monitoring and management services of ICT Security, has stable relationships and agreements with some of the major Italian Bank Groups and foreign ones.

With the acquisition of Communication Valley, Reply has enhanced offers targeted to Security with services complementing those presently delivered by the Group. This enables Reply to position among the leading companies of an industry characterized by growth rates far above the market average.

According to the latest surveys carried out by the major market analysis companies, investments made in specialized ICT security services in Italy are expected to show "two digit" average growth rates for the years 2008-2010. This will result from the increasing trend by the companies to invest in more and more integrated and enhanced Business Security & Data Protection solutions.

With the acquisition of Communication Valley, Reply completes its current offering, unique in the Italian landscape, specially targeted to Security and integrated with the whole value chain: from the risk analysis to the issues linked to Governance, Compliance and Regulations, up to risk mitigation, remote monitoring and management.

Acquisition of glue: Ltd.

In the month of July 2008, Reply finalised the acquisition of the 100% share capital of glue: an English company with Headquarters in Marlow UK and specialized in Enterprise Architecture, Solution Design and SOA consulting services.

glue: is leader in Enterprise Architecture, Solution Design and SOA sectors. glue: has important clients in telco & media, industry, insurance and retail sectors, as: Argos, Axa, BBC, Boots, BSkyB, Cable & Wireless, Carphone Warehouse, Fosters, GlaxoSmithKline, J&J, Kraft Foods, Liverpool & Victoria, Marks & Spencer, Unilever, WH Smith.

The overall investment for Reply amounts to 9 million GBP, of which 2.5 million GBP financed through a reserved increase of capital.

The company consolidated since July 1, 2008 has contributed on Group revenues and net income as at December 31, 2008 respectively by 1.5% and 1.3%.

glue: will maintain its own autonomy as part of Reply's network. Following Reply's business model and philosophy the current managing directors will continue to lead glue:. Together with Reply's management, they will have the task of expanding the Group's presence in the UK market.

Reply has been one of the first in believing and investing into the new integration architectures based on services, gaining to be recognized by the market among the leaders in this sector for competence and quality of the solutions that Reply provides its clients.

glue: characterized by an outstanding reputation and for the excellence of its solutions, further potentiates Architecture, Application Integration and BPM offerings - sectors that are demonstrating to be more and more important for those companies defining new business models enabled by SOA and the 2.0 paradigm.

This operation strengthens the position of Reply in Europe, where it already has a solid presence in Italy and Germany, and as of today also in Great Britain, a market with an enormous potential.

_**Reply** on the stock market

Year ended 2008 was characterised as the worst year in the history of the world markets with a loss in terms of capitalisation amounting to approximately 4,000 billion euros of the listings in the Old Continent, which lead *Piazza Affari* to be worth half of what it was worth the previous year.

For the most important Markets of the world, 2008 was scarred with unimaginable events such as the credit crunch and the financial bank crisis. The massive interventions by Governments and Central banks in order to support the economy generated losses between -32% in London and over -60% in the Chinese indexes. Both the global index Morgan Stanley World and Morgan Stanley for the Asian-Pacific area dropped by 43%. These are the worst performances ever recorded since the indexes have been introduced.

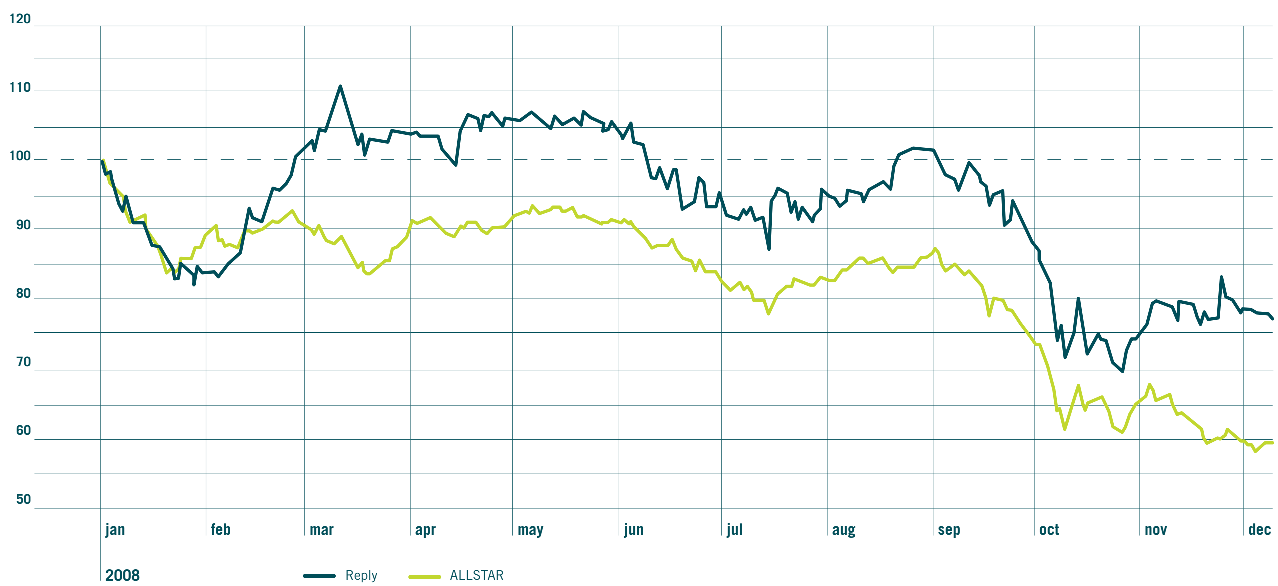
With the exception of the Great Depression in the '30's, there has been no trace of a crisis with such a harsh and enduring impact on the World economy such as the one that commenced in the summer of 2007 with the subprime loans in the USA and spread to the entire world contaging the real economy with the simultaneous recession in Europe, United States and Japan.

With reference to Italian small to medium capitalised enterprises, the effects of the financial crisis on the share quotations was particularly drastic, the lack of liquidity associated with huge volumes of vending transactions by investors forced by the numerous redemptions to liquidate their positions in most cases this provoked a corkscrew effect on the decrease of prices.

Piazza Affari has been negatively affected by the crisis: only nine listings of new companies (five on the MTA but of which only two with the IPO procedures and four on the Expandi market) and overall capitalization of the listed companies dropped by more than half to 374.5 billion euros (compared to 733.6 billion euros in 2007, -52%) equal to 27.7% of the GDP (in 2007 it was 48%).

Under these difficult circumstances, during 2008, the Reply share recorded a significant over performance with respect to the market, limiting losses to 24.4% compared to 40.4% of the Star index and to 49% of the entire market of *Borsa Italiana*.

Analysis of the annual trend compared to the indexes shows a significant change of pattern in the month of March which allowed the Reply share to maintain and even increase the gap compared to the basket of goods.

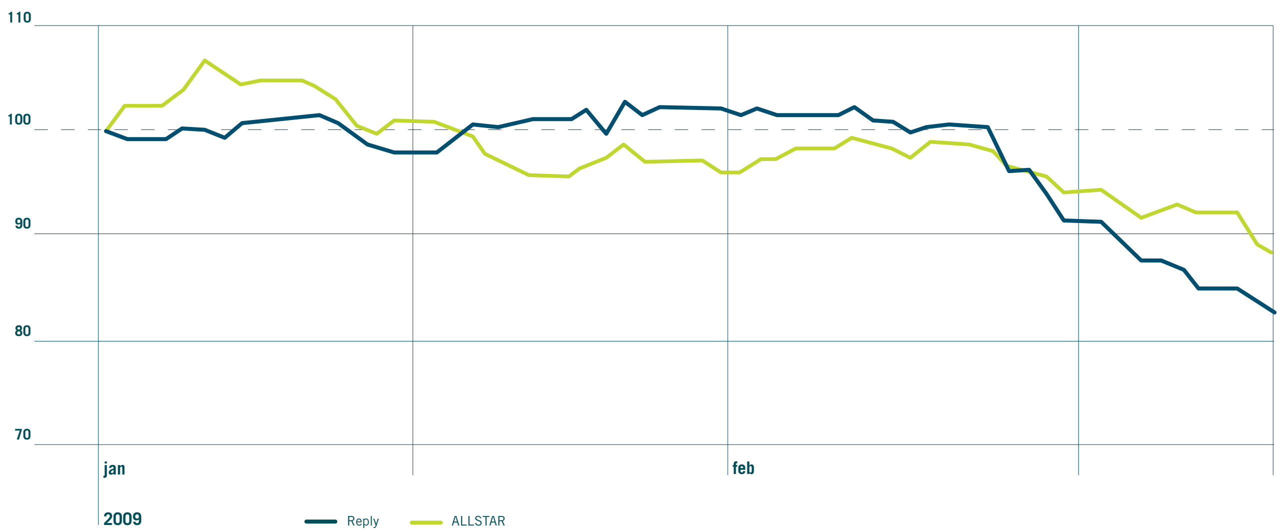


Broadening the analysis of the performance of the share since listing, compared to the entire Italian market (represented by the Mibtel index) Reply, in seven years, has over performed Piazza Affari by approximately 45 percentage points.

In the first weeks of 2009 the Reply share showed a low correlation with the All Star index (reduced to 100 at the beginning of the year), mainly due to the emphasized market situation that is heavily reflected on shares with a small free float.

More specifically, the performance of the share was positive until the beginning of February, dropping downwards in connection to the most recent collapse of the Milan stock exchange.

Considering a longer time frame however, the Reply share shows a better performance compared to the index reference.



During 2008, major financial institutions demonstrated appreciation for Reply's share, notwithstanding the difficult economic situation, by constantly proposing research on the Group and by encountering management.

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

_**The parent** company Reply S.p.A.

Premise

The following review is based on the 2008 financial statements prepared in accordance with the International Financial Reporting Principles ("IFRS") issued by the International Accounting Standard Board ("IASB") and adopted by the European Union and with regulations implementing Article 9 of Legislative Decree no. 38/2005.

Reclassified income statement

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

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

The company's income statement is summarized as follows:

(thousand euros)	**2008**	**2007**	**Change**
Revenues from operating activities	24,447	19,795	4,652
Other revenue	111,444	92,226	19,218
Purchases, services and other costs	(125,796)	(106,414)	(19,382)
Other unusual operating income/(expenses)	(10,764)	(7,866)	(2,898)
Gross operating margin	**(669)**	**(2,259)**	**1,590**
Amortisation, depreciation and write-downs	(857)	(756)	(101)
Operating income	**(1,526)**	**(3,015)**	**1,489**
Financial income, net	1,708	1,563	145
Income from equity investments	18,654	13,812	4,842
Loss on equity investments	(2,414)	(715)	(1,699)
Result before tax	**16,422**	**11,645**	**4,777**
Income tax	(627)	150	(777)
NET RESULT	**15,795**	**11,795**	**4,000**

Revenues from operational activities are mainly related to:

- Royalties on the Reply trademark for 7,577 thousand euros (5,939 thousand euros or the year ended 2007);
- Activities carried out centrally for the subsidiary companies for 13,598 thousand euros (10,923 thousand euros in 2007);
- Management services for 3,196 thousand euros (2,797 thousand euros in 2007).

The increase of (Italian) Group revenues in 2008, has a direct influence on Reply S.p.A. who has developed in the past years *fronting* activities concerning relations with primary clients also in capacity of sole manager of processes compliant to ISO 9001 quality standards.

Operating income 2008 marked a negative result of 1,526 thousand euros after having deducted amortization expenses of 857 thousand euros (167 thousand euros referring to intangible assets and 690 thousand euros to tangible assets).

The item *Financial income net*, amounting to positive 1,708 thousand euros includes interest income for 4,728 thousand euros and interest expenses for 2,740 thousand euros connected to the utilisation of the credit facility for new M&A operations.

Income from equity investments refers to dividends from subsidiaries for 18,654 thousand euros in 2008.

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

Net income for financial year ended 2008, amounted to 15,795 thousand euros, after having deducted income taxes worth 627 thousand euros.

Financial Structure

The financial structure of Reply S.p.A. at December 31, 2008, with comparative figures at December 31, 2007, is provided below:

(thousand euros)	**31/12/2008**	**31/12/2007**	**Change**
Tangible assets	978	1,102	(124)
Intangible assets	1,558	1,081	477
Equity investments	81,097	63,417	17,680
Other intangible assets	603	502	101
Non current assets	**84,236**	**66,102**	**18,134**
Net working capital	**(6,013)**	**(3,135)**	**(2,878)**
INVESTED CAPITAL	**78,223**	**62,967**	**15,256**
Non current liabilities	954	924	30
Shareholders' equity	85,020	71,537	13,483
Net financial position	(7,751)	(9,494)	1,743
TOTAL	**78,223**	**62,967**	**15,256**

Net invested capital, totalling 78,223 thousand euros was financed by medium/long term non-financial liabilities amounting to 954 thousand euros, which includes the reserve for employee termination indemnity (700 thousand euros) and the reserve for deferred tax liabilities (254 thousand euros) and also funded by Shareholder's equity, 85,020 thousand euros, with a residual net financial liquidity of 7,751 thousand euros.

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

Financial position

The net financial position of the Parent Company as at December 31, 2008 amounted to 7,751 thousand euros compared 9,494 thousand euros at December 31, 2007.
Detail is as follows:

(thousand euros)	31/12/2008	31/12/2007	Change
Cash and cash equivalents	10,635	15,823	(5,188)
Financial assets from subsidiaries	38,948	27,144	11,804
Due to banks	(18,533)	(3,706)	(14,827)
Financial liabilities due to subsidiaries	(1,491)	(4,898)	3,407
Current financial position	**29,559**	**34,363**	**(4,804)**
Financial assets from subsidiaries	644	620	24
Due to banks	(22,452)	(25,489)	3,037
Non current financial position	**(21,808)**	**(24,869)**	**3,061**
Total net financial position	**7,751**	**9,494**	**(1,742)**

Change in the net financial position is analysed and illustrated in the explanatory notes to the balance sheet.

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

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

	31/12/2008		31/12/2007	
(thousand euros)	**Net Equity**	**Result**	**Net Equity**	**Result**
Reply S.p.A.'s separate financial statements	**85,020**	**15,795**	**71,537**	**11,795**
Results of the subsidiary companies	86,198	27,419	61,085	26,939
Carrying value of investments in consolidated companies	(43,288)	2,515	(23,231)	311
Elimination of dividends from subsidiary companies	-	(18,656)	-	(13,812)
Adjustments to accounting principles and elimination of unrealized intercompany gains and losses, net of related tax effect	(3,008)	(5,323)	(2,181)	(6,980)
Minority interest	(13,278)	(2,826)	(12,713)	(2,534)
Reply Group consolidated financial statements	**111,644**	**18,924**	**94,497**	**15,719**

_**Other** information

Corporate Governance

The *Corporate Governance* system adopted by Reply is in accordance to the requirements of the Conduct Code for Listed Companies instituted by Borsa Italiana S.p.A of March 2006.

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

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 innovations a fundamental asset in supporting clients with the adoption of new technology.

Reply, since the constitution of the company, has always dedicated resources to Research and Development activities and concentrating on two sectors:

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

- Distribution of the new technologies and encouraging early adoption by the market.

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).

Human Resources

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

Reply Group is comprised of professionals coming from the best universities and polytechnics. The Group intends to continue investing in human resources by bonding special relations and collaboration with different polytechnics with the aim of reinforcing its human resources with high profile personnel.

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

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

At year ended 2008 the number of employees of the Group amounted to 2,686 compared to 2,272 in 2007. During 2008, 700 people were employed and approximately 400 people left the Group.

Security Planning Document

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

Transactions with related parties and group companies

During the period, there were no transactions with related parties, including intragroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered. Information on transactions with related parties as per Consob communication of July 28, 2006 is disclosed at the explanatory notes to the Consolidated financial statements and those of the statutory financial statements.

Treasury shares

At the balance sheet date, the Parent Company holds 186,499 treasury shares, amounting to 3,691,300 euros; at the balance sheet item net equity, the company has posted an unavailable reserve for the same value. During 2008 Reply S.p.A. acquired no. 117,000 treasury shares for a total out payment amounting to 2,438,287 euros.

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

Financial instruments

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

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

Interest held by Members of the Board of Directors and Controlling Bodies, and Key management (Art. 79 of Consob Regulation, Resolution No. 11971 of May 14, 1999)

Name	Office held in Reply S.p.A.	No. of shares held at 31/12/2007	No. of shares bought in 2008	No. of shares sold in 2008	No. of shares held at 31/12/2008	% of share capital
Mario Rizzante	Chairman and Chief executive officer	11,381	-	-	11,381	0.1234%
Tatiana Rizzante	Chief executive officer	15,734	-	-	15,734	0.1706%
Sergio Ingegnatti	Chief executive officer	9,800	-	-	9,800	0.1063%
Oscar Pepino	Executive director	11,960	1,750*	-	13,710	0.1487%
Marco Mezzalama	Independent director	250	-	-	250	0.0027%
Key management		697,973	23,457	(1,174)	720,256	7.8095%

* Shares inherited.

In the month of January 2009 the merger through incorporation of Iceberg S.A., company governed by Luxemburg laws, with the Parent Company Alika S.r.l was finalised. Reply S.p.A. shares held by Iceberg amounting to no. 4,507,538, equivalent to 49.64% of the Company's share capital have been incorporated with Alika S.r.l., which already held no. 385,413 Reply S.p.A. shares.

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

- Messer Mario Rizzante, Sergio Ingegnatti, Oscar Pepino hold 51%, 18% and 18% respectively of Alika S.r.l., a limited liability company with headquarters at C.so Francia 110, Turin;
- Alika S.r.l. holds no. 4,892,951 Reply S.p.A. shares, equivalent to 53.0524% of the Company's share capital.

_**Events** subsequent to December 31, 2008

In the month of February 2009 Reply finalised the acquisition of the Motorola research centre based in Turin.

Using existing skills and facilities, the Reply Group has set up a research and development centre in the field of M2M (machine-to-machine) technology in Turin. M2M is a combination of hardware and software aimed at information exchange and interaction between networked devices for automating mission critical processes.

The Motorola research centre acquisition agreement fits perfectly into Reply's four-pronged development strategy – networks of processes, people, services and objects.

M2M, the basis for the Internet of objects, is currently worth 230 million euros (*) in Italy. Analysts estimate that this will grow by about 20% (*) per year between 2008 and 2011. Globally, M2M business is expected to total 220 billion euros (**) in 2010, with an annual growth rate of 50% (**).

The aim of Reply's new research centre is to create a platform of services, devices and middleware to support specific vertical applications such as info-mobility, advanced logistics, environmental safety, contactless payment and product traceability.

The new research centre allows Reply to round out its offering through the ability to design integrated hardware and software solutions, enabling the Group to strengthen its position in the markets where it operates (Telco-Media-Utilities, Banking and Insurance, Industry and Services, Health and Public Administration).

The region of Piedmont will provide up to 10 million euros in subsidies for R&D at the Reply research centre. The *Ministero dello Sviluppo Economico* (Ministry for Economic Development for SMEs), which is managed by the region of Piedmont, will also add up to a maximum of 15 million euros.

The details of the transaction call for the purchase of the Motorola branch by Reply for a symbolic amount. Currently the Motorola research centre consists of 339 employees, 20.6 million euros in cash assets and 3 million euros in other assets.

An agreement has been reached and signed with union representatives ensuring that 180 of the current 339 Motorola employees will retain their jobs at the new Reply research centre. A mobility programme is planned for the other employees, which includes a commitment by local authorities to help them find new employment.

(*) analysis and estimate by NetConsulting
(**) analysis and estimate by IDATE

_**Outlook** on operations

We are facing a moment of great uncertainty on the national and international scenario as a consequence of the crisis that has invested the finance markets and that is provoking difficult situations and crisis in the real economy, with a reduction of the demand on almost all industrial and commercial segments.

2009 will be a difficult moment as there will be a great financial, economic and industrial discontinuity where companies will come out deeply changed and renovated, but may also seize new opportunities of growth and development.

Reply operates in the Information Technology sector and supports main European industrial groups which operate in Telco & Media, Industry and Services, Bank and Insurances and Public administration. These markets could be affected, in different measures, by unfavourable economic situations.

Reply to minimize the impact of the crisis can take advantage of its distinctive characteristics:

- Strongly orientated to technological innovation;
- A flexible structure which is able to anticipate market evolutions and organizational models;
- A successful and scalable delivery methodology;
- A network of companies specialized in different areas of competence;
- Teams formed by specialists, coming from the best universities which work together to obtain rapid and excellent results.

The challenge that the Group will have to face is great, maybe even greater than what Reply has faced and overcome in constructing, in a segment dominated by world colossals, a Group of over 2,600 persons present in Italy, Germany and the United Kingdom.
In 2009 Reply will be committed to achieving objectives which are based on the business guidelines which daily direct the Groups management decisions to create value for its stakeholders.

_Motion for the approval of the financial statements and allocation of the net result

The financial statements at year end 2008 of Reply S.p.A., prepared in accordance with International Financial Reporting Standards (IFRS), recorded a net income amounting to 15,795,452 euros and shareholders' equity amounting to 85,020,111 euros.
Detail is as follows:

(in euros)	**31/12/2008**
Share capital	4,795,886
Share premium reserve	20,622,992
Legal reserve	944,312
Reserve for treasury shares on hand	3,691,300
Other reserves	39,170,169
Total share capital and reserves	**69,224,659**
Net result	15,795,452
Total equity	**85,020,111**

The Board of Directors in submitting to the Shareholders the approval of the financial statements (Separate Statements) as at December 31, 2008, with a net result of 15,795,452.00 euros, proposes that the shareholders resolve:

- To approve Reply S.p.A.'s separate statements recording a net result of 15,795,452.00 euros that already accounts for an accrual of 1,200,000.00 euros related to Directors' participation in the net result, such Directors are invested with operational powers in accordance to article 22 of the Articles of Incorporation;
- To approve the motion to allocate the entire net result of 15,795,452.00 euros as follows:
  - To the Legal Reserve in the amount corresponding to the limits set out in Art. 2430 of the Italian Civil Code and however not greater than one twentieth of the net result;
  - Dividends to the shareholders, in the amount of 0,35 euros per ordinary share having the right and that are in circulation as at June 1, 2009, having the fixed payment date set on June 4, 2009, excluding treasury shares;
  - The residual amount, that is variable in function to the treasury shares acquired and the floating shares at the time of dividend yield date, will be brought forward and stated at the Extraordinary reserve;
- To approve the motion, in accordance to Article 22 of the Articles of Incorporation, to distribute to the Directors invested with operational powers a participation in the Parent company's income for a total amount of 1,181,100.00 euros rounded to 1,200,000.00 euros, equal to 2.5% of the consolidated gross operating margin in 2008 (before distributing a participation of the Parent's company income to the Directors invested with operational powers), which amounted to 47,244 thousand euros, accrued in accordance to the International Accounting Standards IAS/IFRS.

Turin, March 13, 2009

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

_**Consolidated** financial statements as at December 31, 2008

_**Reply** Consolidated income statement(*)

(thousand euros)	Note	2008	2007
Revenues	5	330,210	277,176
Other revenues		1,459	1,900
Purchases	6	(10,262)	(6,955)
Personnel	7	(162,396)	(134,909)
Services and other costs	8	(112,758)	(94,415)
Amortisation. depreciation and write-downs	9	(4,885)	(4,246)
Other unusual operating income/(expenses)	10	(209)	(515)
Operating income		**41,159**	**38,036**
Financial income/(expenses)	11	(1,024)	(216)
Result before tax of continuing operations		**40,135**	**37,820**
Income tax	12	(18,266)	(19,475)
Net result of continuing operations		**21,869**	**18,345**
Result from discontinued operations	13	(119)	(92)
Minority interest		(2,826)	(2,534)
GROUP NET RESULT		**18,924**	**15,719**
Net result per share	*14*	*2.12*	*1.75*
Diluted net result per share	*14*	*2.08*	*1.75*

(*) 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.

_**Reply** Consolidated balance sheet(*)

(thousand euros)	**Note**	**31/12/2008**	**31/12/2007**
Tangible assets	15	8,237	7,217
Goodwill	16	66,827	40,496
Other intangible assets	17	6,050	3,015
Other financial assets	18	3,161	2,954
Deferred tax assets	19	4,924	5,141
Non Current assets		**89,199**	**58,823**
Inventories	20	18,020	8,691
Trade receivables	21	144,711	121,128
Other receivables and current assets	22	9,752	4,774
Financial assets	18	-	254
Cash and cash equivalents	23	39,356	40,810
Current assets		**211,839**	**175,657**
Total assets from discontinued operations		-	660
TOTAL ASSETS		**301,038**	**235,140**
Share capital		4,796	4,722
Other reserves		87,926	74,052
Group net result		18,924	15,719
Group shareholders' equity	24	**111,646**	**94,493**
Minority interest		13,278	12,713
SHAREHOLDERS' EQUITY		**124,924**	**107,206**
Financial liabilities	25	34,433	27,240
Employee benefits	26	14,518	13,362
Deferred tax liabilities	27	5,615	4,264
Provisions	28	6,311	7,830
Non current liabilities		**60,877**	**52,696**
Financial liabilities	25	24,112	4,088
Trade payables	29	32,652	25,334
Other current liabilities	30	53,889	41,723
Provisions	28	4,584	4,024
Current liabilities		**115,237**	**75,169**
Total liabilities from discontinued operations		-	69
TOTAL LIABILITIES		**176,114**	**127,934**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**301,038**	**235,140**

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

_**Reply** Consolidated cash flows statement

(thousand euros)	2008	2007
Net result for the year	21,869	18,345
Income tax	18,266	19,475
Depreciation and amortisation	4,886	4,007
Impairment of intangible assets	-	240
Other non-monetary income and expenses, net	(19)	1,197
Change in inventories	(9,329)	(4,650)
Change in trade receivables	(19,236)	(7,145)
Change in trade payables	5,676	7,457
Change in other assets and liabilities	11,358	1,912
Income tax paid	(21,460)	(17,666)
Interest paid	(2,912)	(5,193)
Interest collected	1,168	1,659
Net cash flows from operating activities of discontinued operations	-	11
Net Cash flows from operating activities (A)	**10,267**	**19,649**
Payments for tangible and intangible assets	(8,579)	(4,669)
Payments for financial assets	(193)	(187)
Payments for the acquisition of subsidiaries	(21,252)	(7,061)
Net cash flows from investment activities of discontinued operations	-	163
Net cash flows from investment activities (B)	**(30,024)**	**(11,754)**
In payments from issuing of new shares	-	974
Dividends paid	(3,732)	(2,986)
Payments for acquisition of treasury shares	(2,438)	(1,029)
In payments from financial loans	23,600	5,277
Payment of instalments	(4,200)	(4,200)
Other changes	(2,514)	1,179
Net Cash flows from financing activities (C)	**10,716**	**(785)**
Net cash flows (D) = (A+B+C)	**(9,041)**	**7,110**
Cash and equivalents at beginning of year	40,810	33,699
Cash and cash equivalents at year end	31,769	40,810
Total change in cash and cash equivalents (D)	**(9,041)**	**7,111**

DETAIL OF NET CASH AND CASH EQUIVALENTS

(thousand euros)	2008	2007
Cash and cash equivalents at the beginning of the year :	**40,810**	**33,699**
Cash and cash equivalents	40,810	33,699
Bank overdrafts	-	-
Cash and cash equivalents at the end of the year :	**31,769**	**40,810**
Cash and cash equivalents	39,356	40,810
Bank overdrafts	(7,587)	-

_**Reply** Statement of changes in equity

(thousand euros)	Share capital	Reserve for cash flow hedges	Other reserves	Result for the year	Total Group equity	Minority interest	Total Consolidated equity
Balance at 31/12/2006	**4,642**	**351**	**63,840**	**10,274**	**79,107**	**14,481**	**93,588**
Allocation 2006 result:							
- reserves	-	-	7,743	(7,743)	**-**	-	-
- dividends	-	-	-	(2,531)	**(2,531)**	(455)	**(2,986)**
Increase of share capital	80	-	2,094	-	**2,174**	-	**2,174**
Other changes	-	107	(83)	-	**24**	(3,847)	**(3,823)**
Result for the year	-	-	-	15,719	**15,719**	2,534	**18,253**
Balance at 31/12/2007	**4,722**	**458**	**73,594**	**15,719**	**94,493**	**12,713**	**107,206**
Allocation 2007 result:							
- reserves	-	-	12,601	(12,601)	**-**	-	**-**
- dividends	-	-	-	(3,118)	**(3,118)**	(614)	**(3,732)**
Increase of share capital	74	-	3,072	-	**3,146**	-	**3,146**
Other changes	-	(110)	(1,689)	-	**(1,799)**	(1,647)	**(3,446)**
Result for the year	-	-	-	18,924	**18,924**	2,826	**21,750**
Balance at 31/12/2008	**4,796**	**348**	**87,578**	**18,924**	**111,646**	**13,278**	**124,924**

_ **Explanatory** notes to the consolidated financial statements

General information	Note	1	- General information
	Note	2	- Accounting principles and basis of consolidation
	Note	3	- Financial risk management
	Note	4	- Consolidation
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	Note	6	- Purchases
	Note	7	- Personnel
	Note	8	- Services and other costs
	Note	9	- Amortisation, depreciation and write-downs
	Note	10	- Other unusual operating income/(expenses)
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	Note	12	- Income taxes
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Balance sheet - Assets	Note	15	- Tangible assets
	Note	16	- Goodwill
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Balance sheet – Liabilities and equity	Note	24	- Shareholders' equity
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Note 1 - General information

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

Reply, consisting of a network of specialized companies, provides applications to optimize corporate processes and develops innovative technology-based solutions to enable communication between customers, business partners and suppliers. Reply's activities are focused on the areas of Telecom & Media, Manufacturing, Finance and Public Administration.

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

Note 2 - Accounting principles and basis of consolidation

Compliance with International accounting principles

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

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

General accounting principles

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

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

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

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

Format of the financial statements

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

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

The Balance sheet 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.

With reference to the December 31, 2007 balance sheet reported in the consolidated financial statements herein, some reclassifications have been executed compared to the data already published in order to have a clearer view of the balance sheet. Such reclassification did not produce effects on equity or net result.

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 balance sheet have been added showing the amounts of related party transactions.

Basis of consolidation

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements as at 31 December of each year. Control exists when the Group has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.
The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Minority interest is stated separately with respect to the Group's net equity. Such minority interest is determined according to the percentage of the shares held of the fair values of the identifiable assets and liabilities of the company at the date of acquisition and post acquisition adjustments. Subsequently, any losses attributable to minority interests that exceed their share of net equity is attributed to the Group net equity unless minority interest is able to make further investments to cover losses according to contractual bonds.
Differences arising from translation of equity at historical exchange rates and year end exchange rates are recorded at an appropriate reserve of the consolidated shareholders' equity.

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

Business combinations

Acquisition of subsidiary companies is recognised according to the purchase method of accounting. The acquisition cost is determined by the sum of the fair value, at the trading date, of all the assets transferred, liabilities settled and the financial instruments issued by the group in exchange of control of the acquired company, plus any cost directly attributable to the acquisition.

The identifiable assets, liabilities and contingent liabilities of the company acquired that respect the conditions to be recognised according to IFRS 3 are stated at their fair value at the date of acquisition with the exception of those non current assets that are held for sale in accordance to IFRS 5, which are recognised and measured at fair value less selling costs.

The positive difference between the acquisition costs and the fair value of the reported assets and liabilities is recorded as goodwill and classified as an intangible asset having an indefinite life.

Minority interest in the company acquired is initially measured to the extent of their shares in the fair value of the assets, liabilities and contingent liabilities recognised.

The accounting of the put and call options on the minority shareholdings of the subsidiary company are recorded according to IAS 32, taking into account therefore, depending on the case, the existence and the determinability of the consideration to the minority shareholders if the option was exercised.

Investments in associate companies

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through the participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, with the exception of investments held for future disposal.

Where a group company transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group’s interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

Transactions eliminated on consolidation

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

Foreign currency transactions

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

Consolidation of foreign entities

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

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

	Average 2008	At December 31, 2008	Average 2007	At December 31, 2007
GBP	0.7965	0.9525	-	-
CHF	1.58739	1.485	1.64272	1.6547

Tangible fixed assets

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

Fixed assets are stated at purchase, production or transfer costs including related charges and other direct or indirect expenses incurred to bring the asset to its intended use.
Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

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

The recoverable value of such assets is determined through the principles set out in IAS 36 and outlined in the paragraph "Impairment" herein.
Ordinary maintenance costs are fully expensed as incurred. Incremental maintenance costs are allocated to the asset to which they refer and depreciated over their residual useful lives.
Improvement expenditures on rented property are allocated to the related assets and depreciated over the shorter between the duration of the rent contract or the residual useful lives of the relevant assets.
Assets held under finance leases, which provide the Group with substantially all the risks and rewards of ownership, are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial statement as a debt. The assets are amortised over their estimated useful life or over the duration of the lease contract if lower.
The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Goodwill

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognised using the purchase method, and is recorded to reflect the positive difference between purchase cost and the Group's interest at the time of acquisition, after having recognised all assets, liabilities and identifiable contingent liabilities attributable to both the Group and third parties at their fair value.
Goodwill is not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.
Impairment losses are recognised immediately as expenses that cannot be recovered in the future.
On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.
Goodwill deriving from acquisitions made prior to the transition date to IFRS are maintained at amounts recognised under Italian GAAP at the time of application of such standards and are subject to impairment test at such date.
In the context of IFRS First-time Adoption, the Group elected not to apply IFRS 3 – Business Combinations retrospectively to the business combinations that occurred before January 1, 2004; as a consequence, goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous Italian GAAP amounts, subject to impairment testing at that date.

Other intangible assets

Intangible fixed assets are those lacking an identifiable physical aspect, are controlled by the company and are capable of generating future economic benefits.
Other purchased and internally-generated intangible assets are recognised as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. straight-line basis over the lease terms.
Such assets are measured at purchase or manufacturing cost and amortised on a straight-line basis over their estimated useful lives, if these assets have finite useful lives.
Other intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if their fair value can be measured reliably.
In case of intangible fixed assets purchased for which availability for use and relevant payments are deferred beyond normal terms, the purchase value and the relevant liabilities are discounted by recording the implicit financial charges in their original price.
Expenditure on research activities is recognised as an expense in the period in which it is incurred.
Development costs can be capitalised on condition that they can be measured reliably and that evidence is provided that the asset will generate future economic benefits.

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

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

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

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

Intangible assets with indefinite useful lives

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
An intangible asset with an indefinite useful life is tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.
The recoverable amount of an asset is the higher of fair value less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.
Where an impairment loss subsequently reverses, the carrying amount of the asset, (or cash-generating unit), with the exception of goodwill, is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount that would have been determined had no impairment loss been recognised for the asset. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Equity investments

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

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

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

Current and non current financial assets

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

Work in progress

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

Trade payables and receivables and other current assets and liabilities

Trade payables and receivables and other current assets and liabilities are measured at nominal value and eventually written down to reflect their recoverable amount.
Write-downs are determined to the extent of the difference of the carrying value of the receivables and the present value of the estimated future cash flows discounted at the prevailing market interest rate at the time of recognition.
Receivables and payables denominated in non EMU currencies are stated at the exchange rate at period end provided by the European Central Bank.

Cash and cash equivalents

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

Assets and liabilities from discontinued operations

This item includes the assets and liabilities from discontinued operations whose carrying amount will be recovered principally through a sales transaction rather than through continuing use.
Assets held for sale are measured at the lower of their carrying amount and fair value less disposal costs.

Treasury shares

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

Financial liabilities and equity investments

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

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

- Bank borrowings
  Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and subsequently stated at its amortised cost, using the prevailing market interest rate method.
- Equity instruments
  Equity instruments issued by the Group are stated at the proceeds received, net of direct issuance costs.
- Non current financial liabilities
  Liabilities are stated according to the amortisation cost.

Derivative financial instruments and other hedging transactions

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

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

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

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to company commitments and forecasted transactions are recognised directly in equity.

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

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

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

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

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

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

Employee benefits

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

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

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

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

Pension plans

According to local conditions and practices, German employees of the Group benefit from pension plans of defined benefits and/or a defined contribution.
In the presence of defined contribution plans, the annual cost is recorded at the income statement when the service cost is executed.

The Group's obligation to fund defined benefit pension plans and the annual cost recognised in the income statement is determined on an actuarial basis using the ongoing single premiums method. The portion of net cumulative actuarial gains and losses which exceeds the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets at the end of the previous year is amortised over the average remaining service lives of the employees.
The post-employment benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses, arising from the application of the corridor method and unrecognised past service cost, reduced by the fair value of plan assets.

Share-based payment plans (stock options)

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

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

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

Provisions and reserves for risks

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

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

Revenue recognition

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

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

Taxation

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

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

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

porary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.
Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Dividends

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

Earnings per share

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

Use of estimations

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

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

The main items affected by these situations of uncertainty are allowance for doubtful accounts, goodwill and deferred taxation.

Change in accounting principles

Pursuant to IAS 8, these are recognised on the face of the income statement starting from the year of adoption.

Changes in accounting estimates and reclassifications

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

New accounting principles

Interpretations effective from January 1, 2008 but not applicable to the Group

The following interpretations and amendments effective from January 1, 2008 relates to matters that are not applicable to the Group.

- In IFRIC 12 - The interpretation IFRIC 12 – Service Concession Arrangements (effective from January 1, 2008 but not yet endorsed by the European Union) relates to matters that are not applicable to the Group.
- On July 5, 2007 IFRIC issued the interpretation IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction effective retrospectively from January 1, 2008. The interpretation provides general guidance on how to assess the limit in IAS 19 - Employee Benefits on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement.
- On October 13, 2008, the IASB issued amendments to IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures that would permit the reclassification of some non-derivative financial assets which are classified under the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer a financial asset from the available-for-sale category to the loans and receivables category where it has the intention and ability to hold such asset for the foreseeable future.

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

On November 30, 2006, the IASB issued the IFRS 8 – *Operating Segments* that will become effective on January 1, 2009 and which will replace IAS 14 – *Segment Reporting*. The new standard requires the information provided in segment reporting to be based upon the components of the entity that management uses to make decisions about operational matters. The standard requires these operating segments to be identified on the basis of internal reports that are regularly reviewed by the entity’s management in order to allocate resources to the segment and assess its performance. Adopting this standard will have no effect on the measurement of items in the financial statements.

On March 29, 2007 the IASB issued a revised IAS 23 - *Borrowing Costs*. The standard shall be applied for annual period beginning after January 1, 2009. The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The standard shall be applied to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the January 1, 2009. This standard has not yet been endorsed by the European Union at the date of this year-ended financial report.

On September 6, 2007 the IASB issued a revised version of IAS 1 - *Presentation of Financial Statements* that is effective for annual periods beginning on or after January 1, 2009. The revised standard requires an entity to present changes in its equity resulting from transactions with owners in a statement of changes in equity. All non-owner changes (meaning changes in comprehensive income) are required to be presented either in a single statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Transactions with non-owners may not be presented in the statement of changes in equity. This standard had not yet been endorsed by the European Union at the date of this year- ended financial report.

On January 10, 2008 the IASB issued a revised version of IFRS 3 – *Business Combinations* and an amended version of IAS 27 - *Consolidated and Separate Financial Statements*. The main changes that revised IFRS 3 will make to existing requirements are the elimination of the need to measure at fair value every asset and liability at each step in a step acquisition for the purpose of calculating a portion of goodwill. Instead, goodwill will be measured as the difference at acquisition date between the value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Moreover, for a business combination in which the acquirer achieves control without purchasing all of the acquiree, the remaining (non-controlling) equity interests are measured either at fair value or by using the method already provided in IFRS 3. The revised IFRS 3 also requires acquisition related costs to be recognised as expenses and the acquirer to recognise the obligation to make an additional payment (contingent consideration) as part of the business combination. In the amended version of IAS 27, the IASB has added a requirement specifying that changes in a parent's interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions and recognised within equity. Moreover when a parent loses control of a subsidiary but retains an ownership interest it must initially measure any retained investment at fair value. At the date when control is lost, the difference between the fair value and the carrying amount of the retained interest must be recognised in profit or loss. Finally, the amendment to IAS 27 requires losses pertaining to non-controlling interests to be allocated to non-controlling interest equity, even if this result in the non-controlling interest having a deficit balance. The new rules will apply prospectively from January 1, 2010. The amendment and the revised had not yet been endorsed by the European Union at the date of this year-ended financial report.

On January 17, 2008 the IASB issued an amendment to IFRS 2 - *Vesting Conditions and Cancellations* which clarifies that for the purpose of share based payments measurement, vesting conditions are service conditions and performance conditions only. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment, effective from January 1, 2009 had not yet been endorsed by the European Union at the date of this year-ended financial report.

On February 14, 2008 the IASB issued an amendment to IAS 32 – *Financial Instruments: Presentation* and to IAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation.* These amendments require puttable financial instruments and instruments, or components of instruments that impose on an entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity instruments. This amendment, effective from January 1, 2009, had not yet been endorsed by the European Union at the date of this year-ended financial report.

On May 22, 2008 the IASB issued a series of amendments to IFRS ("Improvements"). Details are provided in the following paragraphs of those identified by the IASB as resulting in accounting changes for presentation, recognition and measurement purposes, leaving out amendments regarding changes in terminology or editorial changes which are likely to have minimal effects on accounting.

- IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations: this amendment, that shall be applied from January 1, 2010, requires an entity that is committed to a sale plan involving loss of control of a subsidiary to classify all the assets and liability of that subsidiary as held for sale, regardless of whether the entity will retain a non controlling interest in its former subsidiary after the sale.
- IAS 1 - Presentation of Financial Statements: this amendment, which shall be applied from January 1, 2009, requires an entity to classify assets and liabilities arising from derivative financial instruments that are not classified as held for trading between current and non- current assets and liabilities.
- IAS 19 - *Employee Benefits:* this amendment, effective prospectively from January 1, 2009 to change in benefits that occur after that date, clarifies the definition of positive/negative past service costs and states that in the case of a curtailment, only the effect of the reduction for future service shall be recognised immediately in the income statement, while the effect arising from past service periods shall be considered a negative past service cost. The Board also revised the definition of short-term employee benefits and other long-term employee benefits and the definition of a return on plan assets, stating that this amount should be net of any costs for administering the plan (other than those included in the measurement of the defined benefit obligation).
- IAS 36 - *Impairment of Assets:* this amendment, effective from January 1, 2009, requires additional disclosures to be made in the case in which an entity determines the recoverable amount of a cash-generating unit using discounted cash flows.
- IAS 38 - *Intangible Assets:* this amendment, effective from January 1, 2009, requires expenditure on advertising and promotional activities to be recognised in the income statement. Further, it states that in the case expenditure is incurred to provide future economic benefits to an entity, but no intangible assets is recognised, in the case of the supply of goods, the entity recognise such expenditure as an expense when it has the right to access the goods. In the case of the supply of services, an entity shall recognise the expenditure as an expense when it receives the services. Moreover, the standard has been revised in order to allow entities to use the unit of production method for determining the amortisation charge for an intangible asset with a finite useful life.
- IAS 39 - *Financial Instruments: Recognition and Measurement:* this amendment, effective from January 1, 2009, clarifies how to calculate the revised effective interest rate on ceasing fair value hedge accounting and notes additionally that the prohibition on the reclassification of financial instruments into or out of the fair value through profit or loss category after initial recognition should not prevent a derivative from being accounted for at fair value through profit or loss when it does not qualify for hedge accounting and vice versa. Finally, in order to eliminate conflict with IFRS 8 - *Operating Segments,* it removes the reference to designating and documenting hedges at sector level.
- On July 31, 2008, the IASB issued an amendment to IAS 39 - *Financial Instruments: Recognition and Measurement* which is to be applied retrospectively from January 1, 2010 .The amendment clarifies how the existing principles underlying hedge accounting should be applied in particular situations. As of the date of this Consolidated financial statements, the amendment had not yet been endorsed by the European Union.

These improvements have not yet been endorsed by the European Union at the date of this year-ended financial report.

Note 3 - Financial risk management

Credit risk

For business purposes, specific policies are adopted in order to guarantee that clients honour 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 optimise the efficiency and effectiveness of the management of the Group's capital resources (maintaining the availability of minimum reserves of liquidity that are readily convertible to cash and committed credit).

The present difficulties both in the markets in which the Group operates and in the financial markets necessitate special attention being given to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing up to 2009, 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 "Euro area" the exposure to currency risks is limited.

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

Information related to the fair value of the derivative financial instrument is disclosed in Note 25.

Note 4 - Consolidation

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

Change in consolidation compared to December 31, 2007 is related to the incorporation of the following companies:

- 4Cust Reply S.r.l. was constituted in the month of February 2008 and the Parent Company Reply S.p.A. holds 80% of the share capital. 4Cust Reply focuses on Customer Relationship Management with the aim to support clients with identification procedures, implementation and management of organizational and technological startegies which are necessary to achieve business objectives in CRM sector.
- Plus Reply S.r.l. was constituted in the month of March 2008 and the Parent Company Reply S.p.A holds 70% of the share capital. The company is specialised in management consulting in the Financial Services. The services which the company offer are CRM, credit, Business process management and compliance as well as IT Governance.
- In the month of March 2008 the Parent Company through Spike Reply S.r.l., acquired 100% share capital of Communication Valley S.p.A. The company is focused on remote monitoring and management services of ICT Security.
- In the month of July 2008 the Parent Company finalised the acquisition of glue: Reply Ltd., an English company with headquarters in Marlow UK and specialised in Enterprise Architecture, Solution Design and SOA consulting services.

Change in consolidation has effected revenues by 4.6% and Group net income by 4.2%.

Note 5 - Revenues

Revenues from sales and services, including change in work in progress, amounted to 330,210 thousand euros and are detailed as follows:

(thousand euros)	2008	2007	Change
Fixed price projects	164,359	138,061	26,298
Time and material	134,036	122,260	11,776
Assistance and maintenance services	25,430	13,877	11,553
Other	6,385	2,978	3,407
Total	**330,210**	**277,176**	**53,034**

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

Country	2008	2007
Italy	80.3%	79.3%
Germany	18.4%	20.7%
UK	1.3%	-
	100.0%	**100.0%**

Disclosure required by IAS 14 (“Segment reporting”) is provided in Note 31 herein.

Note 6 - Purchases

Detail is as follows:

(thousand euros)	2008	2007	Change
Software licenses for resale	5,164	3,620	1,544
Hardware for resale	2,224	866	1,358
Other	2,874	2,469	405
Total	**10,262**	**6,955**	**3,307**

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

The item *Other* mainly includes the acquisition of fuel amounting to 2,155 thousand euros (1,837 thousand euros at December 31, 2007) and office material amounting to 299 thousand euros (295 thousand euros at December 31, 2007).

Note 7 - Personnel

Detail is as follows:

(thousand euros)	2008	2007	Change
Payroll employees	145,738	120,958	24,780
Executive Directors	13,929	10,940	2,989
Project collaborators	2,729	3,011	(282)
Total	**162,396**	**134,909**	**27,487**

The increase of 27,487 thousand euros in personnel expenses refers to the overall increase of the Group's business.

Personnel expenses include the fair value of the stock options vested as at December 31, 2008 (235 thousand euros).
The average number of personnel at year end 2008 amounted to 2,516 (in 2007 no. 2,136).

Detail of personnel by category is provided below:

(number)	31/12/2008	31/12/2007	Change
Directors	197	172	25
Managers	386	316	70
Staff	2,103	1,784	319
Total	**2,686**	**2,272**	**414**

As at December 31, 2008 the number of employees of the Group amounted to 2,686 compared to 2,272 at December 31, 2007. During 2008 approximately 700 employees were hired, and approximately 400 left the Group.

Change in consolidation brought a net organic increase of 101 employees.
Human resources mainly comprise electronic engineers and economic business graduates from the best Italian and foreign universities.

Note 8 - Services and other costs

Service expenses comprised the following:

(thousand euros)	2008	2007	Change
Commercial and technical consulting	53,068	43,151	9,917
Travelling and professional training expenses	17,811	14,468	3,343
Other service costs	24,408	22,551	1,857
Office expenses	7,841	5,645	2,196
Lease and rentals	6,155	6,132	23
Other	3,475	2,468	1,007
Total	**112,758**	**94,415**	**18,343**

Change in *Service and other costs* amounted to 18,343 thousand euros and owes to an overall increase in the Group's activities.

Office expenses include charges from related parties in connection to service contracts for the use of premises and centralised secretarial services amounting to 4,946 thousand euros.

Note 9 - Amortisation, depreciation and write-downs

Depreciation of tangible assets, amounting to 3,029 thousand euros at December 31, 2008, 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.

Amortization of intangible assets for the year ended 2008 amounted to 1,857 thousand euros. The details are provided at the notes to intangible assets herein.

Note 10 - Other unusual operating income/(expenses)

Other unusual operating income/(expenses) amounting to 209 thousand euros are related to events falling out of the ordinary course of business.

Note 11 - Financial income/(expenses)

Detail is as follows:

(thousand euros)	2008	2007	Change
Financial gains	2,001	1,657	344
Interest expenses	(2,991)	(1,874)	(1,117)
Other	(34)	1	(35)
Total	**(1,024)**	**(216)**	**(808)**

The item *Financial gains* mainly includes interest on bank accounts for 1,603 thousand euros.

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

Note 12 - Income taxes

Income taxes for financial year 2008 totalled 18,266 thousand euros and are detailed as follows:

(thousand euros)	2008	2007	Change
IRES and other	10,786	15,703	(4,917)
IRAP	6,693	5,405	1,288
Current taxes	**17,479**	**21,108**	**(3,629)**
Deferred tax liabilities	1,594	1,159	435
Deferred tax assets	(807)	(2,442)	1,635
Deferred taxes	**787**	**(1,283)**	**2,070**
Total income taxes	**18,266**	**19,475**	**(1,209)**

Decrease in Current taxes owes to the reduction in tax rates (IRES and IRAP) starting from 2008 for the Italian group companies.

Tax burden before taxation is equivalent to 45.5% (51.6% in 2007).

Note 13 - Assets, liabilities and result of discontinued operations

In accordance with IFRS 5 illustrated below are the assets, liabilities and result of discontinued operations of Syskoplan Consulting (USA) and Syskoplan Holding (USA), whose assets and liabilities were transferred to the Parent Company syskoplan AG in the month of December 2008.

Detail is as follows:

(thousand euros)	**31/12/2008**	**31/12/2007**
Revenue	-	135
Operating costs	(119)	(139)
Income tax	-	(88)
Gain/(loss) from discontinued operations	**(119)**	**(92)**
Total assets from discontinued operations	-	660
Total liabilities from discontinued operations	-	69
Net financial position	-	511
No, employees	-	1

Note 14 - Earnings per share

Basic earnings per share

Basic earnings per share at December 31, 2008 was calculated with reference to the profit for the period of the Group which amounted to 18,924 thousand euros (15,719 thousand euros at December 31, 2007) divided by the weighted average number of shares outstanding during the year which were 8,940,366 at December 31, 2008 (8,968,447 at December 31, 2007).

	2008	**2007**
Net profit for the year	18,924,000	15,719,000
Weighted average number of shares	8,940,366	8,968,447
Basic earnings per share	2.12	1.75

Diluted earnings per share

Diluted earnings per share at December 31, 2008 was calculated with reference to the profit for the period of the Group which amounted to 18,924 thousand euros divided by the weighted average number of shares outstanding at December 31, 2008 taking in consideration the diluting effect which could derive from hypothetical exercising of financial instruments potentially convertible in shares (stock options).

	2008	**2007**
Net profit for the year	18,924,000	15,719,000
Weighted average number of shares	8,940,366	8,968,447
Diluting effect	162,400	2,400
Weighted number of diluted shares	9,102,766	8,970,847
Diluted earnings per share	2.08	1.75

Note 15 - Tangible assets

Tangible assets as at December 31, 2008 amounted to 8,237 thousand euros and are detailed as follows:

(thousand euros)	31/12/2008	31/12/2007	Change
Buildings	2,900	3,042	(142)
Plant and machinery	1,286	892	394
Hardware	3,157	2,606	551
Other	894	677	217
Total	**8,237**	**7,217**	**1,020**

Change in tangible assets during 2008 is summarised in the table below:

(thousand euros)	Buildings	Plant and machinery	Hardware	Other	Total
Historical cost	4,023	3,147	11,010	2,988	21,168
Accumulated depreciation	(981)	(2,255)	(8,404)	(2,311)	(13,951)
Balance at 31/12/2007	**3,042**	**892**	**2,606**	**677**	**7,217**
Historical cost					
Additions	-	858	1,866	441	3,165
Disposals	-	(21)	(362)	(136)	(519)
Other changes	-	243	1,006	245	1,494
Accumulated depreciation					
Depreciation	(142)	(652)	(1,902)	(333)	(3,029)
Utilisation	-	17	371	54	442
Other changes	-	(51)	(428)	(54)	(533)
Historical cost	4,023	4,227	13,520	3,538	25,308
Accumulated depreciation	(1,123)	(2,941)	(10,363)	(2,644)	(17,071)
Balance at 31/12/2008	**2,900**	**1,286**	**3,157**	**894**	**8,237**

In 2008 the Group carried out investments amounting to 3,165 thousand euros.

The item *Buildings* includes a building belonging to a Syskoplan group company located in Gutersloh, with a net book value amounting to 2,892 thousand euros.

Increase in *Plant and machinery* amounting to 662 thousand euros refers to an investment carried out by Syskoplan group for broadband telephone lines for the is4 data centre.
This item also includes the lease of video conference equipment amounting to 50 thousand euros.

Change in *Hardware* owes to investments made by the Italian subsidiaries for 1,366 thousand euros and 500 thousand euros to the purchases made by the German companies. Furthermore this item includes financial leases for 641 thousand euros (583 thousand euros referred to syskoplan Group and 58 thousand euros to Communication Valley S.p.A).

The item *Other* at December 31, 2008 includes improvements to third party assets (475 thousand euros) and office furniture (396 thousand euros).

Other changes refer to first time consolidation of Communication Valley S.p.A. and glue: Reply Ltd.

At December 31, 2008 67.5% of tangible assets have been depreciated compared to 65.91% in 2007.

Note 16 - Goodwill

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

(thousand euros)	Year of acquisition	% acquired	31/12/2008
@Logistics Reply S.r.l.	2000	30.0%	459
Business Reply S.r.l.	2000	30.0%	160
Cluster Reply S.r.l.	2000	15.0%	155
Sytel Reply S.r.l.	2000	20.0%	223
Whitehall Reply S.r.l.	2000	100.0%	16
Sysproject Reply S.r.l. (now Cluster Reply S.r.l.)	2002	100.0%	1,665
Aware Reply S.r.l.	2001 - 2003	100.0%	2,418
Blue Reply S.r.l.	2004	12.0%	285
Planet Reply S.r.l. (now Sytel Reply S.r.l.)	2004	20.0%	1,191
E*Finance Consulting Reply S.r.l.	2001 - 2005	100.0%	2,561
Eos Reply S.r.l.	2005	(*)	360
IrisCube Reply S.p.A.	2003 - 2005	100.0%	1,563
IrisCube Reply S.p.A. (now Sytel Reply S.r.l.) (***)	2003 - 2005	100.0%	5,100
Spike Reply S.r.l.	2005	10.0%	298
Discovery Reply S.r.l.	2005	(*)	210
syskoplan AG	2006	63.8%	9,611
Interactiv! (**)	2006	85.1%	1,489
Macros Innovation (**)	2006	100.0%	4,652
Discovery sysko Gmbh (**)	2006	20.0%	11
Santer Reply S.p.A.	2002 - 2006	100.00%	1,062
Xuccess Consulting GmbH (**)	2007	100.0%	5,195
Axcel Reply S.r.l.	2007	100.0%	808
Communication Valley S.p.A.	2008	100.0%	11,868
glue: Reply Ltd.	2008	100.0%	10,772
Reply Consulting S.r.l.	2008	44.0%	4,306
Hermes Reply S.r.l.	2008	5.0%	116
Other from syskoplan group			38
Other(*)			235
Total			**66,827**

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

Change in Goodwill in 2008 was as follows:

(thousand euros)	
Balance at December 31, 2007	**40,496**
Increases	27,100
Decreases	(769)
Balance at December 31, 2008	**66,827**

Increase in 2008 refers to:

Communication Valley S.p.A.

In the month of March 2008 the acquisition of Communication Valley S.p.A. was finalised in which the Parent Company, through Spike Reply S.r.l., acquired 100% of the share capital for a total of 15.9 million euros.

glue: Reply Ltd.

In the month of July 2008 Reply S.p.A finalised the acquisition of 100% of the share capital of glue:, an English company based in Marlow. The acquisition was carried out through a cash payment (8,160 thousand euros) and a Reply S.p.A share capital increase (3,146 thousand euros).

Reply Consulting S.r.l. and Hermes Reply S.r.l.

In execution of the agreements signed in occasion of the constitution of the subsidiary company, Reply Consulting S.r.l. and Hermes Reply S.r.l. signed a "put" agreement. In the first months of 2009 the "put" option to be exercised by the minority shareholders of the said companies will fall due (and correspondingly the "call" option for Reply). In accordance with IAS 32, at December 31, 2008 goodwill amounting to 4.4 million euros was recorded. Such amount is related to the difference arising between the amount owed to the minority shareholders of Consulting S.r.l. and Hermes Reply S.r.l. in relation to the exercising of the aforementioned option and the decrease of the stake of the minority shareholders.
The above mentioned posting according to IAS 32 did not require changes to the statement of cash flows in as much as it did not generate cash flows as at December 31, 2008.

With reference to the aforementioned operations, the allocation of the cost of the investments in the fair value of the assets and liabilities acquired was completed by the end of 2008. Therefore, the Goodwill stated is to be considered final.

The following table shows how Goodwill for the above transactions was determined:

(thousand euros)	Carrying amount	Fair value
Tangible and intangible assets	544	2,964
Financial asset	33	33
Trade receivables and other receivables	8,256	8,256
Cash and cash equivalents	1,934	1,934
Financial liabilities	(584)	(584)
Trade payables and other payables	(6,797)	(6,839)
Deferred tax	(232)	(66)
Net assets acquired	3,154	5,700
Value of transaction		**32,802**
Goodwill		**27,100**

The decrease of goodwill is related to the re-determination of the earn-out component referred to Xuccess Consulting GmbH and Interactiv, subsidiary companies of syskoplan AG.

Goodwill was subject to the impairment test as required by IAS 36. This assessment, to be carried out at least once a year, was performed at the level of the Cash Generating Units (CGU), to which value of goodwill is attributed.
The recoverable value of the CGU has been determined through the value in use calculated as the discounted future cash flows ("Unlevered Discounted Cash Flow Analysis") of the recent available budgets.

The main assumptions used in the impairment model with reference to the discount rate and growth rate are the following:

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

As to all CGUs subject to impairment test, no indications emerged that such businesses may have been subject to impairment.

Finally, it is appropriate to note that the estimates and budget data to which the above mentioned parameters have been applied are those determined by management on the basis of past performance and expectations of developments in the markets in which the Group operates. In this respect pessimistic trends of the world economy, have led management to reconsider the expected rates of growth of the revenues and margins incorporated in the business plan drawn up in previous years and to revise the plan using a more cautious basis. This means that the growth objectives included in the most recent plan will be achieved more slowly, although without causing situations to arise in which the carrying amount of goodwill may be significantly impaired. However, estimating the recoverable amount of cash generating units requires discretion and the use of estimates by management. The Group cannot guarantee that there will be no goodwill impairment in future periods.
In fact, various factors connected to the current challenging market environment could require a reassessment of [reduction in] the value of goodwill. Circumstances and events which could potentially cause further impairment losses are constantly monitored by the Group.

For some group 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. As at December 31, 2008, the assessment of the achievement of such parameters did not lead to any impact on the financial statements, with the exception of Reply Consulting S.r.l. and Hermes Reply S.r.l., as the underlying assumptions are highly variable and the commitments not very significant.

Note 17 - Other intangible assets

Intangible assets as at December 31, 2008 amounted to 6,050 thousand euros (3,015 thousand euros at December 31, 2007) and detail is as follows:

(thousand euros)	Historical cost	Accumulated amortisation	Net book value at 31/12/2008
Development costs	6,135	(4,495)	1,640
Software	9,774	(8,310)	1,464
Trademarks	525	-	525
Other intangible assets	2,950	(529)	2,421
Total	**19,384**	**(13,334)**	**6,050**

Change in intangible assets during 2008 is summarised in the table below:

(thousand euros)	Net book value at 31/12/2007	Increases	Accumulated amortisation	Net book value at 31/12/2008
Development costs	1,271	1,000	(631)	1,640
Software	1,224	938	(698)	1,464
Trademarks	520	5	-	525
Other intangible assets	-	2,950	(529)	2,421
Total	**3,015**	**4,893**	**(1,858)**	**6,050**

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

The item *Software* is related mainly to software licenses purchased and used internally by the Group companies. This item also includes work in progress of internally developed software for 484 thousand euros.

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

Increase in *Other intangible assets* reflects the allocation process related to the acquisition cost of Communication Valley S.p.A. The increase is mainly related to Know-how of the *Security Operation Center,* a specific activity which supplies *Managed Security Services* to avoid and individualise 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.

Note 18 - Financial assets

Other financial assets amounted to 3,161 thousand euros and are all referred to non-current assets.

Detail is as follows:

(thousand euros)	31/12/2008	31/12/2007	Change
Receivables from insurance companies	2,220	2,123	97
Guarantee deposits	378	831	(453)
Long term securities	562	-	562
Short term securities	1	-	1
Total	**3,161**	**2,954**	**207**

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

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

Note 19 - Deferred tax assets

This item amounted to 4,924 thousand euros at December 31, 2008 (5,141 thousand euros at December 31, 2007), and includes the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.

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

(thousand euros)	31/12/2007	Change in consolidation	Accruals	Utilisation	31/12/2008
Prepaid tax on costs that will become deductible in future years	3,936	53	2,220	(3,218)	2,991
Prepaid tax on greater provision for doubtful accounts	185	-	335	(91)	429
Deferred fiscal deductibility of amortization	333	-	39	(12)	360
Consolidation adjustments and other items	687	-	461	(4)	1,144
Total	**5,141**	**53**	**3,055**	**(3,325)**	**4,924**

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

There are no deferred tax assets on losses carried forward.

Note 20 - Inventories

The item *Inventories* amounted to 18,020 thousand euros and is detailed below:

(thousand euros)	31/12/2008	31/12/2007	Change
Contract work in progress	49,581	27,505	22,076
Finished products and goods for resale	167	436	(269)
Advance payments from customers	(31,728)	(19,250)	(12,478)
Total	**18,020**	**8,691**	**9,329**

Change of 9,329 thousand euros refers to an increase in the Group's business volume and a growth in the working capital over revenues ratio (24.6% at December 31, 2008 compared to 23.0% in 2007).

Note 21 - Trade receivables

Trade receivables at December 31, 2008 amounted to 144,711 thousand euros with an increase of 23,583 thousand euros.

Trade receivables are shown net of allowances for doubtful accounts amounting to 2,335 thousand euros at December 31, 2008 (1,577 thousand euros at December 31, 2007).

(thousand euros)	31/12/2008	31/12/2007	Change
Domestic receivables	133,089	109,150	23,939
Foreign trade receivables	14,093	14,335	(242)
Credit notes to be issued	(136)	(780)	644
Total	**147,046**	**122,705**	**24,341**
Allowance for doubtful accounts	(2,335)	(1,577)	(758)
Total trade receivables	**144,711**	**121,128**	**23,583**

Allowance for doubtful accounts during 2008 evolved as follows:

(thousand euros)	31/12/2007	Accrual	Utilised	31/12/2008
Allowance for doubtful accounts	1,577	1,416	(658)	2,335

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

Trade receivables are all collectible within one year.

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

Aging at December 31, 2008 (thousand euros)	Trade receivables	current	1-90 days	91-180 days	181-360 days	over 360 days	Total overdue
Trade receivables	147,046	127,340	13,674	2,824	2,695	513	19,706
Allowance for doubtful accounts	(2,335)	-	(208)	(264)	(1,444)	(418)	(2,335)
Total trade receivables	**144,711**	**127,340**	**13,466**	**2,560**	**1,251**	**95**	**17,372**

Aging at December 31, 2007 (thousand euros)	Trade receivables	current	1-90 days	91-180 days	181-360 days	over 360 days	Total overdue
Trade receivables	122,705	102,325	17,381	1,187	594	1,218	20,380
Allowance for doubtful accounts	(1,577)	-	(178)	(81)	(100)	(1,218)	(1,577)
Total trade receivables	**121,128**	**102,325**	**17,203**	**1,106**	**494**	**-**	**18,803**

Note 22 - Other receivables and current assets

Detail is as follows:

(thousand euros)	31/12/2008	31/12/2007	Change
Tax receivables	6,776	2,739	4,037
Advances to employees	108	198	(90)
Other receivables	728	523	205
Accrued income and prepaid expenses	2,140	1,568	572
Total	**9,752**	**5,028**	**4,724**

The item tax receivables mainly included:

- Vat tax receivables (1,676 thousand euros);
- Advance payment on income tax for some Italian companies (3,262 thousand euros);
- Receivables for withholding tax (231 thousand euros).

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

Note 23 - Cash and cash equivalents

This item amounted to 39,356 thousand euros, with a decrease of 1,454 thousand euros compared to December 31, 2007, 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.

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

Note 24 - Shareholders' equity

Share capital

As at December 31, 2008 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.
Change in *Share capital* owes to the issuing of new shares for the acquisition of the 100% stake in glue: Reply Ltd. for a total value of 3,146,329 euros, of which 74,327 share capital increase and 3,072,002 euros as share premium.

The objectives identified by Reply S.p.A for managing capital are to create value for stockholders as a whole, to safeguard business continuity and support the growth of the Group. As a result Reply S.p.A. endeavours to maintain an adequate level of capital that at the same time enables it to obtain a satisfactory economic return for its stockholders and guarantee economic access to external sources of funds, including in this by means of achieving an adequate rating.

Other reserves

Other reserves comprised the following:

(thousand euros)	31/12/2008	31/12/2007	Change
Share premium reserve	20,623	17,551	3,072
Legal reserve	944	930	14
Reserve for treasury shares on hand	3,691	1,253	2,438
Treasury shares	(3,691)	(1,253)	(2,438)
Reserve for purchase of treasury shares	26,309	28,747	(2,438)
Reserve for cash flow hedges	348	458	(110)
Retained earnings and other	39,702	26,366	13,336
Total	**87,926**	**74,052**	**13,874**

As at December 31, 2008 the *Share premium reserve* amounted to 20,623 thousand euros. Change of 3,072 thousand euros compared to December 31, 2007 is owing to the increase in the share capital as mentioned above.

Change of 14 thousand euros in *Legal Reserve* owes to the allocation of the net profit of the Parent company Reply S.p.A.

The *Reserve for treasury shares on hand* amounting to 3,691 thousand euros, is related to shares held by the Parent company that as at December 31, 2008 were equal in number to 186,499. During 2008 Reply S.p.A. acquired no. 117,000 ordinary shares for a total out payment of 2,438 thousand euros.

The *Reserve for purchase of treasury shares,* amounting to 26,309 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 June 14, 2007 which authorised, 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.

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

Retained earnings and other includes the effects deriving from the costs related to the existing Stock Option Plans as at December 31, 2008 and the expenses related to the share capital increase.

Share based payment plans

The Group has share based payment plans for its directors and employees.

The stock option plans have the following purposes:

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

As mentioned in Note 2, with reference to share-based payment plans, the Group has applied the standard set out by IFRS 2 "Share-based payment" and has applied it to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005, and are related to the stock options plans of 2004 and 2006. With reference to these plans, in 2008, the cost incurred for Reply S.p.A. share-based payments amounted to 235 thousand euros (597 thousand euros in 2007).

Stock option plans underlying the Parent Company's ordinary shares

The Extraordinary Shareholders' Meeting of Reply S.p.A. resolved the increase of the share capital with exclusion of stock option rights in compliance with Art. 2441, paragraph 8 and Art. 2441 paragraph 5 of the Italian Civil Code. The Board of Directors' of the Parent Company in charge of the stock option plan, has assigned stock options to more than 200 employees and directors of the group companies.

As at December 31, 2008 the number of stock options were 168,400 and can be summarised as follows:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2004	11/06/2004	11/11/2005	1	17.569	11/11/2008 – 11/11/2013	2,400
2004	11/06/2004	12/05/2006	10	21.339	12/05/2009 – 12/05/2014	150,000
2006	15/06/2006	08/08/2006	1	18.662	08/08/2009 – 08/08/2014	10,000
2006	15/06/2006	27/09/2007	1	24.096	27/09/2010 - 27/09/2015	6,000

During 2008 no stock options were exercised nor assigned in reference to the existing plans.

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

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

Stock option plans underlying Syskoplan AG's share

The Extraordinary Shareholders' Meeting of syskoplan AG of September 20, 2000 resolved the increase of the share capital by assigning no. 300,000 new ordinary shares of Syskoplan AG to employees and directors of the group.

At December 31, 2008 the main characteristics of the plan as resolved by the Shareholders' are detailed below:

Plan	Resolution of the General Shareholders' meeting	No. beneficiaries	Exercise price	Vesting period	No. options
2002	22/04/2002	317	22.08	22/04/2004 – 22/04/2009	48,612
2003	24/04/2003	323	6.71	24/04/2005 – 24/04/2010	45,405
2004	07/04/2004	329	7.63	07/04/2006 – 07/04/2011	71,407

In 2008 no. 250 ordinary shares were exercised and at December 31, 2008 no. 48,637 expired and no. 85,158 ordinary shares are still to be exercised.

Note 25 - Financial liabilities

Detail is as follows:

(thousand euros)	31/12/2008			31/12/2007		
	current	non current	Total	current	non current	Total
Advances on receivables and bank overdrafts	7,587	-	7,587	4	-	4
Financial bank borrowings	16,271	33,994	50,265	3,929	26,897	30,826
Total due to banks	**23,858**	**33,994**	**57,852**	**3,933**	**26,897**	**30,830**
Other financial borrowings	254	439	693	155	343	498
Total financial liabilities	**24,112**	**34,433**	**58,545**	**4,088**	**27,240**	**31,328**

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

(thousand euros)	31/12/2008				31/12/2007			
	Due within one year	Between 1 and 5 years	Over 5 years	Total	Due within one year	Between 1 and 5 years	Over 5 years	Total
Advances on receivables and bank overdrafts	7,587	-	-	**7,587**	4	-	-	**4**
Syndicated loan - Intesa SanPaolo Tranche A	-	-	-	**-**	4,000	-	-	**4,000**
Syndicated loan - Intesa SanPaolo Tranche B	16,443	32,887	-	**49,330**	-	25,730	-	**25,730**
Commerzbank	201	576	632	**1,409**	200	545	863	**1,608**
Other financial borrowings	254	439	-	**693**	155	343	-	**498**
Fair Value IRS and other	(373)	(101)	-	**(474)**	(271)	(241)	-	**(512)**
Total	**24,112**	**33,801**	**632**	**58,545**	**4,088**	**26,377**	**863**	**31,328**

The *Syndicated loan* is referred to the contract undersigned on December 30, 2005 by Reply S.p.A. with Intesa San-Paolo, pool leader of a group of banks for the granting of the loan. The loan was finalised for M&A operations.

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

- Tranche A can be used as an overdraft for a maximum amount of 12,000,000 euros with the purpose of entirely reimbursing the previous loan. Instalments were paid on a half year basis (Euribor 6 months + 0.75%) and expired on December 31, 2008.
- Tranche B can be used as an overdraft and/or as a performance guarantee for a maximum amount of 54,000,000 with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalised at the acquisition of companies, strategic investments or shares. Instalments are paid on a half year basis commencing June 30, 2009 (Euribor 6 months + 0.75%) and expires on December 31, 2011.

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

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

As contractually defined, such ratios are as follows:

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

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

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

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

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

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

Net financial position

In compliance with Consob regulation issued on July 28, 2006 and in accordance with CESR's *Recommendations for the consistent implementation of the European's regulation on Prospectuses* issued on February 10, 2005, the Net financial position at December 31, 2008 was as follows:

(thousand euros)	31/12/2008	31/12/2007	Change
Cash and cash equivalents	39,356	40,810	(1,454)
Cash and cash equivalents included in discontinued operations	-	356	(356)
Non-current financial assets	562	425	137
Non-current assets included in discontinued operations	-	155	(155)
Total financial assets	**39,918**	**41,746**	**(1,828)**
Current financial liabilities	(24,112)	(4,088)	(20,024)
Non current financial liabilities	(34,433)	(27,240)	(7,193)
Total financial liabilities	**(58,545)**	**(31,328)**	**(27,217)**
Total net financial position	**(18,627)**	**10,418**	**(29,045)**

For further detail with regards to the table see Notes 18, 23 and 25.

Note 26 - Employee benefits

(thousand euros)	31/12/2008	31/12/2007	Change
Employee severance indemnities	11,413	10,367	1,046
Employee pension funds	2,325	2,232	93
Directors severance indemnities	737	704	33
Other	43	59	(16)
Total	**14,518**	**13,362**	**1,156**

Employee severance indemnities

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

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

- Projection of the Employee severance indemnity already accrued at the assessment date and of the portions that will be accrued until when the work relationship is terminated or when the accrued amounts are partially paid as an advance on the Employee severance indemnities;
- Discounting, at the valuation date, of the expected cash flows that the company will pay in the future to its own employees;

- Re-proportioning of the discounted performances based on the seniority accrued at the valuation date with respect to the expected seniority at the time the company must fulfil its obligations. In accordance to the Law 296/06, the re-proportioning was applied only to those companies having less than 50 employees and that have chosen not to transfer the severance indemnities to complementary welfare funds.

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

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

The assumptions adopted can be summarised as follows:

Demographic assumptions	
Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on Employee severance indemnities	Annual frequency of advances and employee turnover were assumed from data of the company: - Frequency of advances in 2008: 2.50% - Frequency of turnover % 2008: 10%

Economic and financial assumptions	
Annual inflation rate	Constant average annual rate equal to 3.2%
Annual discount rate	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2008 was 4.3%
Annual growth rate of the Employee severance indemnities	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one percentage point.
Annual increase in salaries	The annual increase of salaries used was calculated in function of the employee qualifications and the Company’s market segment, net of inflation, from 1.00% to 1.50%

In accordance to IAS 19 Employment severance indemnities at December 31, 2008 is summarised in the table below:

(thousand euros)	
Balance at 31/12/2007	**10,367**
Service cost	1,186
Actuarial gain/loss	946
Interest cost	502
Indemnities paid during the year	(1,809)
Other changes	221
Balance at 31/12/2008	**11,413**

Pension funds

The item Pension funds is related to the liability for defined benefit plans for some Syskoplan Group companies, detail is as follows:

(thousand euros)	**31/12/2008**	**31/12/2007**
Present value of pension obligations	**2,577**	**2,834**
Fair value of plan assets	801	727
Financing status	**1,776**	**2,107**
Actuarial losses not recognised in the balance sheet	549	126
Liabilities shown on the balance sheet	**2,325**	**2,232**

Changes in the present value of the pension obligations is shown below:

(thousand euros)	**31/12/2008**	**31/12/2007**
Present value at beginning of year	2,834	3,043
Current Service cost	55	61
Interest cost	148	140
Actuarial gains/(losses)	(423)	(379)
Payments made for services	(37)	(31)
Present value at year end	**2,577**	**2,834**

Note 27 - Deferred tax liabilities

Deferred tax liabilities at December 31, 2008 amounted to 5,615 euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

(thousand euros)	
Costs stated only for tax return purposes	943
Other costs	4,672
Balance at 31/12/2008	**5,615**

Other costs not yet tax deductible mainly include the measurement of contract work in progress, employee benefits, capitalisation of development costs and reversal of amortisation of intangible assets.

Deferred tax liabilities have not been recognised 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 28 - Provisions

Provisions amounted to 10,895 thousand euros (of which 6,311 thousand euros non current).

Change in 2008 is summarised in the table below.

(thousand euros)	Balance at 31/12/2007	Accruals	Utilization	Other	Balance at 31/12/2008
Payables to minority shareholders	3,620	-	(497)	-	3,123
Fidelity provisions	3,154	2,959	(2,302)	(49)	3,762
Purchase price adjustment provision	3,201	93	(258)	(801)	2,235
Restructuring provisions	268	-	-	-	268
Warrantee provisions	180	-	-	(180)	-
Provision for other risks	1,431	1,116	(932)	(108)	1,507
Total	**11,854**	**4,168**	**(3,989)**	**(1,138)**	**10,895**

Payables to minority shareholders for 3,123 thousand euros represent the fair value of the minority interest equal to 49% of is4, a syskoplan group company. This amount has been stated according to IAS 32 as syskoplan has signed a put option agreement with the minority shareholders to be exercised with a 12 months' notice.

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

The provisions for *Purchase price adjustments* cover the earn-out components of acquiring shares in some syskoplan group companies.

Restructuring provision includes employee leave incentives.

The *Warranty provision* represents management's best estimate of commitments given by the Group for contractual, legal or constructive obligations which can arise after termination of a project. During 2008 this item was fully utilised by the company.

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

Note 29 - Trade payables

Trade payables as at December 31, 2008 amounted to 32,652 thousand euros with a change of 7,318 thousand euros compared to year end 2007.

Detail is as follows:

(thousand euros)	31/12/2008	31/12/2007	Change
Domestic suppliers	31,525	24,050	7,475
Foreign suppliers	2,017	2,064	(47)
Advances to suppliers	(890)	(780)	(110)
Total	**32,652**	**25,334**	**7,318**

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

Note 30 - Other current liabilities

Other current liabilities as at December 31, 2008 amounted to 53,889 thousand euros with a change of 12,166 thousand euros compared to 2007.

Details are provided below:

(thousand euros)	31/12/2008	31/12/2007	Change
Income tax payable	1,507	3,522	(2,015)
VAT payable	4,689	2,694	1,995
Withholding tax and other	3,163	2,588	575
Total due to tax authorities	**9,359**	**8,804**	**555**
Social security payables	8,651	7,051	1,600
Other	817	656	161
Total due to social security authorities	**9,468**	**7,707**	**1,761**
Employee accruals	14,211	10,515	3,696
Other payables	18,341	12,214	6,127
Accrued expenses and deferred income	2,510	2,483	27
Total other payables	**35,062**	**25,212**	**9,850**
Total other payables and current liabilities	**53,889**	**41,723**	**12,166**

Due to tax authorities amounting to 9,359 thousand euros, mainly refers to payables due to tax authorities for withholding tax on employees and professionals' compensation.

Other payables to social security authorities amounted to 9,468 thousand euros and refer to amounts payable for employee and employer contributions.

Other payables at December 31, 2008 amounted to 35,062 thousand euros and include:

- Amounts due to employees that at the balance sheet date had not yet been paid;
- Amounts due to directors;
- Debt towards minority shareholders of Reply Consulting S.r.l. and Hermes Reply S.r.l. in relation to the exercising of the option in the first months of 2009 held in their possession.

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

Note 31 - Informativa di settore

Segment reporting has been prepared in accordance to IAS 14, determined as the area in which the services are executed.

Economic figures 2008 (thousand euros)	Italy	%	Germany	%	UK	%	Intrasegment	Total 2008	%
Revenues	265,000	100.0	60,811	100.0	4,854	100.0	(455)	330,210	100.0
Operating costs	(227,056)	(85.7)	(53,380)	(87.8)	(4,185)	(86.2)	455	(284,166)	(86.1)
Gross operating income	**37,944**	**14.3**	**7,431**	**12.2**	**669**	**13.8**	**-**	**46,044**	**13.9**
Amortisation, depreciation and write-downs	(3,556)	(1.3)	(1,313)	(2.2)	(16)	(0.3)	-	4,885	(1.59)
Operating income	**34,388**	**13.0**	**6,118**	**10.1**	**653**	**13.5**	**-**	**41,159**	**12.5**

Economic figures 2007 (thousand euros)	Italy	%	Germany	%	UK	%	Intrasegment	Total 2007	%
Revenues	219,802	100.0	57,472	100.0	-	-	(98)	277,176	100.0
Operating costs	(184,814)	(84.1)	(50,178)	(87.3)	-	-	98	(234,894)	(84.7)
Gross operating income	**34,988**	**15.9**	**7,294**	**12.7**	**-**	**-**	**-**	**42,282**	**15.3**
Amortisation, depreciation and write-downs	(2,842)	(1.3)	(1,404)	(2.4)	-	-	-	(4,246)	(1.5)
Operating income	**32,146**	**14.6**	**5,890**	**10.2**	**-**	**-**	**-**	**38,036**	**13.8**

Balance sheet figures (thousand euros)	31/12/2008					31/12/2007			
Net invested capital	**Italy**	**Germany**	**UK**	**Intrasegment**	**Total**	**Italy**	**Germany**	**Intrasegment**	**Total**
Current operating assets	160,108	10,807	1,960	(392)	172,483	122,637	12,425	(66)	134,996
Current operating liabilities	(78,100)	(12,005)	(1,412)	392	(91,125)	(61,122)	(10,094)	66	(71,150)
Net working capital (A)	**82,008**	**(1,198)**	**548**	**-**	**81,358**	**61,515**	**2,331**	**-**	**63,846**
Non current assets	70,200	18,386	51	-	88,637	39,062	19,336	-	58,398
Non current liabilities	(18,248)	(8,196)	-	-	(26,444)	(15,866)	(9,590)	-	(25,456)
Net fixed assets (B)	**51,952**	**10,190**	**51**	**-**	**62,193**	**23,196**	**9,746**	**-**	**32,942**
Net invested capital (A+B)	**133,960**	**8,992**	**599**	**-**	**143,551**	**84,263**	**12,077**	**-**	**96,788**

Note 32 - Additional disclosures to financial instruments and risk management policies

Types of financial risks and corresponding hedging activities

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

As described in the section “Risk management”, the Group constantly monitors the financial risks to which it is exposed, in order to detect those risks in advance and take the necessary action to mitigate them.

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

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

Credit risk

The maximum credit risk to which the Group is theoretically exposed at December 31, 2008 is represented by the carrying amounts stated for financial assets in the balance sheet

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

Liquidity risk

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

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

As described in the Risk management section, the Group has adopted a series of policies and procedures whose purpose is to optimise the management of funds and to reduce the liquidity risk, as follows:

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

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

Currency risk

The Reply Group has a limited exposure to exchange rate risk, therefore the Group does not deem necessary hedging exchange rates.

Interest rate risk

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

In order to manage these risks, the Group uses interest rate derivative financial instruments, mainly interest rate swaps with the object of mitigating, under economically acceptable conditions, the potential variability of interest rates on the net result.

Sensitivity analysis

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

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

A hypothetical, unfavourable and instantaneous change of 50 basis points in short-term interest rates at December 31, 2008 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 194 thousand euros (165 thousand euros at December 31, 2007).

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

Note 33 - Transactions with Related parties

On the face of the consolidated financial statements the economic and financial effects deriving from transactions with group companies, that is consolidated companies, are eliminated.

Transactions carried out by the group companies with related parties that as of the reporting date are Alika S.r.l. are considered ordinary business and are carried out at normal market conditions.

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

Main economic and financial transactions

(thousand euros)

Financial transactions	**31/12/2008**	**Nature of transaction**
Trade receivables and other	491	Receivables from professional services
Trade payables and other	1,959	Payables for professional services and office rental
Economic transactions	**2008**	**Nature of transaction**
Services from Parent company and related parties	4,941	Services related to office rental and office of the secretary

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

Pursuant to Art. 150, paragraph 1 of the Italian Legislative Decree no. 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 - Emoluments to Directors, statutory Auditors and Key Management

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

(thousand euros)	**2008**	**2007**
Directors	2,407	1,807
Statutory Auditors	89	82
Total	**2,496**	**1,889**

Emoluments to Key management amounted to approximately 3,106 thousand euros.

Note 35 - Guarantees, commitments and contingent liabilities

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

Note 36 - Events subsequent to December 31, 2008

In the month of February 2009 Reply finalised the acquisition of the Motorola research centre based in Turin.
Using existing skills and facilities, the Reply Group has set up a research and development centre in the field of M2M (machine-to-machine) technology in Turin. M2M is a combination of hardware and software aimed at information exchange and interaction between networked devices for automating mission critical processes.
The Motorola research centre acquisition agreement fits perfectly into Reply's four-pronged development strategy – networks of processes, people, services and objects.
M2M, the basis for the Internet of objects, is currently worth 230 million euros (*) in Italy. Analysts estimate that this will grow by about 20% (*) per year between 2008 and 2011. Globally, M2M business is expected to total 220 billion euros (**) in 2010, with an annual growth rate of 50% (**).
The aim of Reply's new research centre is to create a platform of services, devices and middleware to support specific vertical applications such as info-mobility, advanced logistics, environmental safety, contactless payment and product traceability.
The new research centre allows Reply to round out its offering through the ability to design integrated hardware and software solutions, enabling the Group to strengthen its position in the markets where it operates (Telco-Media-Utilities, Banking and Insurance, Industry and Services, Health and Public Administration).
The region of Piedmont will provide up to 10 million euros in subsidies for R&D at the Reply research centre. The *Ministero dello Sviluppo Economico* (Ministry for Economic Development for SMEs), which is managed by the region of Piedmont, will also add up to a maximum of 15 million euros.
The details of the transaction call for the purchase of the Motorola branch by Reply for a symbolic amount. Currently the Motorola research centre consists of 339 employees, 20.6 million euros in cash assets and 3 million euros in other assets.
An agreement has been reached and signed with union representatives ensuring that 180 of the current 339 Motorola employees will retain their jobs at the new Reply research centre. A mobility programme is planned for the other employees, which includes a commitment by local authorities to help them find new employment.

(*) analysis and estimate by NetConsulting
(**) analysis and estimate by IDATE

_**Annexed** tables

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

(thousand euros)	2008	Of which related parties	%	2007	Of which related parties	%
Revenues	330,210	-	-	277,176	-	-
Other revenues	1,459	-	-	1,900	-	-
Purchases	(10,262)	-	-	(6,955)	-	-
Personnel expenses	(162,396)	-	-	(134,909)	-	-
Services and other costs	(112,758)	(4,941)	4.4%	(94,415)	(2,722)	2.9%
Amortisation and write-offs	(4,885)	-	-	(4,246)	-	-
Other unusual operating income/(expenses)	(209)	-	-	(515)	-	-
Operating income	**41,159**	**-**	**-**	**38,036**	**-**	**-**
Financial income/(expenses)	(1,024)	-	-	(216)	-	-
Result before tax of continuing operations	**40,135**	**-**	**-**	**37,820**	**-**	**-**
Income taxes	(18,266)	-	-	(19,475)	-	-
Net result of continuing operations	**21,869**	**-**	**-**	**18,345**	**-**	**-**
Result of discontinued operations	(119)	-	-	(92)	-	-
Minority interest	(2,826)	-	-	(2,534)	-	-
Group net result	**18,924**	**-**	**-**	**15,719**	**-**	**-**
Earnings per share	*2.12*			*1.75*		
Diluted earnings per share	*2.08*			*1.75*		

Consolidated Balance Sheet
pursuant to Consob Resolution No. 15519 of July 27, 2006

(thousand euros)	31/12/2008	of which related parties	%	31/12/2007	of which related parties	%
Tangible fixed assets	8,237	-	-	7,217	-	-
Goodwill	66,827	-	-	40,496	-	-
Other intangible assets	6,050	-	-	3,015	-	-
Other financial assets	3,161	-	-	2,954	-	-
Deferred tax assets	4,924	-	-	5,141	-	-
Non current assets	**89,199**	**-**	**-**	**58,823**	**-**	**-**
Inventories	18,020	-	-	8,691	-	-
Trade receivables	144,711	491	0.3%	121,128	67	0.1%
Other receivables and current assets	9,752	-	-	4,774	-	-
Financial assets				254	-	-
Cash and cash equivalents	39,356	-	-	40,810	-	-
Current assets	**211,839**	**-**	**-**	**175,657**	**-**	**-**
Total assets from discontinued operations	-	-	-	660	-	-
TOTAL ASSETS	**301,038**	**-**	**-**	**235,140**	**-**	**-**
Share capital	4,796	-	-	4,722	-	-
Other reserves	87,926	-	-	74,052	-	-
Net result	18,924	-	-	15,719	-	-
Group Shareholders' equity	**111,646**	**-**	**-**	**94,493**	**-**	**-**
Minority interest	13,278	-	-	12,713	-	-
TOTAL SHAREHOLDERS' EQUITY	**124,924**	**-**	**-**	**107,206**	**-**	**-**
Financial liabilities	34,433	-	-	27,240	-	-
Employee benefits	14,518	-	-	13,362	-	-
Deferred tax liabilities	5,615	-	-	4,264	-	-
Other provisions	6,311	-	-	7,830	-	-
Non current liabilities	**60,877**	**-**	**-**	**52,696**	**-**	**-**
Financial liabilities	24,112	-	-	4,088	-	-
Trade payables	32,652	1,959	6.0%	25,334	371	1.5%
Other payables and current liabilities	53,889	-	-	41,723	-	-
Other provisions	4,584	-	-	4,024	-	-
Current liabilities	**115,237**	**-**	**-**	**75,169**	**-**	**-**
Total liabilities from discontinued operations	-	-	-	69	-	-
TOTAL LIABILITIES	**176,114**	**-**	**-**	**127,934**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**301,038**	**-**	**-**	**235,140**	**-**	**-**

Companies included in consolidation at December 31, 2008

Company name	Registered office		Share capital	Group interest
PARENT COMPANY				
Reply S.p.A.	Torino - Corso Francia, 110	€	4,795,886	-
SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS				
4Cust Reply S.r.l.(*)	Torino - Corso Francia, 110	€	10,000	80.00%
@Logistics Reply S.r.l.	Torino - Corso Francia, 110	€	78,000	100.00%
Aktive Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Atlas Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Aware Reply S.r.l. (ex XYZ Reply S.r.l.)	Torino - Corso Francia, 110	€	12,939	100.00%
Axcel Reply S.r.l.	Torino - Corso Francia, 110	€	15,000	100.00%
Blue Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Business Reply S.r.l.	Torino - Corso Francia, 110	€	78,000	100.00%
Cluster Reply S.r.l.	Torino - Corso Francia, 110	€	139,116	100.00%
Communication Valley S.p.A.	Parma - Via Budellungo, 2	€	100,000	100.00%
Discovery Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
e*finance consulting Reply S.r.l.	Torino - Corso Francia, 110	€	34,000	100.00%
Ekip S.r.l.	Torino - Corso Francia, 110	€	10,400	100.00%
EOS Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Glue Reply Ltd.	London – Old Baily, 16	GBP	54,175	100.00%
Hermes Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
IrisCube Reply S.p.A.	Torino - Corso Francia, 110	€	651,735	100.00%
Iris SA	Bioggio - Switzerland	CHF	100,000	100.00%
Open Reply S.r.l.(*)	Torino - Corso Francia, 110	€	10,000	85.00%
Plus Reply S.r.l. (*)	Torino - Corso Francia, 110	€	10,000	70.00%
Power Reply S.r.l. (*)	Torino - Corso Francia, 110	€	10,000	85.00%
Reply Consulting S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Reply Services S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Spike Reply S.r.l.	Torino - Corso Francia, 110	€	50,000	100,00%
Square Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	100.00%
Santer Reply S.p.A.	Milano - Via Don Minzoni, 24	€	2,209,500	100.00%
Syskoplan AG	Gutersloh, Germania	€	4,729,340	58.21%
Syskoplan Reply S.r.l.	Torino - Corso Francia, 110	€	32,942	100.00%
Sytel Reply S.r.l.	Torino - Corso Francia, 110	€	115,046	100.00%
Target Reply S.r.l. (*)	Torino - Corso Francia, 110	€	10,000	80.00%
Technology Reply S.r.l.	Torino - Corso Francia, 110	€	79,743	100.00%
Twice Reply S.r.l.	Torino - Corso Francia, 110	€	10,000	94.00%
Whitehall Reply S.r.l.(ex YH Reply S.r.l.)	Torino - Corso Francia, 110	€	21,224	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. As at December 31, 2008 the assessment of the achievement of such parameters did not lead to any impact on the financial statements as the underlying assumptions are highly variable and the commitments not very significant.

Information requested by Art. 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-duodeciesof the *Regolamento Emittenti* issued by Consob, reports the amount of fees charged in 2008 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network.

(thousand euros)	Service provider	Group entity	2008 fees
Audit	Deloitte & Touche S.p.A.	Parent Company- Reply S.p.A.	31
	Deloitte & Touche S.p.A.	Subsidiaries	170
	Deloitte & Touche Gmbh	Subsidiaries	218
	Deloitte & Touche LLP	Subsidiaries	16
Audit related services	Deloitte & Touche S.p.A.	Parent Company- Reply S.p.A. (1)	71
	Deloitte & Touche S.p.A.	Subsidiaries (2)	13
Total			**519**

(1) Report in accordance to article 2441, paragraph 6, of the Italian Civil Code and undersigning of the tax returns.

(2) Tax returns.

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

1. The undersigned, Sergio Ingegnatti, 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 administration and accounting procedures applied in the preparation of the Consolidated financial statements for the year ended 2008.

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the consolidated financial statements at December 31, 2008 was based on a process defined by Reply in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally-accepted reference framework.

3. The undersigned also certify that:

3.1 the consolidated financial statements at December 31, 2008:

__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 July 19, 2002 as implemented in Italy by Article 9 of Legislative Decree no. 38 of 2005;

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

__provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries as of December 31, 2008 and for the year then ended.

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

Turin, March 13, 2009

/s/ Sergio Ingegnatti
(Chief Executive Officer)
Sergio Ingegnatti

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

_**Statutory** auditors' report
on the consolidated financial statements at December 31, 2008

To the Shareholders,

As at August 8, 2008, pursuant to article 2401 of the Italian Civil Code, Mr. Paolo Claretta Assandri, already alternate auditor, took office as Auditor and Mr. Tommaso Vallenzasca, in capacity of eldest Auditor, took office as President of the Board of Statutory Auditors following the resignation of Prof. Piergiorgio Re. Consequently the Board of Statutory Auditors is composed as follows: Mr. Tommaso Vallenzasca – President, Mrs. Ada Alessandra Garzino Demo – Auditor, Mr. Paolo Claretta Assandri – Auditor.

The Board of Directors have presented the Consolidated Financial Statements for the year ended 2008 that have been prepared in accordance with IFRS issued by IASB and include the balance sheet, the statement of income, changes in shareholders' equity and cash flows and the related explanatory notes.

The consolidated balance sheet as at December 31, 2008 shows Group net equity amounting to 111.646 million euros including net income of 18.924 million euros.

The Report on Operations fairly presents the economic, financial and earnings position, even at a consolidated level, of Reply S.p.A and its subsidiaries, of operations in 2008 and the events that have occurred since the end of the fiscal year, as well as revenues by business line and consolidated results.

As at December 31, 2008 consolidation includes, a part from the Parent Company, thirty-three companies consolidated on a line-by-line basis.

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

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

The Board of Statutory Auditors did not review these results.

Deloitte & Touche S.p.A., the independent audit firm engaged to audit Reply's Consolidated financial statements, issued its opinion on April 9, 2009 stating that the Consolidated financial statements were drawn up in accordance to the disciplining laws and that the Report on Operations is consistent with the Consolidated Financial Statements.

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

- the consolidation scope was determined correctly;
- the consolidation procedures adopted are in accordance with the disciplining laws and applied correctly;
- the Report on operations is consistent with the consolidated financial statements;
- all the information used for consolidation is referred to the entire accounting period of 2008;
- the accounting principles applied are the same used in the previous accounting year;
- the major changes in consolidation compared to December 31, 2007 refer to the addition of the companies 4Cust Reply S.r.l., Plus Reply S.r.l., Communication Valley S.p.A. and the English company Glue Reply Ltd.

We would like to remind you that the three year period of office has expired and kindly request that the necessary actions be taken. Thank you for the confidence shown

Turin, April 9, 2009

Statutory Auditors
(Mr. Tommaso Vallenzasca)
(Mrs. Ada Alessandra Garzino Demo)
(Mr. Paolo Claretta-Assandri)

Deloitte & Touche S.p.A.
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AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 156 OF LEGISLATIVE DECREE N. 58 OF FEBRUARY 24, 1998

To the Shareholders of
REPLY S.p.A.

1. We have audited the consolidated financial statements of Reply S.p.A. and its subsidiaries (the "Reply Group") as of and for the year ended December 31, 2008, which comprise the income statement, the balance sheet, statement of changes in equity and cash flow statement and the related explanatory notes. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 are the responsibility of the Directors of Reply S.p.A. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's consolidated financial statements, the balances of which are presented for comparative purposes, reference should be made to our auditors' report issued on May 26, 2008.

3. In our opinion, the consolidated financial statements present fairly the financial position of the Reply Group as of December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005.

4. The Directors of Reply S.p.A. are responsible for the preparation of the report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by art. 156, paragraph 4-bis, letter d), of the Legislative Decree n. 58/98. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession and recommended by CONSOB. In our opinion the report on operations is consistent with the consolidated financial statements of the Reply Group as of December 31, 2008.

DELOITTE & TOUCHE S.p.A.

Signed by
Luca Scagliola
Partner

Turin, Italy
April 9, 2009

_**Statutory** financial statements at December 31, 2008

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

(in euros)	Note	2008	2007
Revenues	5	132,691,553	109,221,393
Other revenue	6	3,244,700	2,768,594
Purchases	7	(1,107,512)	(899,116)
Personnel expenses	8	(10,763,770)	(8,313,401)
Services and other costs	9	(124,688,466)	(105,067,498)
Amortisation, depreciation and write-downs	10	(856,736)	(755,747)
Other unusual operating income/(expenses)	11	(45,477)	30,871
Operating income		**(1,525,708)**	**(3,014,904)**
Profit/(loss) on equity investment	12	16,240,192	13,096,825
Financial income/(expenses)	13	1,707,926	1,562,895
Result before tax		**16,422,410**	**11,644,816**
Income taxes	14	(626,958)	149,725
Net result		**15,795,452**	**11,794,541**
Earnings per share	*15*	*1.77*	*1.32*
Diluted earnings per share	*15*	*1.74*	*1.32*

(*) 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 32.

_**Reply S.p.A.** Balance sheet(*)

(in euros)	Note	31/12/2008	31/12/2007
Tangible fixed assets	16	977,702	1,102,164
Goodwill	17	86,765	86,765
Other intangible assets	18	1,470,902	993,581
Equity investments	19	81,096,941	63,417,392
Other financial assets	20	615,677	704,902
Deferred tax assets	21	517,736	416,289
Non current assets		**84,765,723**	**66,721,093**
Trade receivables	22	89,381,868	61,486,340
Other receivables and current assets	23	14,843,126	16,571,795
Financial assets	24	39,061,893	27,144,479
Cash and cash equivalents	25	10,635,012	15,822,676
Current assets		**153,921,899**	**121,025,290**
TOTAL ASSETS		**238,687,622**	**187,746,383**
Share capital		4,795,886	4,721,558
Other reserves		64,428,773	55,020,431
Net result		15,795,452	11,794,541
TOTAL SHAREHOLDERS' EQUITY	**26**	**85,020,111**	**71,536,530**
Financial liabilities	27	22,466,911	25,488,956
Employee benefits	28	699,758	690,146
Deferred tax liabilities	29	254,018	234,008
Non current liabilities		**23,420,687**	**26,413,110**
Financial liabilities	27	20,009,195	8,603,843
Trade payables	30	96,898,105	72,235,207
Other payables and current liabilities	31	13,339,524	8,957,693
Current liabilities		**130,246,824**	**89,796,743**
TOTAL LIABILITIES		**153,667,511**	**116,209,853**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**238,687,622**	**187,746,383**

(*) 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 32.

_**Reply S.p.A.** Cash flows statement

(in euros)	**2008**	**2007**
Net result for the period	15,795,452	11,794,541
Income tax	626,958	(149,725)
Depreciation and amortisation	856,736	755,747
Other non-monetary income, net	2,444,859	1,910,097
Change in trade receivables	(36,062,526)	(5,258,746)
Change in trade payables	23,393,298	12,749,945
Change in other assets and liabilities	17,649,596	(3,788,700)
Income tax paid	(202,047)	(271,048)
Interest paid	(2,604,233)	(1,378,403)
Cash flows from operating activities (A)	**21,898,093**	**16,363,708**
Payments for tangible and intangible assets	(1,209,597)	(1,231,014)
Payments for equity investments	(16,813,219)	(7,255,375)
Cash flows from investment activities (B)	**(18,022,816)**	**(8,486,389)**
In payments for the issuing of shares	-	973,717
Dividend payments	(3,118,647)	(2,530,646)
In payments from financial loans	8,100,000	5,277,000
Payment of instalments	(4,000,000)	(4,000,000)
Payments for financial assets	(24,826)	(179,383)
Payments for purchase of treasury shares	(2,438,287)	(1,029,209)
Other changes	42,089	-
Cash flows from financing activities (C)	**(1,439,671)**	**(1,488,521)**
Net cash flows (D) = (A+B+C)	**2,435,607**	**6,388,798**
Cash and equivalents at beginning of period	38,069,537	31,680,739
Cash and cash equivalents at year end	40,505,144	38,069,537
Total change in cash and cash equivalents (D)	**2,435,607**	**6,388,798**

DETAIL OF NET CASH AND CASH EQUIVALENTS

(in euros)	**2008**	**2007**
Cash and cash equivalents at the beginning of the year:	**38,069,537**	**31,680,739**
Cash and cash equivalents	15,822,677	9,554,624
Transaction accounts - surplus	27,144,478	27,013,020
Transaction accounts - overdraft	(4,897,618)	(4,886,905)
Bank overdrafts	-	-
Cash and cash equivalents at the end of the year:	**40,505,144**	**38,069,537**
Cash and cash equivalents	10,635,013	15,822,677
Transaction accounts - surplus	45,234,802	27,144,478
Transaction accounts - overdraft	(7,778,186)	(4,897,618)
Bank overdrafts	(7,586,485)	-

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

(in euros)	Share capital	Share premium reserve	Legal reserve	Reserve for treasury shares on hand	Extraord. reserve	Reserve for cash flow hedge	Other reserves	Result for the year	Total
Balance at 31/12/2006	**4,641,991**	**25,530,027**	**929,760**	**223,804**	**7,018,142**	**351,382**	**20,929,452**	**549,937**	**60,174,495**
Allocation of 2006 result:									
- reserves	-	-	-	-	549,937	-	-	(549,937)	-
- dividends	-	-	-	-	(2,530,646)	-	-	-	(2,530,646)
Increase in share capital	79,568	2,094,146	-	-	-	-	-	-	2,173,714
Reserve for stock option	-	-	-	-	-	-	1,022,012	-	1,022,012
Income (losses) stated directly to net equity	-	-	-	-	-	19,302	-	-	19,302
Treasury shares	-	-	-	1,029,209	-	-	(2,058,398)	-	(1,029,189)
Other	-	(10,073,184)	-	-	-	-	9,985,485	-	(87,699)
Result for the year	-	-	-	-	-	-	-	11,794,541	11,794,541
Balance at 31/12/2007	**4,721,559**	**17,550,989**	**929,760**	**1,253,013**	**5,037,433**	**370,684**	**29,878,551**	**11,794,541**	**71,536,530**
Allocation of 2007 result:									
- reserves	-	-	14,552	-	8,661,342	-	-	(8,675,894)	-
- dividends	-	-	-	-	-	-	-	(3,118,647)	(3,118,647)
Increase in share capital	74,327	3,072,003	-	-	-	-	-	-	3,146,330
Reserve for stock option	-	-	-	-	-	-	-	-	-
Income (losses) stated directly to net equity	-	-	-	-	-	2,084	-	-	2,084
Treasury shares	-	-	-	2,438,287	-	-	(2,438,287)	-	-
Other	-	-	-	-	-	-	(2,341,637)	-	(2,341,637)
Result for the year	-	-	-	-	-	-	-	15,795,452	15,795,452
Balance at 31/12/2008	**4,795,886**	**20,622,992**	**944,312**	**3,691,300**	**13,698,774**	**372,768**	**25,098,626**	**15,795,452**	**85,020,111**

_**Explanatory** notes to the financial statements

General information	Note 1	- General information
	Note 2	- Accounting principles
	Note 3	- Financial risk management
	Note 4	- Other
Income Statement	Note 5	- Revenues
	Note 6	- Other revenues
	Note 7	- Purchases
	Note 8	- Personnel
	Note 9	- Services and other costs
	Note 10	- Amortisation, depreciation and write-downs
	Note 11	- Other unusual operating income/(expenses)
	Note 12	- Result of equity investments
	Note 13	- Financial income/(expenses)
	Note 14	- Income taxes
	Note 15	- Earnings per share
Balance sheet - Assets	Note 16	- Tangible assets
	Note 17	- Goodwill
	Note 18	- Other intangible assets
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	Note 20	- Non current financial assets
	Note 21	- Deferred tax assets
	Note 22	- Trade receivables
	Note 23	- Other receivables and current assets
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Balance sheet - Liabilities and shareholders' equity	Note 26	- Shareholders' equity
	Note 27	- Financial liabilities
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Other information	Note 32	- Additional disclosures to financial instruments and risk management policies
	Note 33	- Transactions with related parties
	Note 34	- Significant non-recurring transactions
	Note 35	- Transactions resulting from unusual and/or abnormal operations
	Note 36	- Guarantees, commitments and contingent liabilities
	Note 37	- Emoluments to directors, Statutory Auditors and Key management
	Note 38	- Events subsequent to December 31, 2008

_**Explanatory** notes to the financial statements

Note 1 - General information

Reply S.p.A. is an Italian company with legal headquarters in Turin (Italy), it is listed on the STAR segment of the Italian Stock Exchange (REY.MI) and is the holding of a leading Italian group operating in the e-business segment.

The company mainly carries out the operational coordination and technical management of the group and also the administration, financial assistance and some purchase and marketing activities.

Reply S.p.A. also carries out "fronting" activities with primary clients as the sole manager of the processes that are ISO 9001 compliant.

Note 2 - Accounting principles

Compliance with International accounting principles

The year ended 2008 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union and with the provisions implementing Article 9 of legislative Decree 38/2005.

The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), formerly the Standing Interpretations Committee ("SIC").

Following the coming into force of European Regulation No. 1606 dated July 19, 2002, starting from January 1, 2005, Reply adopted International Financial Reporting Standards (IFRS) in the preparation of the consolidated financial statements. On the basis of national law implementing that Regulation, starting from January 1, 2006, Reply S.p.A is presenting its financial statements in accordance with IFRS.

The accounting policies applied in these financial statements are consistent with those adopted in preparing the IFRS opening balance sheet at January 1, 2005, as well the financial statements at December 31, 2005, as restated in accordance with IFRS.

General principles

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

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

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

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

Format of the financial statements

The financial statements include, statement of income, balance sheet, statement of changes in shareholders' equity, statement of cash flows and the explanatory notes.
The income statement format adopted by the company classifies costs according to their nature, which is deemed to properly represent the company's business.
The balance sheet is prepared according to the distinction between current and non-current assets and liabilities.
The statement of cash flows is presented using the indirect method, in compliance with IAS 7 – Statement of cash flow.

The most significant items are disclosed in a specific note in which details related to the composition and changes compared to the previous year are provided.
In connection with the requirements of the Consob resolution No. 15519 of July 27, 2006 as to the format of the financial statements, specific supplementary income statement and balance sheet formats have been added for related party transactions so as not to compromise an overall reading of the statements.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and impairment losses.
Goods made up of components, of significant value, that have different useful lives are considered separately when determining depreciation.
In compliance to IAS 36 – Impairment of assets, the carrying value is immediately remeasured to the recoverable value, if lower.
Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

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

Ordinary maintenance costs are fully expensed as incurred. Incremental maintenance costs are allocated to the asset to which they refer and depreciated over their residual useful lives.
Improvement expenditures on rented property are allocated to the related assets and depreciated over the shorter between the duration of the rent contract or the residual useful lives of the relevant assets.
Assets held under finance leases, which provide the Group with substantially all the risks and rewards of ownership, are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial statement as a debt. The assets are amortised over their estimated useful life or over the duration of the lease contract if lower.
The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Goodwill

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

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

Impairment losses are recognised immediately as expenses that cannot be recovered in the future.
Goodwill deriving from acquisitions made prior to the transition date to IFRS are maintained at amounts recognised under Italian GAAP at the time of application of such standards and are subject to impairment test at such date.

Other intangible assets

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

Other purchased and internally-generated intangible assets are recognised as assets in accordance with IAS 38 – Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. straight-line basis over the lease terms.
Such assets are measured at purchase or manufacturing cost and amortised on a straight-line basis over their estimated useful lives, if these assets have finite useful lives.
Other intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if their fair value can be measured reliably.
In case of intangible fixed assets purchased for which availability for use and relevant payments are deferred beyond normal terms, the purchase value and the relevant liabilities are discounted by recording the implicit financial charges in their original price.
Expenditure on research activities is recognised as an expense in the period in which it is incurred.
Development costs can be capitalised on condition that they can be measured reliably and that evidence is provided that the asset will generate future economic benefits.

An internally-generated intangible asset arising from the company's e-business development (such as informatics solutions) is recognised only if all of the following conditions are met:
- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

These assets are amortised when launched or when available for use. Until then, and on condition that the above terms are respected, such assets are recognised as construction in progress. Amortisation is determined on a straight line basis over the relevant useful lives.
When an internally-generated intangible asset cannot be recorded at balance sheet, development costs are recognised to the statement of income in the period in which they are incurred.

Intangible assets with indefinite useful lives

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

Impairment

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

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

The recoverable amount of an asset is the higher of fair value less disposal costs and its value in use. In assessing its value in use, the pre-tax estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.
Where an impairment loss subsequently reverses, the carrying amount of the asset, (or cash-generating unit), with the exception of goodwill, is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount that would have been determined had no impairment loss been recognised for the asset. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Equity investments

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

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

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

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

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

Current and non current financial assets

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

Trade payables and receivables and other current assets and liabilities

Trade payables and receivables and other current assets and liabilities are measured at nominal value and eventually written down to reflect their recoverable amount.
Write-downs are determined to the extent of the difference of the carrying value of the receivables and the present value of the estimated future cash flows discounted at the prevailing market interest rate at the time of recognition.
Receivables and payables denominated in non EMU currencies are stated at the exchange rate at period end provided by the European Central Bank.

Cash and cash equivalents

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

Treasury shares

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

Financial liabilities and equity investments

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

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

Bank borrowings

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

Equity instruments

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

Non current financial liabilities

Liabilities are stated according to the amortisation cost.

Derivative financial instruments and other hedging transactions

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

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

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

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

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

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

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

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

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

Employee benefits

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

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

Actuarial income and losses that reflect the effects resulting from changes in the actuarial assumptions used are directly recognised in Shareholders' equity.

Share based payment plans ("Stock options")

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

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

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

Provisions and reserves for risks

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

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

Revenue recognition

Revenue is recognised if it is possible that the economic benefits associated with the transaction will flow to the Company and the revenue can be measured reliably.

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

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

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

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

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

Financial income and expenses

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

Taxation

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

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

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

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

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

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

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

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

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

Earnings per share

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

Use of estimations

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

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

The main items affected by these situations of uncertainty are allowance for doubtful accounts, goodwill and deferred taxation.

Change in accounting principles

Pursuant to IAS 8, these are recognised on the face of the income statement starting from the year of adoption.

New accounting principles

Interpretations effective from January 1, 2008 but not applicable to the Company

The following interpretations and amendments effective from January 1, 2008 relates to matters that are not applicable to the Company.

- IFRIC 12 – Service Concession Arrangements (effective from January 1, 2008 but not yet endorsed by the European Union) relates to matters that are not applicable to the Group.
- On July 5, 2007 IFRIC issued the interpretation IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction effective retrospectively from January 1, 2008. The interpretation provides general guidance on how to assess the limit in IAS 19 - Employee Benefits on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement.
- On October 13, 2008, the IASB issued amendments to IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures that would permit the reclassification of some non-derivative financial assets which are classified under the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer a financial asset from the available-for-sale category to the loans and receivables category where it has the intention and ability to hold such asset for the foreseeable future.

Accounting principles, amendments and interpretations not yet effective and not early adopted

On November 30, 2006, the IASB issued the IFRS 8 – *Operating Segments* that will become effective on January 1, 2009 and which will replace IAS 14 – *Segment Reporting*. The new standard requires the information provided in segment reporting to be based upon the components of the entity that management uses to make decisions about operational matters. The standard requires these operating segments to be identified on the basis of internal reports that are regularly reviewed by the entity's management in order to allocate resources to the segment and assess its performance. Adopting this standard will have no effect on the measurement of items in the financial statements.

On March 29, 2007 the IASB issued a revised IAS 23 – *Borrowing Costs*. The standard shall be applied for annual period beginning after January 1, 2009. The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The standard shall be applied to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after the January 1, 2009. This standard has not yet been endorsed by the European Union at the date of this year-ended financial report.

On September 6, 2007 the IASB issued a revised version of IAS 1 - *Presentation of Financial Statements* that is effective for annual periods beginning on or after January 1, 2009. The revised standard requires an entity to present changes in its equity resulting from transactions with owners in a statement of changes in equity. All non-owner changes (meaning changes in comprehensive income) are required to be presented either in a single statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Transactions with non-owners may not be presented in the statement of changes in equity. This standard had not yet been endorsed by the European Union at the date of this year- ended financial report.

On January 10, 2008 the IASB issued a revised version of IFRS 3 – *Business Combinations* and an amended version of IAS 27 - *Consolidated and Separate Financial Statements*. The main changes that revised IFRS 3 will make to existing requirements are the elimination of the need to measure at fair value every asset and liability at each step in a step acquisition for the purpose of calculating a portion of goodwill. Instead, goodwill will be measured as the difference at acquisition date between the value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Moreover, for a business combination in which the acquirer achieves control without purchasing all of the acquiree, the remaining (non-controlling) equity interests are measured either at fair value or by using the method already provided in IFRS 3. The revised IFRS 3 also requires acquisition related costs to be recognised as expenses and the acquirer to recognise the obligation to make an additional payment (contingent consideration) as part of the business combination. In the amended version of IAS 27, the IASB has added a requirement specifying that changes in a parent's interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions and recognised within equity. Moreover when a parent loses control of a subsidiary but retains an ownership interest it must initially measure any retained investment at fair value. At the date when control is lost, the difference between the fair value and the carrying amount of the retained interest must be recognised in profit or loss. Finally, the amendment to IAS 27 requires losses pertaining to non-controlling interests to be allocated to non-controlling interest equity, even if this result in the non-controlling interest having a deficit balance. The new rules will apply prospectively from January 1, 2010. The amendment and the revised had not yet been endorsed by the European Union at the date of this year-ended financial report.

On January 17, 2008 the IASB issued an amendment to IFRS 2 - *Vesting Conditions and Cancellations* which clarifies that for the purpose of share based payments measurement, vesting conditions are service conditions and performance conditions only. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment, effective from January 1, 2009 had not yet been endorsed by the European Union at the date of this year-ended financial report.

On February 14, 2008 the IASB issued an amendment to IAS 32 – *Financial Instruments: Presentation* and to IAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*. These amendments require puttable financial instruments and instruments, or components of instruments that impose on an entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity instruments. This amendment, effective from January 1, 2009, had not yet been endorsed by the European Union at the date of this year-ended financial report.

On May 22, 2008 the IASB issued a series of amendments to IFRS ("Improvements"). Details are provided in the following paragraphs of those identified by the IASB as resulting in accounting changes for presentation, recognition and measurement purposes, leaving out amendments regarding changes in terminology or editorial changes which are likely to have minimal effects on accounting.

- IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations: this amendment, that shall be applied from January 1, 2010, requires an entity that is committed to a sale plan involving loss of control of a subsidiary to classify all the assets and liability of that subsidiary as held for sale, regardless of whether the entity will retain a non controlling interest in its former subsidiary after the sale.
- IAS 1 - Presentation of Financial Statements: this amendment, which shall be applied from January 1, 2009, requires an entity to classify assets and liabilities arising from derivative financial instruments that are not classified as held for trading between current and non- current assets and liabilities.
- IAS 19 - *Employee Benefits*: this amendment, effective prospectively from January 1, 2009 to change in benefits that occur after that date, clarifies the definition of positive/negative past service costs and states that in the case of a curtailment, only the effect of the reduction for future service shall be recognised immediately in the income statement, while the effect arising from past service periods shall be considered a negative past service cost. The Board also revised the

definition of short-term employee benefits and other long-term employee benefits and the definition of a return on plan assets, stating that this amount should be net of any costs for administering the plan (other than those included in the measurement of the defined benefit obligation).

- IAS 36 – *Impairment of Assets*: this amendment, effective from January 1, 2009, requires additional disclosures to be made in the case in which an entity determines the recoverable amount of a cash-generating unit using discounted cash flows.
- IAS 38 - *Intangible Assets*: this amendment, effective from January 1, 2009, requires expenditure on advertising and promotional activities to be recognised in the income statement. Further, it states that in the case expenditure is incurred to provide future economic benefits to an entity, but no intangible assets is recognised, in the case of the supply of goods, the entity recognise such expenditure as an expense when it has the right to access the goods. In the case of the supply of services, an entity shall recognise the expenditure as an expense when it receives the services. Moreover, the standard has been revised in order to allow entities to use the unit of production method for determining the amortisation charge for an intangible asset with a finite useful life.
- IAS 39 - *Financial Instruments: Recognition and Measurement*: this amendment, effective from January 1, 2009, clarifies how to calculate the revised effective interest rate on ceasing fair value hedge accounting and notes additionally that the prohibition on the reclassification of financial instruments into or out of the fair value through profit or loss category after initial recognition should not prevent a derivative from being accounted for at fair value through profit or loss when it does not qualify for hedge accounting and vice versa. Finally, in order to eliminate conflict with IFRS 8 – *Operating Segments*, it removes the reference to designating and documenting hedges at sector level.
- On July 31, 2008, the IASB issued an amendment to IAS 39 – *Financial Instruments: Recognition and Measurement* which is to be applied retrospectively from January 1, 2010. The amendment clarifies how the existing principles underlying hedge accounting should be applied in particular situations. As of the date of this financial statements, the amendment had not yet been endorsed by the European Union.

These improvements had not yet been endorsed by the European Union at the date of this year-ended financial report.

Note 3 - Financial risk management

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

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

Credit risk

For business purposes, specific policies are adopted in order to guarantee that clients honour payments.
With regards to financial counterparty risk, the Group does not present significant risk in credit-worthiness or solvency.
For newly acquired clients, the Company accurately verifies their capability of facing financial commitments.
Transactions of a financial nature are undersigned only with primary financial institutions.

Liquidity risk

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

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

The present difficulties both in the markets in which the Group operates and in the financial markets necessitate special attention being given to the management of liquidity risk, and in that sense particular emphasis is being placed on measures taken to generate financial resources through operations and on maintaining an adequate level of available liquidity as an important factor in facing up to 2009, 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 company operates mainly in a "Euro area" the exposure to currency risks is limited.

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

Information related to the fair value of the derivative financial instrument is disclosed in Note 27.

Note 4 - Other information

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

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

Fiscal consolidation

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

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

Note 5 - Revenues

Revenues amounted to 132,691,553 euros and are detailed as follows:

(in euros)	2008	2007	Change
Revenues from services	111,403,047	92,070,066	19,332,981
Royalties on "Reply" trademark	7,576,678	5,938,558	1,638,120
Intercompany services	10,515,803	8,360,086	2,155,717
Other intercompany revenues	3,196,025	2,852,683	343,342
Total	**132,691,553**	**109,221,393**	**23,470,160**

The increase of Group revenues in 2008, has a direct influence on Reply S.p.A. who has developed in the past years *fronting* activities concerning relations with primary clients also in capacity of sole manager of procedures compliant to ISO 9001 quality standards.

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

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

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

Note 6 - Other revenues

Other revenues at December 31, 2008 amounted to 3,244,700 euros (2,768,594 euros at December 31, 2007) and mainly refer to expenses incurred by Reply S.p.A. and recharged to the Group companies. They include expenses for social events, telephone, training courses and the acquisition of software licences.

Note 7 - Purchases

Detail is as follows:

(in euros)	2008	2007	Change
Software licenses	710,933	551,053	159,880
Other	396,579	348,063	48,516
Total	**1,107,512**	**899,116**	**208,396**

The item *Software licenses* refers to the costs incurred for software licences for resale.

The item *Other* mainly includes office equipment material (205 thousand euros) and fuel (130 thousand euros).

Note 8 - Personnel

Personnel costs amounted to 10,763,770, euros, with an increase of 2,450,369 euros and are detailed in the table below:

(in euros)	2008	2007	Change
Payroll employees	8,179,325	6,379,175	1,800,150
Executive Directors	2,510,779	1,844,381	666,398
Project collaborators	73,666	89,845	(16,179)
Total	**10,763,770**	**8,313,401**	**2,450,369**

Personnel expenses include the fair value of the stock options vested as at December 31, 2008 for 235 thousand euros.

Detail of personnel by category is provided below:

(number)	31/12/2008	31/12/2007	Change
Directors	27	21	6
Managers	10	10	-
Staff	81	78	3
Total	**118**	**109**	**9**

The average number of employees in 2008 were 118 (no. 76 in 2007).

Note 9 - Services and other costs

Service and other costs comprised the following:

(in euros)	2008	2007	Change
Commercial and technical consulting	3,939,704	1,556,017	2,383,687
Professional services from group companies	110,021,722	94,366,908	15,654,814
Travelling and training expenses	1,041,235	1,040,342	893
Marketing expenses	999,912	489,916	509,996
Administrative and legal services	1,010,844	738,778	272,066
Statutory auditors and independent auditors	132,193	124,644	7,549
Lease and rentals	412,288	350,987	61,301
Office expenses	2,354,102	1,889,713	464,389
Services to be recharged to group companies	2,984,002	2,521,616	462,386
Other	1,792,464	1,988,577	(196,113)
Total	**124,688,466**	**105,067,498**	**19,620,968**

Services from Group companies are connected to revenues from services to third parties.
Reply S.p.A. carries out *fronting* activities concerning relations with primary clients also in capacity of sole manager of procedures compliant to ISO 9001 quality standards.

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

Note 10 - Amortisation, depreciation and write-downs

Depreciation of tangible assets, amounting to 689,905 euros, has been determined on a straight-line basis at economic-technical rates that reflect the useful lives of the asset. Details of depreciation are provided at the notes to tangible fixed assets herein.

Amortization of intangible assets for the year ended 2008 amounted to 166,831 euros. The details are provided at the notes to intangible assets herein.

Note 11 - Other unusual operating income/(expenses)

Other unusual operating income/(expenses) amounting to 45,477 euros are related to minor events falling out of the ordinary course of business.

Note 12 - Gain/(losses) on equity investments

Detail is as follows:

(in euros)	2008	2007	Change
Dividends	18,653,881	13,811,697	4,842,184
Loss on equity investments	(2,413,689)	(714,872)	(1,698,817)
Total	**16,240,192**	**13,096,825**	**3,143,367**

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

Detail is as follows:

(in euros)	31/12/2008
@Logistics Reply S.r.l.	400,000
Aktive Reply S.r.l.	1,250,000
Atlas Reply S.r.l.	1,100,000
Blue Reply S.r.l.	1,000,000
Business Reply S.r.l.	1,100,000
Cluster Reply S.r.l.	1,850,000
e*finance consulting Reply S.r.l.	1,800,000
IrisCube Reply S.p.A.	350,000
Santer Reply S.p.A.	2,400,000
syskoplan AG	803,881
Sysproject Reply S.r.l.	350,000
Sytel Reply S.r.l.	4,800,000
Technology Reply S.r.l.	1,450,000
Total	**18,653,881**

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

Note 13 - Financial income/(expenses)

Detail is as follows:

(in euros)	**2008**	**2007**	**Change**
Interest income from subsidiaries	3,458,083	1,875,888	1,582,195
Interest income on bank accounts	693,361	660,885	32,476
Interest expenses	(2,667,747)	(1,455,003)	(1,212,744)
Other	224,229	481,125	(256,896)
Total	**1,707,926**	**1,562,895**	**145,031**

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

Interest expenses are mainly related to the interest expenses on the use of the credit facility for M&A operations.

Note 14 - Income taxes

(in euros)	**2008**	**2007**	**Change**
IRES	355,394	(228,687)	584,081
IRAP	353,000	222,000	131,000
Current taxes	**708,394**	**(6,687)**	**(105,632)**
Deferred tax liabilities	20,010	11,160	8,850
Deferred tax assets	(101,446)	(154,198)	52,752
Deferred taxes/(prepaid)	**(81,436)**	**(143,038)**	**882,315**
Total income taxes	**626,958**	**(149,725)**	**776,683**

The tax burden was influenced by the reduction of the IRES and IRAP tax rates introduced by the 2008 Finance Law: change in current taxes owes mainly to the increase of taxable income of the Company.

IRES theoretical rate

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

(in euros)	Amount	Tax
Result before taxes	16,422,410	
Theoretical tax rate	**27.5%**	**4,156,163**
Temporary differences, net	(14,269,686)	
Taxable IRES	**(2,152,724)**	
Payable taxes on income of the year		**597,000**
Gains on losses brought from fiscal consolidation	3,022,670	831,234
Fiscal losses used and other benefits related to fiscal consolidation		(1,072,840)
Total IRES		**355,394**

Temporary differences, net refer to:

- Deductible differences amounting to 19,252 thousand euros owing mainly to dividends collected in the financial year under review (17,721 thousand euros) and directors emoluments (850 thousand euros);
- Non deductible differences amounting to 5,118 thousand euros and refers to depreciation of equity investments (2,414 thousand euros) and directors' salaries (1,200 thousand euros);
- Tax effect of the accounting entries made directly to equity in accordance to IFRS principles (136 thousand euros).

Calculation of taxable IRAP

(in euros)	Amount	Tax
Difference between value and cost of production	(1,480,231)	
Temporary differences, net	9,862,370	
Taxable IRAP	**8,382,139**	**353,000**
Total IRAP		**353,000**

Temporary differences, net refer to:

- Non deductible differences amounting to 11,687 thousand euros mainly due to personnel expenses;
- Deductible differences amounting to 375 thousand euros mainly due to service costs and amortisation;
- Deductions amounting to 1,450 thousand euros related mainly to tax rates.

Note 15 - Earnings per share

Basic earnings per share

Basic earnings per share at December 31, 2008 was calculated with reference to the profit for the period which amounted to 15,795,452 euros (11,794,541 euros at December 31, 2007) divided by the weighted average number of shares outstanding during the year which were 8,940,366 (8,968,447 at December 31, 2007).

(in euros)	2008	2007
Net profit for the year	15,795,452	11,794,541
Weighted average number of shares	8,940,366	8,968,447
Basic earnings per share	1.77	1.32

Diluted earnings per share

Diluted earnings per share at December 31, 2008 was calculated with reference to the profit for the period which amounted to 15,795,452 euros divided by the weighted average number of shares outstanding during the year taking in consideration the diluting effect which could derive from hypothetical exercising of financial instruments potentially convertible in shares (stock options).

(in euros)	2008	2007
Net profit for the year	15,795,452	11,794,541
Weighted average number of shares	8,940,366	8,968,447
Diluting effect	162,400	2,400
Weighted number of diluted shares	9,102,766	8,966,047
Diluted earnings per share	1.74	1.32

Note 16 - Tangible assets

Tangible assets as at December 31, 2008 totalled to 977,702 euros.
Detail is as follows:

(in euros)	31/12/2008	31/12/2007	Change
Plant and machinery	213,409	291,766	(78,357)
Hardware	262,044	362,152	(100,108)
Other	502,249	448,246	54,003
Total	**977,702**	**1,102,164**	**(124,462)**

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

Change in tangible assets during 2008 is summarised in the table below:

(in euros)	Plant and machinery	Hardware	Other	Total
Historical cost	923,590	1,052,676	1,688,952	3,665,218
Accumulated depreciation	(631,824)	(690,524)	(1,240,706)	(2,563,054)
Balance at 31/12/2007	**291,766**	**362,152**	**448,246**	**1,102,164**
Historical cost				
Additions	175,637	144,069	257,130	576,836
Disposals	-	(11,085)	(28,917)	(40,002)
Accumulated depreciation				
Depreciation	(253,994)	(238,872)	(197,039)	(689,905)
Utilisation	-	5,780	22,829	28,609
Historical cost	1,099,227	1,185,660	1,917,165	4,202,052
Accumulated depreciation	(885,818)	(923,616)	(1,414,916)	(3,224,350)
Balance at 31/12/2008	**213,409**	**262,044**	**502,249**	**977,702**

In 2008 the Company's additions totalled 577 thousand euros and referred mainly to:

- computers and network equipment for 144 thousand euros;
- generic equipment for 108 thousand euros;
- furniture and fittings and plants for new office locations totalling 215 thousand euros;
- equipment for 67 thousand euros.

This item *Other* also includes the lease of video conference equipment amounting to 50 thousand euros.

Note 17 - Goodwill

Goodwill at December 31, 2008 amounted to 86,765 euros and refers to the value of business branches (consulting activities related to *Information Technology* and management support) purchased in July 2000.

Goodwill recognized is deemed adequately supported in terms of expected financial results and related cash flows.

Note 18 - Other intangible assets

Intangible assets as at December 31, 2008 amounted to 1,470,902 euros (993,581 euros at December 31, 2007). Detail is as follows:

(in euros)	Historical cost	Accumulated amortisation	Net book value at 31/12/2008
Software	2,291,575	(1,345,767)	945,808
Trademarks	525,094	-	525,094
Total	**2,816,669**	**(1,345,767)**	**1,470,902**

Change in intangible assets during 2008 is summarised in the table below:

(in euros)	Net book value at 31/12/2007	Increasesi	Accumulated amortisation	Net book value at 31/12/2008
Software	473,863	638,776	(166,831)	945,808
Trademarks	519,718	5,376	-	525,094
Total	**993,581**	**644,152**	**(166,831)**	**1,470,902**

The item *Software* is related mainly to software licenses purchased and used internally by the company. The increase of 639 thousand euros refers to software in progress to be used internally.

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

Increase in *Trademarks* refers to the trademark "TamTamy", which offers the possibility to share experiences, blogs, documents and images through the web.

Note 19 - Equity investments

The item *Equity investments* at December 31, 2008 amounted to 81,096,941 euros, with an increase of 17,679,549 euros compared to December 31, 2007.

(in euros)	Balance at 31/12/2007	Acquisitions and subscriptions	Disposals	Financial loan remission	Write-downs	Other	Balance at 31/12/2008	Interest
@Logistics Reply S.r.l.	1,049,167	-	-	-	-	-	1,049,167	100.0%
4Cust Reply S.r.l. (*)	-	8,000	-	280,000	-	-	288,000	80.0%
Aktive Reply S.r.l.	140,692	-	-	-	-	-	140,692	100.0%
Atlas Reply S.r.l.	356,575	-	-	-	-	-	356,575	100.0%
Aware Reply S.r.l. (ex XYZ Reply S.r.l.)	2,567,019	-	-	-	-	-	2,567,019	100.0%
Axcel Reply S.r.l.	1,199,997	-	-	-	-	-	1,199,997	100.0%
Blue Reply S.r.l.	527,892	-	-	-	-	-	527,892	100.0%
Business Reply S.r.l.	314,461	-	-	-	-	(45,859)	268,602	100.0%
Cape Reply Roma S.r.l.	535,411	-	-	-	-	(535,411)	-	0.0%
Cluster Reply S.r.l.	539,010	-	-	-	-	2,071,022	2,610,032	100.0%
Discovery Reply S.r.l.	921,669	-	-	390,000	-	-	1,311,669	100.0%
e*finance Consulting Reply S.r.l.	3,076,385	-	-	-	-	-	3,076,385	100.0%
Ekip S.r.l.	140,000	-	-	45,000	(155,000)	-	30,000	100.0%
EOS Reply S.r.l.	8,000	-	-	328,689	(298,689)	-	38,000	100.0%
glue: Reply Ltd	-	11,656,556	-	-	-	-	11,656,556	100.0%
Hermes Reply S.r.l.	49,500	150,000	-	-	-	-	199,500	100.0%
IrisCube S,p,A,	6,724,952	-	-	-	-	-	6,724,952	100.0%
Open Reply S.r.l. (*)	60,000	-	(2,250)	160,000	-	-	217,750	85.0%
Plus Reply S.r.l. (*)	-	7,000	-	370,000	-	-	377,000	70.0%
Power Reply S.r.l. (*)	1,645,716	-	(216)	-	-	-	1,645,500	85.0%
Reply Consulting S.r.l.	113,434	5,065,000	-	-	-	-	5,178,434	100.0%
Reply Services S.r.l.	10,000	-	-	390,000	(390,000)	-	10,000	100.0%
Santer Reply S,p,A,	11,386,966	-	-	-	-	-	11,386,966	100.0%
Spike Reply S.r.l.	392,866	-	-	-	-	-	392,866	100.0%
Square Reply S.r.l.	100,000	-	-	-	-	-	100,000	100.0%
Syskoplan A,G,	22,593,557	359,623	-	-	-	-	22,953,180	58.2%
Syskoplan Reply S.r.l.	1,098,325	835	-	655,000	(1,340,000)	535,411	949,571	100.0%
Sysproject Reply S.r.l.	2,071,022	-	-		-	(2,071,022)	-	0.0%
Sytel Reply S.r.l.	5,048,766	-	-	-	-	-	5,048,766	100.0%
Target Reply S.r.l. (*)	8,000	-	-	-	-	-	8,000	80.0%
Technology Reply S.r.l.	241,353	-	-	-	-	(24,695)	216,658	100.0%
Twice Reply S.r.l.	407,000	-	-	-	-	-	407,000	94.0%
Whitehall Reply S.r.l. (ex YH Reply S.r.l.)	89,657	-	-	230,000	(230,000)	70,554	160,211	100.0%
Total	**63,417,392**	**17,247,014**	**(2,466)**	**2,848,689**	**(2,413,689)**	**-**	**81,096,941**	

(*) 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. As at December 31, 2008 the assessment of the achievement of such parameters did not lead to any impact on the financial statements as the underlying assumptions are highly variable and the commitments not very significant.

Acquisitions and subscriptions

4Cust Reply S.r.l.

At the end of February 2008 4Cust Reply S.r.l. was constituted, company in which Reply S.p.A. holds 80% of the share capital. The company is specialised in supplying telematic solutions and consultancy.

glue: Reply Ltd.

In July 2008 Reply S.p.A. finalised the acquisition of the 100% share capital of glue; an English company based in London. The acquisition was carried out through a cash payment (8,160 thousand euros) and Reply S.p.A share capital increase (3,146 thousand euros). Glue: is specialised in consultancy and planning of integration and service architectures (SAO, SaaS).

Plus Reply S.r.l.

In the month of March 2008 Plus Reply S.r.l. was constituted, company in which Reply S.p.A. holds 70% of the share capital.

The company is specialised in offering management consulting services in the Financial Services segment.

Reply Consulting S.r.l. and Hermes Reply S.r.l.

In execution of the agreements signed in occasion of the constitution of the subsidiary companies, Reply Consulting S.r.l. and Hermes Reply S.r.l. signed a "put" agreement. In the first months of 2009 the “put” option to be exercised by the minority shareholders of the following companies will fall due (and correspondingly the “call” option for Reply). In accordance with IAS 32, at December 31, 2008 a liability to minority shareholders of Consulting S.r.l. and Hermes Reply S.r.l. was booked in relation to the exercising of the aforementioned option against equity investments.

The above mentioned posting according to IAS 32 did not require changes to the statement of cash flows in as much as it did not generate cash flows as at December 31, 2008.

syskoplan AG

In the second half of 2008 Reply S.p.A. acquired on the German stock market syskoplan AG shares, corresponding to 1.55% of the share capital of the company.

Financial loan Remission

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

In accordance to the Consob communication no. DEM6064293 of July 28, 2006 the list of equity investments is enclosed in the annexed tables.

The negative differences arising between the carrying value of the investments and the corresponding portion of their net equity are not related to permanent impairment of value, as the carrying value is supported by positive economic and financial forecasts that guarantee the recoverable amount of the investment.

Note 20 - Non current financial assets

Detail is as follows;

(in euros)	31/12/2008	31/12/2007	Change
Guarantee deposits	85,677	85,368	309
Financial receivables from subsidiaries	530,000	619,534	(89,534)
Total	**615,677**	**704,902**	**(89,225)**

Guarantee deposits are mainly related to deposits on lease contracts.

The item *Financial receivables from subsidiaries* is referred to non-interest yielding loans granted to Reply Consulting S.r.l. (200,000 euros), Target Reply S.r.l. (300,000 euros) and an interest yielding loan granted to the German branch of Sytel Reply S.r.l. (30,000 euros).

Note 21 - Deferred tax assets

This item amounted to 517,736 euros at December 31, 2008 (416,289 euros at December 31, 2007), and included the fiscal charge corresponding to the temporary differences deriving from statutory income and taxable income related to deferred deductibility items.

(in euros)

Temporary deductible differences	Tax
Total deferred tax assets at 31/12/2007	**416,289**
- accrued	451,855
- utilization	(350,409)
Total deferred tax assets at 31/12/2008	**517,736**
Of which:	
- maintenance, licenses and other deductible costs	8,687
- directors fees and employee bonuses accrued but not paid at year end	480,092
- other	28,957
Total	**517,736**

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

There are no deferred tax assets on losses carried forward.

Note 22 - Trade receivables

Trade receivables at December 31, 2008 amounted to 89,381,868 euros and mainly comprise accounts with highly rated companies.

Detail is as follows:

(in euros)	31/12/2008	31/12/2007	Change
Third party trade receivables	68,375,916	46,957,370	21,418,546
Credit notes to be issued	(96,398)	(34,669)	(61,729)
Allowance for doubtful accounts	(140,522)	(150,483)	9,961
Third party trade receivables	**68,138,996**	**46,772,218**	**21,366,778**
Receivables from subsidiaries	20,999,897	14,710,314	6,289,583
Receivables from Parent Company	242,975	3,808	239,167
Trade receivables from subsidiaries and Parent Company	**21,242,872**	**14,714,122**	**6,528,750**
Total trade receivables	**89,381,868**	**61,486,340**	**27,895,528**

Third party trade receivables mainly refer to professional services related to agreements entered with Reply S.p.A. and subcontracted by the latter to its subsidiaries. The above contractual practice was more frequent in 2008 even as a consequence of the ISO 9001 certification accomplished by Reply S.p.A.

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

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

Allowance for doubtful accounts during 2008 evolved as follows:

(in euros)	31/12/2007	Accrual	Utilised	31/12/2008
Allowance for doubtful accounts	150,483	28,571	(38,532)	140,522

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

Note 23 - Other receivables and current assets

Detail is as follows:

(in euros)	31/12/2008	31/12/2007	Change
Tax receivables	4,573,814	1,021,096	3,552,718
Advances to employees	-	12,976	(12,976)
Other receivables from subsidiary companies	8,152,000	13,384,000	(5,232,000)
Other receivables	29,893	39,777	(9,884)
Accrued income and prepaid expenses	2,087,419	2,113,946	(26,527)
Total	**14,843,126**	**16,571,795**	**(1,728,669)**

Tax receivables mainly refer to advance payment on IRES (3,259,167 euros) and to receivables from tax authorities for VAT (1,000,721 euros), net of VAT liabilities and also includes withholding tax.

Other receivables from subsidiary companies refer to IRES receivables which are calculated on taxable income, and transferred by the Italian subsidiaries under national fiscal consolidation.

Accrued income and prepaid expenses refer to prepaid expenses arising from the execution of services, lease contracts, insurance contracts and other utility expenses, which are accounted for on an accrual basis.

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

Note 24 - Current financial assets

This item amounted to 39,061,893 euros (27,144,479 euros at December 31, 2007) and is related to the cash pooling accounts of the subsidiary companies involved in the centralised pooling system with pool leader Reply S.p.A..
The interest yield on these accounts is in line with current market conditions.

Note 25 - Cash and cash equivalents

This item amounted to 10,635,012 euros, with a decrease of 5,187,664 euros compared to December 31, 2007, and is referred to cash at banks and on hand at year-end.

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

Note 26 - Shareholders' equity

Share capital

As at December 31, 2008 the fully subscribed paid-in share capital of Reply S.p.A., amounted to 4,795,885.64 euros and is made up of no. 9,222,857 ordinary shares, par value 0.52 euros per share.

Change in *Share capital* owes to the issuing of new shares for the acquisition of the 100% stake in glue: Reply Ltd. for a total value of 3,146,329 euros, of which 74,328 share capital increase and 3,072,002 euros as share premium.

The objectives identified by Reply S.p.A for managing capital are to create value for stockholders as a whole, to safeguard business continuity and support the growth of the Group. As a result Reply S.p.A. endeavours to maintain an adequate level of capital that at the same time enables it to obtain a satisfactory economic return for its stockholders and guarantee economic access to external sources of funds, including in this by means of achieving an adequate rating.

Other reserves

Other reserves comprised the following:

(in euros)	31/12/2008	31/12/2007	Change
Share premium reserve	20,622,992	17,550,990	3,072,002
Legal reserve	944,312	929,760	14,552
Extraordinary reserve	13,698,774	5,037,432	8,661,342
Reserve for treasury shares on hand	3,691,300	1,253,013	2,438,287
Treasury shares	(3,691,300)	(1,253,013)	(2,438,287)
Reserve for purchase of treasury shares	26,308,700	28,746,987	(2,438,287)
Reserve for cash flow hedges	372,768	370,683	2,085
Retained earnings and other	2,481,227	42,940	2,438,287
Total	**64,428,773**	**55,020,431**	**9,408,342**

As at December 31, 2008 the *Share premium reserve* amounted to 20,622,992 euros; with a change of 3,072,002 euros compared to December 31, 2007 arising from the aforementioned operations.

Change in *Extraordinary reserve* and *Legal Reserve* owes to the allocation of the 2007 net result following the resolution made by the General Shareholders' Meeting on June 14, 2008.

The R*eserve for treasury shares on hand* amounting to 3,691,300 euros, is related to shares held by the Company that as at December 31, 2008 were equal to no. 186,499. In 2008 Reply S.p.A. acquired no 117,000 ordinary shares for a total out payment of 2,438,287 euros.

The *Reserve for purchase of treasury shares*, amounting to 26,308,700 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. which authorised, pursuant to Art. 2357 of the Italian Civil Code, the purchase of a maximum of 30 million of euros of ordinary shares, corresponding to 10% of the share capital, in a lump sum solution or in several solutions within 18 months of the resolution.

The *Reserve for cash flow hedges* includes the effects deriving from financial hedge instruments measured at fair value. *Retained earnings and other* includes the effects deriving from the costs related to the existing Stock Option Plans as at December 31, 2008 and the expenses related to the share capital increase.

Shareholders' net equity stated according to its origin, possibility of utilization, possibility of distribution, availability and the utilization in the previous three fiscal years is annexed herein.

Share based payment plans

The company has share based payment plans for its employees.

The stock option plans have the following purposes:

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

As mentioned in Note 2 referring to share-based payment plans the Company has applied the standard set out by IFRS 2 “Share-based payment” and has been applied to all the stock options granted after November 7, 2002 and that have not yet vested as at January 1, 2005 and are related to the stock options plans of 2004 and 2006. With reference to these plans, the cost incurred for Reply S.p.A. share-based payments in 2008 amounted to 235 thousand euros (575 thousand euros in 2007).

Stock option plans underlying Reply S.p.A. ordinary shares

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

The Board of Directors’ of Reply S.p.A. in charge of the stock option plan, has assigned stock options to over 200 employees and directors of the group companies.

As December 31, 2008 the number of stock options were 168,400 and can be summarised as follows:

Plan	Resolution of the General Shareholders’ meeting	Board’s resolution date	No. beneficiaries	Exercise price	Vesting period	No. options
2004	11/06/2004	11/11/2005	1	17.569	11/11/2008 – 11/11/2013	2,400
2004	11/06/2004	12/05/2006	10	21.339	12/05/2009 – 12/05/2014	150,000
2006	15/06/2006	08/08/2006	1	18.662	08/08/2009 – 08/08/2014	10,000
2006	15/06/2006	27/09/2007	1	24.096	27/09/2010 – 27/09/2015	6,000

During 2008 no stock options were exercised nor assigned in reference to the existing plans.

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

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

Note 27 - Financial liabilities

Detail is as follows:

(in euros)	**31/12/2008**			**31/12/2007**		
	current	**non current**	**Total**	**current**	**non current**	**Total**
Bank overdrafts	7,586,573	-	7,586,573	308	-	308
Bank loans	10,903,899	22,452,403	33,356,302	3,705,917	25,488,956	29,194,873
Financial borrowings	27,582	14,508	42,090			
Total due to banks	**18,518,054**	**22,466,911**	**40,984,965**	**3,706,225**	**25,488,956**	**29,195,181**
Transaction accounts from subsidiaries	1,491,141	-	1,491,141	4,897,618	-	4,897,618
Total financial liabilities	**20,009,195**	**22,466,911**	**42,476,106**	**8,603,843**	**25,488,956**	**34,092,799**

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

(in euros)	**31/12/2008**				**31/12/2007**			
	Due in 12 months	**From 1 to 5 years**	**Over 5 years**	**Total**	**Due in 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Bank overdrafts	7,586,573	-	-	7,586,573	308	-	-	308
Syndicated loan Intesa SanPaolo Tranche A	-	-	-	-	4,000,000	-	-	4,000,000
Syndicated loan Intesa SanPaolo Tranche B	11,276,752	22,553,504	-	33,830,256	-	25,730,256	-	25,730,256
Transaction accounts from subsidiaries	1,491,141	-	-	1,491,141	4,897,618	-	-	4,897,618
Other financial borrowings	27,582	14,508	-	42,090	-	-	-	-
Fair Value IRS and other	(372,853)	(101,101)	-	(473,954)	(294,083)	(241,300)	-	(535,383)
Total	**20,009,195**	**22,466,911**	**-**	**42,476,106**	**8,603,843**	**25,488,956**	**-**	**34,092,799**

The *Syndicated loan* is referred to the partial utilization of the credit facility undersigned on December 30, 2005 by Reply S.p.A. with Intesa SanPaolo, pool leader of a group of banks for the granting of the loan finalised for M&A operations.

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

- Tranche A used as an overdraft for a maximum amount of 12,000,000 euros with the purpose of entirely reimbursing the previous loan. Instalments are paid on a half year basis (Euribor 6 months + 0.75%) and expired on December 31, 2008.
- Tranche B can be used as an overdraft and/or as a performance guarantee for a maximum amount of 54,000,000 with the purpose of satisfying Reply's financial needs in maintaining the growth strategy finalised at the acquisition of companies, strategic investments or shares. Instalments are paid on a half year basis commencing June 30, 2009 (Euribor 6 months + 0.75%) and expires on December 31, 2011.

Reply has pledged shares and/or quotas of the companies acquired in guarantee of all obligations connected to the loan. Throughout the duration of the contract and until the loan is completely reimbursed, Reply S.p.A. must achieve predetermined ratios (Covenants) of economic and financial nature calculated on the consolidated financial statements as at December 31, of each year.

As contractually defined, such ratios are as follows:

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

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

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

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

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

Net financial position

In compliance with Consob regulation issued on July 28, 2006 and in accordance with CESR's Recommendations for the consistent implementation of the European's regulation on Prospectuses issued on February 10, 2005, the Company's Net financial position, at December 31, 2008 was as follows:

(in euros)	31/12/2008	31/12/2007	Change
Liquidity	10,635,012	15,822,676	(5,187,664)
Transaction accounts	39,061,893	27,144,479	11,917,414
Current financial assets	49,696,905	42,967,155	6,729,750
Loans issued to subsidiaries	530,000	619,534	(89,534)
Total non current financial assets	530,000	619,534	(89,534)
Total financial assets	**50,226,905**	**43,586,689**	**6,640,216**
Due to banks	(18,518,054)	(3,706,225)	(14,811,829)
Transaction accounts	(1,491,141)	(4,897,618)	3,406,477
Total current financial liabilities	(20,009,195)	(8,603,843)	(11,405,352)
Due to banks	(22,466,911)	(25,488,956)	3,022,045
Total non current financial liabilities	(22,466,911)	(25,488,956)	3,022,045
Total financial liabilities	**(42,476,106)**	**(34,092,799)**	**(8,383,307)**
NET FINANCIAL LIABILITIES	**7,750,799**	**9,493,890**	**(1,743,091)**
Of which related parties	*38,100,752*	*22,866,395*	*15,234,357*

For further details with regards to the above table see Notes 20, 24 and 25 as well as Note 27.

Note 28 - Employee benefits

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

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

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

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

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

The assumptions adopted can be summarised as follows:

Demographic assumptions	
Mortality	RG 48 survival tables of the Italian population
Inability	INPS tables divided by age and gender
Retirement age	Fulfilment of the minimum requisites provided by the General Mandatory Insurance
Advances on employee severance indemnities	Annual frequency of advances and employee turnover were assumed from historical data of the company: Frequency of advances in 2008: 2.50% Frequency of turnover % 2008: 10%

Economic and financial assumption	
Annual inflation rate	Constant average annual rate equal to 3.20%
Annual discount rate	Calculated with reference to the valuation date of primary shares on the stock market in which the company belongs and with reference to the market yield of Federal bonds. The annual discount used for 2008 was 4.30%
Annual growth rate of the Employee severance indemnities	The employee severance indemnities (TFR) are revalued on an annual basis equal to 75% of the inflation rate plus a spread of one and a half percentage point.
Annual increase in salaries	The annual increase of salaries used was calculated in function of the employee qualifications and the Company's market segment, net of inflation, from 1.00% to 1.50%

In accordance to IAS 19, Employment severance indemnities at December 31, 2008 is summarised in the table below:

(in euros)	
Balance at 31/12/2007	**690,146**
Actuarial gain/loss	34,442
Interest cost	32,430
Amounts paid	(57,260)
Balance at 31/12/2008	**699,758**

Note 29 - Deferred tax liabilities

Deferred tax liabilities at December 31, 2008 amounted to 254,018 euros and are referred mainly to the fiscal effects arising from temporary differences deriving from statutory income and taxable income related to deferred deductibility.

(in euros)	
Total 31/12/2007	**234,008**
- accruals	34,504
- utilization	(14,494)
Total at 31/12/2008	**254,018**
- On deductible items off the books	197,671
- Employee benefits IAS 19	9,733
- Different goodwill measurements	14,631
- Different trademark valuation	31,983
Total at 31/12/2008	**254,018**

Note 30 - Trade payables

Change in *Trade payables* compared to period ended 2007, amounted to 24,662,898 euros, and is detailed below

(in euros)	**31/12/2008**	**31/12/2007**	**Change**
Due to suppliers	5,577,930	3,106,137	2,471,793
Due to subsidiary companies	77,968,112	60,152,833	17,815,279
Advance payments	13,352,063	8,976,237	4,375,826
Total	**96,898,105**	**72,235,207**	**24,662,898**

Due to suppliers mainly refers to services from domestic suppliers (5,234 thousand euros).

The item *Due to subsidiary companies* refers to trade transactions carried out at normal market conditions. Such payables refer to professional services related to third party agreements with Reply S.p.A. and subcontracted by the latter to subsidiaries. Such a practice has become much more frequent in 2008 compared to the prior year and this explains the difference in the payable position.

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

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

Note 31 - Other current liabilities

Details are provided below:

(in euros)	31/12/2008	31/12/2007	Change
Current tax payables	154,754	2,485,415	(2,330,661)
VAT payable	-	76,363	(76,363)
Withholding tax and other	345,159	225,771	119,388
Total due to tax authorities	**499,913**	**2,787,549**	**(2,287,636)**
INPS	514,266	401,635	112,631
Other	134,364	91,488	42,876
Total due to social security authorities	**648,630**	**493,123**	**155,507**
Employee accruals	683,571	550,078	133,493
Due to subsidiary companies	3,144,740	1,784,352	1,360,388
Other payables	6,948,980	1,331,315	5,617,665
Accrued expenses and deferred income	1,413,690	2,011,276	(597,586)
Total other dues	**12,190,981**	**5,677,021**	**6,513,960**
Total trade payables and other liabilities	**13,339,524**	**8,957,693**	**4,381,831**

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

Due to social security authorities is related to both Company and employees contribution payables.

Employee accruals mainly include payables to employees for remunerations due but not yet paid at year-end.

Due to subsidiary companies represents the remuneration due for the tax losses contributed by subsidiaries to the national tax consolidation for 2008 and for the tax credits that subsidiaries transferred to Reply S.p.A as part of the tax consolidation.

Other debts include debt towards minority shareholders of Reply Consulting S.r.l. and Hermes Reply S.r.l. in relation to the exercising of the option in the first months of 2009 held in their possession.

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

Note 32 - Additional disclosures to financial instruments and risk management policies

Types of financial risks and corresponding hedging activities

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

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

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

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

Credit risk

The maximum credit risk to which the company is theoretically exposed at December 31, 2008 is represented by the carrying amounts stated for financial assets in the balance sheet.

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

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

Liquidity risk

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

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

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

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

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

Currency risk

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

Interest rate risk

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

In order to manage these risks, the Reply S.p.A uses interest rate derivative financial instruments, mainly interest rate swaps with the object of mitigating, under economically acceptable conditions, the potential variability of interest rates on the net result.

Sensitivity analysis

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

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

A hypothetical, unfavourable and instantaneous change of 50 basis points in short-term interest rates at December 31, 2008 applied to floating rate financial assets and liabilities, operations for the sale of receivables and derivatives financial instruments, would have caused increased net expenses before taxes, on an annual basis, of approximately 206 thousand euros (166 thousand euros at December 31, 2007).

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

Note 33 - Transactions with Related parties

In relation to CONSOB communication no. DAC/RM 97001574 of February 20, 1997 and no. DAC/RM 98015375 of February 27, 1998 concerning relations with related parties, the economic and financial effects on Reply S.p.A.'s year ended 2008 financial statements related to such transactions are summarized below.

Transactions carried out by Reply S.p.A. with related parties, that as of the closing date is Alika S.r.l., are considered ordinary business and are carried out at normal market conditions.
Financial and business transactions among the Parent Company Reply S.p.A. and its subsidiary and associate companies are carried out at normal market conditions.

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

(thousand euros)	31/12/2008 With subsidiary and associate companies	31/12/2008 With related parties	31/12/2007 With subsidiary and associate companies	31/12/2007 With related parties	Nature of transaction
Financial transactions					
Financial receivables	530	-	620	-	Financial loans yielding interest
Transaction accounts	37,571	-	22,247	-	Transaction accounts held by the Parent Company and introduced with the Group cash pooling system
Trade receivables and other	29,167	243	27,900	4	Royalties, administration services, marketing and quality management, management services and office rental
Trade payables and other	94,859	394	70,913	9	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies

	2008		2007		
Economic transactions					
Revenues from royalties	7,577	-	5,939	-	Licensing of the “Reply” trademark consisting in a 3% fee on third party revenues
Revenues from services	13,598	-	10,923	-	Administration services, marketing and quality management and office rental
Revenues from management services	3,196	-	2,797	-	Strategic management services
Costs for professional services	113,315	-	94,827	-	Services carried out in relation to contracts signed by the Parent Company with third parties and subsequently committed to the subsidiary companies
Services from Parent Company and related parties	-	1,131	-	680	Services related to office rental and office of the secretary
Interest income on loans, net	3,458	-	1,876	-	Interest on financial loans: 3 month Euribor with a spread of 2 percentage points

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

Pursuant to Art. 150, paragraph 1 of the Italian Legislative Decree no. 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 - Significant non-recurring transactions

Pursuant to the Consob communication no. 6064293 of July 28, 2006, there were no significant non- recurring transactions carried out by Reply S.p.A. in 2008.

Note 35 - Transactions resulting from unusual and/or abnormal operations

Pursuant to the Consob communication no. 6064293 of July 28, 2006, Reply S.p.A has not taken part in any unusual and/or abnormal operations as defined in that Communication, under which unusual and abnormal transactions are those which because of their significance or importance, the nature of the parties involved, the object of the transaction, the means of determining the transfer price or of the timing of the event (close of the year end) may give rise to doubts regarding the accuracy/completeness of the information in the financial statements, conflicts of interest, the safeguarding of the entity's assets or the protection of minority interests.

Note 36 - Guarantees, commitments and contingent liabilities

Guarantees, commitments and contingent liabilities, where existing, have been disclosed at the item to which they refer. Guarantees granted to related parties are not remunerated.

At the present date Reply S.p.A. does not have any contingent liabilities.

Note 37 - Emoluments to Directors, Statutory Auditors and Key Management

Emoluments to Directors, Statutory Auditors and key management of Reply S.p.A. including those in other subsidiary companies are summarised in the table below:

(in euros)

Name	Office	Term of office	Emoluments	Other fees	Non-cash benefits
Mario Rizzante	Chairman and Chief Executive Officer	01/01/08 – 31/12/08	700,000	120,000	
Sergio Ingegnatti	Chief Executive Officer	01/01/08 – 31/12/08	450,000	30,000	-
Tatiana Rizzante	Chief Executive Officer	01/01/08 – 31/12/08	360,000	173,000	-
Oscar Pepino	Executive director	01/01/08 – 31/12/08	210,000	-	-
Claudio Bombonato	Executive director	01/01/08 – 31/12/08	300,000	-	-
Carlo Alberto Carnevale Maffé	Independent director	01/01/08 – 31/12/08	20,000	-	-
Marco Mezzalama	Independent director	01/01/08 – 31/12/08	20,000	-	-
Fausto Forti	Lead Independent Director	01/01/08 – 31/12/08	20,000	4,000	
Piergiorgio Re	Chairman of the Board of Statutory auditors	01/01/08 – 08/08/08	34,448	-	-
Tommaso Vallenzasca	Statutory auditor Chairman of the Board of Statutory auditors	01/01/08 - 08/08/08 08/08/08 - 31/12/08	25,306	-	-
Ada A. Garzino Demo	Statutory auditor	01/01/08 – 31/12/08	24,377	-	-
Paolo Claretta Assandri	Statutory auditor	08/08/2008-31/12/08	1,343		
Key management		-	-	3,035,040	70,800

Stock Option granted to Members of the Board of Directors and Key Management

During the financial year under review no stock options have been assigned and/or exercised to Members of the Board of Directors and Key Management.

Detail is as follows:

		Options held at 31/12/08		
Name	**Office held**	**Number of options**	**Average exercise price (euros)**	**Exercise period**
Tatiana Rizzante	Chief executive officer	15,000	21.339	12-05-09 al 12-05-14
Key management		75,000	21.339	12-05-09 al 12-05-14

Note 38 - Events subsequent to December 31, 2008

No significant events have occurred subsequent to December 31, 2008.

_**Annexed** tables

Income statement
pursuant to Consob Resolution no. 15519 of July 27, 2006

(in euros)	2008	*Of which related parties*	%	2007	*Of which related parties*	%
Revenues	132,691,553	21,463,068	*16.2%*	109,221,393	17,671,647	*16.2%*
Other revenues	3,244,700	3,082,380	*95.0%*	2,768,594	2,562,627	*92.6%*
Purchases	(1,107,512)	(419,010)	*37.8%*	(899,116)	(150,084)	-
Personnel expenses	(10,763,770)	-	-	(8,313,401)		-
Services and other costs	(124,688,466)	(114,446,263)	*91.7%*	(105,067,498)	(95,507,229)	*90.9%*
Amortisation and write-offs	(856,736)	-	-	(755,747)	-	-
Other unusual operating income/(expenses)	(45,477)	-	-	30,871	-	-
Operating margin	**(1,525,708)**	**-**	**-**	**(3,014,904)**	**-**	**-**
Income/(loss) on equity investment	16,240,192	-	-	13,096,825	-	-
Financial income/(expenses)	1,707,926	3,458,083	*202.5%*	1,562,895	1,875,888	*120.0%*
Result before tax	**16,422,410**	**-**	**-**	**11,644,816**	**-**	**-**
Income taxes	(626,958)	-	-	149,725	-	-
Net result	**15,795,452**	**-**	**-**	**11,794,541**	**-**	**-**
Net result per share	*1.77*			*1.32*		
Net result per diluted share	*1.74*			*1.32*		

Balance Sheet
Balance Sheet pursuant to Consob Resolution no. 15519 of July 27, 2006

(in euros)	31/12/2008	*Of which related parties*	%	31/12/2007	*Of which related parties*	%
Tangible fixed assets	977,702	-	-	1,102,164	-	-
Goodwill	86,765	-	-	86,765	-	-
Other intangible assets	1,470,902	-	-	993,581	-	-
Equity investments	81,096,941	-	-	63,417,392	-	-
Financial assets	615,677	*530,000*	*86.1%*	704,902	*619,534*	*87.9%*
Deferred tax assets	517,736	-	-	416,289	-	-
Non current assets	**84,765,723**	**-**	**-**	**66,721,093**	**-**	**-**
Trade receivables	89,381,868	*21,242,872*	*28.8%*	61,486,340	*14,516,503*	*23.6%*
Other receivables and current assets	14,843,126	*8,167,000*	*55.0%*	16,571,795	*13,384,000*	*80.8%*
Financial assets	39,061,893	*39,061,893*	*100.0%*	27,144,479	*27,144,479*	*100.0%*
Cash and cash equivalents	10,635,012	-	-	15,822,676	-	-
Current assets	**153,921,899**	**-**	**-**	**121,025,290**	**-**	**-**
TOTAL ASSETS	**238,687,622**	**-**	**-**	**187,746,383**	**-**	**-**
Share capital	4,795,886	-	-	4,721,558	-	-
Other reserves	64,428,773	-	-	55,020,431	-	-
Net result	15,795,452	-	-	11,794,541	-	-
TOTAL SHAREHOLDERS' EQUITY	**85,020,111**	**-**	**-**	**71,536,530**	**-**	**-**
Financial liabilities	22,466,911	-	-	25,488,956	-	-
Employee benefits	699,758	-	-	690,146	-	-
Deferred tax liabilities	254,018	-	-	234,008	-	-
Non current liabilities	**23,420,687**	**-**	**-**	**26,413,110**	**-**	**-**
Financial liabilities	20,009,195	*1,491,141*	*7.5%*	8,603,843	*4,897,618*	*56.9%*
Trade payables	96,898,105	*91,714,609*	*94.7%*	72,235,207	*69,129,070*	*95.7%*
Other payables and current liabilities	13,339,524	*3,144,740*	*23.6%*	8,957,693	*1,784,352*	*19.9%*
Current liabilities	**130,246,824**	**-**	**-**	**89,796,743**	**-**	**-**
TOTAL LIABILITIES	**153,667,511**	**-**	**-**	**116,209,853**	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**238,687,622**	**-**	**-**	**187,746,383**	**-**	**-**

Equity investments in subsidiaries with additional information required by Consob (communication no. 6064293 of July 28, 2006)

Company	Registered office	Currency	Share capital	Shareholders' equity at 31/12/08	Result 2008	% owned	Carrying value at 31/12/08
4Cust Reply S.r.l.	Torino	€	10,000	17,072	(272,928)	80.00%	288,000
@Logistics Reply S.r.l.	Torino	€	78,000	1,438,056	1,184,703	100.00%	1,049,167
Aware Reply S.r.l.	Torino	€	12,939	203,472	6,028	100.00%	2,567,019
Aktive Reply S.r.l.	Torino	€	10,000	1,565,288	1,076,523	100.00%	140,692
Atlas Reply S.r.l.	Torino	€	10,000	2,408,746	2,039,426	100.00%	356,575
Axcel Reply S.r.l.	Torino	€	15,000	337,341	(39,017)	100.00%	1,199,997
Blue Reply S.r.l.	Torino	€	10,000	2,533,317	1,585,254	100.00%	527,892
Business Reply S.r.l.	Torino	€	78,000	936,716	819,900	100.00%	268,602
Cluster Reply S.r.l.	Torino	€	139,116	3,591,118	2,910,537	100.00%	2,610,032
Communication Valley S.p.A. (***)	Parma	€	100,000	2,671,960	1,305,747	100.00%	15,930,460
Discovery Reply S.r.l.	Torino	€	10,000	23,589	(387,646)	100.00%	1,311,669
e*finance consulting Reply S.r.l.	Torino	€	34,000	2,221,944	1,608,982	100.00%	3,076,385
Ekip S.r.l.	Torino	€	10,400	17,938	(41,933)	100.00%	30,000
Eos Reply S.r.l.	Torino	€	10,000	29,128	(180,872)	100.00%	38,000
glue: Reply Ltd	Londra	GBP	54,175	1,027,626	738,098	100.00%	11,656,556
Hermes Reply S.r.l. (*)	Torino	€	10,000	674,001	477,195	100.00%	199,500
IrisCube Reply S.p.A.	Torino	€	651,735	1,019,672	196,612	100.00%	6,724,952
IrisCube S.A. (***)	Bioggio	CHF	100,000	449,344	(47,518)	100.00%	307,053
Open Reply S.r.l.	Torino	€	10,000	19,462	(155,105)	85.00%	217,750
Plus Reply S.r.l.	Torino	€	10,000	15,474	(364,526)	70.00%	377,000
Power Reply S.r.l.	Torino	€	10,000	897,464	886,634	85.00%	1,645,500
Reply Consulting S.r.l. (**)	Torino	€	10,000	1,724,061	817,566	100.00%	5,178,434
Reply Services S.r.l.	Torino	€	10,000	11,613	(390,631)	100.00%	10,000
Santer Reply S.p.A.	Milano	€	2,209,500	13,991,097	3,082,437	100.00%	11,386,966
Spike Reply S.r.l.	Torino	€	50,000	2,151,207	785,779	100.00%	392,866
Square Reply S.r.l.	Torino	€	10,000	95,942	81,704	100.00%	100,000
Syskoplan Reply S.r.l.	Torino	€	32,942	23,140	(690,125)	100.00%	949,571
Syskoplan AG and subsidiaries	Gutersloh	€	4,729,340	30,564,301	3,529,914	58.21%	22,953,180
Sytel Reply S.r.l.	Torino	€	115,046	7,798,134	5,001,910	100.00%	5,048,766
Target Reply S.r.l.	Torino	€	10,000	301,572	263,357	80.00%	8,000
Technology Reply S.r.l.	Torino	€	79,743	2,529,797	2,422,590	100.00%	216,658
Twice Reply S.r.l.	Torino	€	10,000	1,275,516	543,543	94.00%	407,000
Whitehall Reply S.r.l.	Torino	€	21,224	216,366	(680,887)	100.00%	160,212

(*) As at December 31, 2008 legal possession is 95%, the percentage indicated in the table reflects the accounting according to IAS 32. For further details see Note 19.

(**) As at December 31, 2008 legal possession is 56%; the percentage indicated in the table reflects the accounting according to IAS 32. For further details see Note 19.

(***) Company controlled indirectly.

Detail of Shareholders' net equity

stated according to origin, possibility of utilization, possibility of distribution, availability and the utilization in the previous three fiscal years.

Nature/description (in euros)	Amount	Possibility of utilization	Available amount	Summary of the amounts used in the prior three fiscal years: For coverage of losses	Other
Capital	**4,795,886**				
Capital reserves					
Reserve for treasury shares	3,691,300				
Share premium reserve	20,622,992	A, B, C	20,622,992		
Reserve for purchase of treasury shares	26,308,700	A, B, C	26,308,700		
Income reserves					
Legal reserve	944,312	B	-		
Extraordinary reserve	13,698,774	A, B, C	13,698,774		2,530,646
Reserve for shares to be issued (Art. 2349 C.C.)	104,000	A, B	104,000		
Retained earnings	570,734	A, B, C	570,734		
Total			**61,305,200**		
Amount not available			118,865		
Residual available amount			**61,186,335**		
Reserves from transition to IAS/IFRS					
FTA reserve	303,393				
Retained earnings	2,273,548				
Reserve for cash flow hedge	372,768				
Treasury share	(3,691,300)				
Accounting of expenses according to IAS 38	(770,448)				
	69,224,659				

Legend
A: for share capital increase
B: for loss coverage
C: distribution to shareholders

Information requested by Art. 149-duodecies issued by Consob

The following table, prepared in accordance with Art. 149-duodeciesof the *Regolamento Emittenti* issued by Consob, reports the amount of fees charged in 2008 for the audit and audit related services provided by the Audit Firm and by entities that are part of the Audit Firm network.

(thousand euros)	Service provider	Fees 2008
Audit	Deloitte & Touche S.p.A.	31
Audit related services	Deloitte & Touche S.p.A. (1)	71
Total		**108**

(1) Report in accordance to article 2441, paragraph 6, of the Italian Civil Code and undersigning of the tax return.

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

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

   - the adequacy with respect to the company structure and
   - the effective application,

   of the administration and accounting procedures applied in the preparation of in Reply S.p.A's 2008 financial statements:

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the statutory financial statements at December 31, 2008 was based on a process defined by Reply in accordance with the *Internal Control – Integrated Framework* model issued by the *Committee of Sponsoring Organizations of the Treadway Commission*, an internationally-accepted reference framework.

3. The undersigned moreover attest that:

3.1 the statutory financial statements at December 31, 2008
- 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 July 19, 2002 as implemented in Italy by Article 9 of Legislative Decree no. 38 of 2005;
- correspond to the amounts shown in the accounts, books and records; and;
- provide a fair and correct representation of the financial conditions, results of operations and cash flows of Reply S.p.A at December 31, 2008 and for the year then ended.

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

Turin, March 13, 2009

/s/ Sergio Ingegnatti
Chief Executive Officer
Sergio Ingegnatti

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

_**Statutory** auditors' report

to the shareholders pursuant to Art. 153 of italian legislative decree no. 58/1998 and Art. 2429, paragraph 2 of the italian civil code in relation to the statutory financial statements as at December 31, 2008

To the Shareholders,

As at August 8, 2008, pursuant to Article 2401 of the Italian Civil Code, Mr. Paolo Claretta Assandri, already alternate auditor, took office as Auditor and Mr. Tommaso Vallenzasca, in capacity of eldest Auditor, took office as President of the Board of Statutory Auditors following the resignation of Prof. Piergiorgio Re. consequently the Board of Statutory Auditors is composed as follows: Mr. Tommaso Vallenzasca – President, Mrs. Ada Alessandra Garzino Demo – Auditor, Mr. Paolo Claretta Assandri – Auditor.

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

Throughout fiscal year 2008 and in accordance with the Independent Auditors, we have performed supervision activities pursuant to article 149 of Legislative Decree 24/02/1998 no. 58 and in compliance with current CONSOB communications in relation to Regulations of issuers, we relate the following:

1. Significant economic, financial and monetary transactions.

We have received adequate and detailed information from the Board of Director's with regards to the Company's business and on the main operating, financial and asset transactions carried out or in the process of being carried out by the Company and/or its subsidiaries. In this regard we affirm the following:

- In the month of March 2008 Spike Reply S.r.l. acquired 100% of Communication Valley S.p.A.'s shares form the Unicredit Group, for a total value of 16 million euros;
- In the month of July 2008 the share purchase agreement was signed for the acquisition of the English company glue: Ltd. (now glue: Reply Ltd.). More specifically in the month of July 2008, 72.22% of the share capital of the English company was acquired for 6.5 million pounds, for an equivalent of 8.16 million euros and subsequently in the month of December 2008, Reply S.p.A. increased its share capital, excluding pre-emptive rights for Reply S.p.A. shareholders, in order to purchase the remaining 27.78% of glue's share capital, for a total value of 2.5 million pounds, equal to approximately 3.15 million euros.
- In February 2009 the subsidiary Santer S.p.A. acquired from the Motorola Research Center based in Turin, the Motorola Research Centre based in Turin.

We can reasonably affirm that such activities have been executed in compliance with the Law and with the Articles of Incorporation.

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

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

In reference to inter-company operations the following is noted:

- REPLY S.p.A. has received professional services from group companies in relation to revenues from third parties;
- REPLY S.p.A. has provided guarantees in favor of some subsidiaries;
- REPLY S.p.A. has granted to its subsidiaries Reply Consulting S.r.l., Target Reply S.r.l., Themis Reply S.A. and Plus Reply S.r.l. non-interest bearing loans for the carrying out of their activities;
- REPLY S.p.A. has granted to Sytel Reply S.r.l.'s German branch an interest bearing loan;
- REPLY S.p.A. provided the subsidiaries administrative, managerial, and commercial and marketing assistance and assistance related to the managing of Internet within the company, electronic mail and web services. Also in this case all transactions are regulated at normal market conditions;
- REPLY S.p.A. manages a cash pooling system and has activated transaction accounts with the single group companies;
- The Group companies use the "Reply" trademark, which is currently owned by the Parent Company.

Operations carried out with related parties are referred to general services and consulting services invoiced by Alika S.r.l. (Parent company of REPLY S.P.A. following the merger with Iceberg S.A. that took place in January 2009) to the Group companies at normal market conditions.

These operations are ongoing at present.
With reference to the above mentioned transactions, the Board of Statutory Auditors deems that the procedures adopted by the company are in compliance to Art. 2391-bis of the Italian Civil Code, to the company's Corporate Governance Code and to the Regulations on significant operations with related parties adopted in June 2006.

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

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

The Directors' Report on Operations related to the year ended 2008 provides exhaustive information concerning the major economic, financial and monetary transactions and regarding relations with subsidiary and associate companies and other related parties.
Such report does not reveal the existence of any atypical and/or unusual transactions during and following the year end close.

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

Deloitte & Touche S.p.A., the Independent Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of December 31, 2008, issued its report on April 9, 2009 in which it asserts that REPLY S.p.A.'s financial statements as of December 31, 2008 comply with laws governing the criteria for their preparation.

5. Accuses pursuant to Art. 2408 Italian Civil Code

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

6. **Petitions.**

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

7. **Additional engagements conferred to the independent audit firm and related charges.**

In the financial year under review the following additional engagements were conferred to Deloitte & Touche S.p.A.:

- Report on the price adequacy of the shares issued in relation to the share capital increase for the acquisition of 27.78% of glue: Ltd. (now glue: Reply Ltd.).
  Fee for execution of this service amounted to 64,000 euros.
- Assistance in filing of the company's tax return of the Parent Company. Fee for execution of this service amounted to 6,100 euros.
- Assistance in filing of the company's tax return of the subsidiary companies. Fee for execution of this service amounted to 13,400 euros.

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

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

9. **Existence of opinions issued during the year.**

During 2008, in accordance to the Italian law, opinions were issued by the Statutory Auditors.

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

In 2008 the Board of Directors met 11 times, and the Statutory Auditors held 8 meetings.

11. **Instructions given by the company to its subsidiaries in accordance with Art. 114, paragraph 2 of Law Decree 58/1998.**

Instructions given to the subsidiary companies, in accordance to paragraph 2, Art.114 of Law Decree 58/1998, seem to be adequate and the same subsidiaries provided Reply S.p.A. with timely and appropriate information concerning the companies' activities.
In this regards, we inform You that in order to guarantee the timeliness of the information requested, the Chief Executive Officer of Reply S.p.A., Mr. Sergio Ingegnatti, is covering all the duties of director in all the corporate bodies of the Italian subsidiary companies.
We also inform You that Mr. Mario Rizzante, Chairman of the Board of Directors of Reply S.p.A., holds office as Chairman of the Supervisory Board of syskoplan AG and Director in the English subsidiary company glue: Reply Ltd.

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

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

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

Since 2000 the Company complies to the Corporate Governance set out by Borsa Italiana S.p.A..
On March 13, 2009 the Board of Directors approved the annual report concerning the Corporate Governance System currently adopted by the Company, covering information on the organizational structure in accordance to Art. 123-bis of Legislative Decree 58/1998.

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

Supervision activities carried out were as follows:

- We monitored compliance with the law and decrees;
- Participated in Board meetings;
- Acquired information regarding the auditing controls carried out by the external auditors and reported periodically;
- Gathered further information through meetings with the Director in charge of drawing up the accounting documents and the Internal control committee;
- Analysis of new Consob adoptions or communications

The Board of Statutory Auditors has verified the existence of the organizational bases for the proper running and respect of the articles of incorporation and regulating laws.
More specifically We bring to the attention of the Shareholders that:

- The Security Document has been correctly updated in compliance to the ruling law decree;
- We have verified the proper criteria adopted by the Board of Directors in assessing the existence of independency conditions concerning the "independent directors";
- We have not received any indications of violation of the Organizational, Management and Control Model in compliance to Legislative Decree 231/2001;
- We have verified that in relation to "Internal Dealing" obligations related to "Market abuse" and "Tutela del risparmio" were carried out.

On the basis of the already mentioned principles and of the information gathered during our supervision pursuant to the law, and on the basis of the meetings with personnel in charge of corporate management and internal control, we have reached the following conclusions:

1) Administration
The Board of Statutory Auditors, asserts to have verified the legitimacy of managerial decisions made by the Administrating Body and the related economic adequacy excluding our opinion concerning the convenience or opportunity of such decisions and Verified that these were not in contrast with Board resolutions or jeopardize individual or minority rights.

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

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

4) Administrative and accounting system

The administrative and accounting system and procedures are set-up correctly within the Company and its subsidiaries. It is considered to be suitable to represent and monitor operations and to provide data for the requested periods. The Company's organization appears to be adequate, based on the size of the Company. As part of our work, we met with the heads of the various Company Departments and with representatives of the Independent Auditors, from whom we obtained comprehensive information indicating that the Company was in compliance with management best practices. The internal control system, which is constantly upgraded, has been implemented at Group level and is operational both at the Parent Company and its subsidiaries.

We believe that the Company's administrative and accounting system is adequate for the purpose of presenting fairly the results of operations. We express a favorable opinion on the adequacy of the Company's internal control system, intended as a system aimed to assess the compliance with the internal operating and administrative procedures adopted to ensure that the Company is correctly and efficiently managed, while at the same time identifying, preventing and minimizing financial and operating risks as well as the risk of frauds.

The chief Executive Officer and the Director responsible for drawing up the financial statements have issued the attestation pursuant to Art. 81-ter of *Regolamento Consob* no. 11971/1999 subsequently amended and integrated by Art. 154-bis paragraph 5 of T.U.F (Legislative Decree 58/1998).

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

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

The Financial statements at December 31, 2008 were prepared according to the European regulation no. 1606/2002 of July 19, 2002, in compliance to (IAS/IFRS).

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

The Board of Statutory Auditors, in specific reference to requirements set out by Law Decree 58/1998, paragraph 2, does not have any further proposals to make.

With reference to the point on the agenda concerning the purchase and disposal of treasury shares, even for the purpose of stock option plans, considering disclosures made by the directors, the Board states that the resolution proposed is in accordance to articles 2357, 2357-ter of the Italian Civil Code, in accordance to article 132 of Legislative Decree 58/98 and to Art. 144 –bis of Consob Regulation no. 11971 dated May 14, 1999.

We would like to remind you that the three year period of office has expired and kindly request that the necessary actions be taken. Thank you for the confidence shown.

Turin, April 9, 2009

Statutory Auditors
(Dott. Tommaso Vallenzasca)
(Dott.ssa Ada Alessandra Garzino Demo)
(Dott. Paolo Claretta-Assandri)

Deloitte.

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AUDITORS' REPORT ON THE FINANCIAL STATEMENTS PURSUANT TO ART. 156 OF LEGISLATIVE DECREE N. 58 OF FEBRUARY 24, 1998

To the Shareholders of
REPLY S.p.A.

1. We have audited the financial statements of Reply S.p.A. as of and for the year ended December 31, 2008, which comprise the income statement, the balance sheet, statement of changes in equity and cash flow statement and the related explanatory notes. These financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005 are the responsibility of the Directors of Reply S.p.A. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, the balances of which are presented for comparative purposes, reference should be made to our auditors' report issued on May 26, 2008.

3. In our opinion, the financial statements present fairly the financial position of Reply S.p.A. as of December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n. 38/2005.

4. The Directors of Reply S.p.A. are responsible for the preparation of the report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by art. 156, paragraph 4-bis, letter d), of the Legislative Decree n. 58/98. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession and recommended by CONSOB. In our opinion the report on operations is consistent with the financial statements of Reply S.p.A as of December 31, 2008.

DELOITTE & TOUCHE S.p.A.

Signed by
Luca Scagliola
Partner

Turin, Italy
April 9, 2009

_**Corporate** Governance

Pursuant to Articles 124 bis Legislative decree no. 58/1998, 89 bis
Regolamento Emittenti Consob and IA.2.6
of Istruzioni al Regolamento di Borsa.

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Introduction

This Report reflects and illustrates the governing structure that the Company has adopted in accordance with the indications set forth in the new March 2006 edition of the Corporate Governance Code.
The Board of Directors is always open to any new orientations that will be brought to the *"Corporate Governance Code"* and their acknowledgments in the Company's Corporate Governance system, only and compatibly with the company's reality , if the recommendations formulated will allow to further strengthen the Company's credibility.

1. Corporate governance system

The *Corporate governance system* of the company, which is a set of laws and bylaws adopted in order to ensure the efficient and transparent functionality of the corporate bodies and the control system inspired on the principles and criteria recommended by the Code.
The Company is incorporated under Italian law and listed on the stock exchange on the MTA market, STAR segment.
The *governance* structure of Reply S.p.A. – based on the traditional model, is made up of three bodies: The General Shareholders' Meeting, Board of Directors (that carries out its function through executive directors and is advised by an Internal Control Committee and a Remuneration Committee), Board of Statutory Auditors and Independent Auditors.
The General Shareholders' Meeting is the corporate body which expresses the wishes of the shareholders through its resolutions. Resolutions passed in compliance with the law and the bylaws are binding on all shareholders independently whether they agree or disagree with them unless the latter draw out, in the cases allowed. The Shareholder's are convened according to the rules set out for listed companies.
The Board of Directors has the function to define and approve the company's strategic, operating and financial plans in addition to the corporate structure it heads. The Board invests the broadest possible powers of management of the company in order to perform all the actions held to be most appropriate in the pursuit of the company objects, except those reserved for the Shareholders' meeting.
The Statutory Auditors supervises compliance with the law and bylaws and exercises management control and has to verify the following: The Board of Statutory Auditors must ensure that the laws and bylaws are properly applied and carries out controls the following:

- Respect of good management principles;
- The adequate structure of the company;
- The ways in which the Code is actually executed;
- The adequacy of information disclosed by the subsidiaries in relation to mandatory information to the market and concerning privileged information.

The Statutory auditors are not responsible for controlling the accounting records which is a function preformed by an external company registered in the special Consob register as requested by law and chosen by the Shareholders' meeting. The Audit Firm checks during the year that the company's accounts are properly kept and the management events are correctly reflected in the accounting records. The auditors also verify that the corporate and consolidated financial statements correspond with the outcomes of the accounting records and the verifications performed and that the accounting documents themselves are in compliance with the applicable regulations. The Independent Auditors can also perform other services resolved by the Board of Directors, when non incompatible with the audit engagement.

The *governance* also includes the Internal Control System and the Organisational Model pursuant to Article 6 of the Law decree 231/2001 and the structure of the powers and proxies, as presented herein.
In the following Report the corporate governance code examined by the Board of Directors on March 13, 2009 is included and it should be noted that some recommendations have not been adopted by the Board of Directors and shall be further explained herein.
This Report has also been integrated with the information requested by laws and regulations of the *governance*.
The Report on Corporate Governance, which completes the explanatory notes and the code can be consulted on the company's website (www.reply.eu – Investors – Corporate Governance).

2. Ownership information (Art. 123-bis of Legislative Decree 58/1998)

A Share capital structure

The share capital structure of Reply S.p.A. is summarised below.
The share capital fully paid and subscribed at March 13, 2009, amounts to 4,795,885.64 euros, divided in 9,222,857 ordinary shares having nominal value of 0.52 euros.

The share capital can further be increased for a maximum of 87,568.00 euros following the exercise of stock options, with underlying Reply ordinary shares undersigned at established prices and existing at December 31, 2008 and not yet exercised, as specified in the Report on Operations at paragraph "Stock options" and summarized at the following table:

Plan	Resolution of the General Shareholders' meeting	Board's resolution date	No. beneficiaries	Exercise price	Vesting period	Number of options
2004	11/06/2004	11/11/2005	1	17.569	11/11/2008 – 11/11/2013	2,400
2004	11/06/2004	12/05/2006	10	21.339	12/05/2009 – 12/05/2014	150,000
2006	15/06/2006	08/08/2006	1	18.662	08/08/2009 – 08/08/2014	10,000
2006	15/06/2006	27/09/2007	1	24.096	27/09/2010 - 27/09/2015	6,000

B Restrictions on the transfer of securities

The bylaws do not foresee restrictions on the transfer of securities.

C. Significant shareholdings

According to the Shareholders' Ledger, to the notifications received in compliance to the laws and according to other information available as at March 13, 2009, the shareholders that directly or indirectly hold stakes greater than 2% of the share capital having the right to vote are the following:

Shareholder	Direct Shareholder	Ownership % over share capital	Ownership % over voting capital
Rizzante Mario	Alika S.r.l.	53.0524	53.0524
	Reply S.p.A.	2.1880	-
	Rizzante Mario	0.1095	0.1095
	Total	**55.3499**	**53.1619**
Kairos Partners Sgr S.p.A.	Kairos Partners Sgr S.p.A.	4.4395	4.4395
Axa Rosemberg Group LLC	Axa Rosemberg Group LLC	2.2272	2.2272
Lodigiani Riccardo	Lodigiani Riccardo	2.0893	2.0893
Highclere International Investors Limited	Highclere International Small Companies Fund	2.0523	2.0523

D. Securities which grant special rights

No securities have been issued which grant special rights of control.

E. Employee shareholdings: mechanism for exercising voting rights

In the case of employee shareholdings, a system by which the voting right can be exercised directly by someone else does not exist.

F. Restrictions on voting rights

The company bylaws have not established restrictions on voting rights.

G. Agreements between shareholders

At present the Company has the following lock-up agreements in compliance to Art. 122 of Legislative Decree no. 58/1998:

1. Agreement dated April 11, 2006 between Mr. Manfred Wassel and Mr. Jochen Meier and the Company by which jointly or individually, as at present are obliged, unless otherwise required by the law or other regulations, cannot directly or indirectly, or publicly announce the intention of, directly or indirectly executing the following actions: offer, sell and in general not to dispose by any means the shares owned and the rights attributed to the same, with the exceptions under Art. 123 TUF as outlined below:
   - after 36 months following April 21, 2006, the lock-up period shall expire in relation to 83.029 (eighty three thousand twenty-nine) shares, equivalent to 0.90% of the share capital held by Manfred Wassel;
   - after 36 months following April 21, 2006, the lock-up period shall expire in relation to 20.238 (twenty thousand two hundred thirty eight) shares, equivalent to 0.22% of the share capital;

2. Agreement dated June 15, 2006 between Mr. Giacomo Segalli and the Company by which Mr. Segalli, holder of 4,263 (four thousand two hundred sixty three) shares equivalent to approximately 0.05% of the share capital cannot directly or indirectly, or publicly announce the intention of, directly or indirectly executing the following actions: offer, sell and in general not to dispose by any means the shares owned and the rights attributed to the same, with the exceptions under Art. 123 TUF as outlined below:
   - after 36 months following June 15, 2006, the lock-up period shall expire in relation to 4,263 (four thousand two hundred sixty two) shares, equivalent to approximately 0.05% (zero point zero five percent) of the share capital;

3. Agreement dated June 15, 2006 between Mr. Luca Miccoli, Mr. Michele Angelo Umberto Riva and Mr. Claudio Papetti and the Company by which, as at present, cannot directly or indirectly, or publicly announce the intention of, directly or indirectly executing the following actions: offer, sell and in general not to dispose by any means the shares owned and the rights attributed to the same, with the exceptions under Art. 123 TUF as outlined below:

   Mr. Luca Miccoli:
   - after 36 months following June 15, 2006, the lock-up period shall expire in relation to 15,121 (fifteen thousand one hundred twenty one) shares, equivalent to approximately 0.17% (zero point seventeen percent) of the share capital;

   Mr. Michele Angelo Umberto Riva:
   - after 36 months following June 15, 2006, the lock-up period shall expire in relation to 7,560 (seven thousand five hundred sixty) shares, equivalent to approximately 0.08% (zero point zero eight percent) of the share capital

   Mr. Claudio Papetti:
   - after 26 months following June 15, 2006, the lock-up period shall expire in relation to 5,154 (five thousand one hundred fifty four) shares, equivalent to approximately 0.06% (zero point zero six percent) of the share capital;

4. Agreement dated November 9, 2004, tacitly renewed for a further three year period and until November 9, 2010, by which Alika S.r.l., with headquarters in Torino Corso Francia no. 110, share capital of 90.600,00 euros entirely called up, fiscal code and Torino company registration no. 07011510018, holder of 46.206,00 euros equivalent to 51% of the share capital and more specifically:
   - Mr. Mario Rizzante holder of 5,705.00 euros, equivalent to approximately 6.3% (six point three percent) of the share capital;
   - Mrs. Maria Graziella Paglia holder of 17,100.00 euros equivalent to approximately 18.87% (eighteen point eighty-seven percent) of the share capital;
   - Mrs. Tatiana Rizzante holder of 11,700.00 euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;
   - Mr. Filippo Rizzante holder of 11,700.00 euros equivalent to approximately 12.91% (twelve point ninety-one percent) of the share capital;

   have signed a lock up agreement according to article 122 of TUF for a three year period and renewable for equal periods as long as one of the shareholders does not communicate the cancellation with a six months written notice.

5. Agreement dated December 12, 2008 by which:

- Gareth Arwel Lloyd holder of no. 57,266 (fifty seven thousand two hundred sixty-six) shares equivalent to approximately 0.621% (zero point six hundred twenty one percent) of the share capital;
- Stuart Richard Lowe holder of no. 57,266 (fifty seven thousand two hundred sixty-six) shares equivalent to approximately 0.621% (zero point six hundred twenty one percent) of the share capital;
- Colin Banfield holder of no. 1,295 (one thousand two hundred ninety-five) shares equivalent to approximately 0.014% (zero point zero fourteen percent) of the share capital;
- David Madigan holder of no. 2,815 (two thousand eight hundred fifteen) shares equivalent to approximately 0.031% (zero point zero thirty-one percent) of the share capital;
- Suzanne Lord holder of no. 2,285 (two thousand two hundred eighty-five) shares equivalent to approximately 0.025% (zero point zero twenty-five percent) of the share capital;
- John Sidhu holder of no. 1,627 (one thousand six hundred twenty-seven) shares equivalent to approximately 0.018% (zero point zero eighteen percent) of the share capital;
- Julian Douch holder of no. 1,328 (one thousand three hundred twenty-eight) shares equivalent to approximately 0.014% (zero point zero fourteen percent) of the share capital;
- Karim Ally holder of no. 1,649 (one thousand six hundred forty-nine) shares equivalent to approximately 0.018% (zero point zero eighteen percent) of the share capital;
- Rob Levene holder of no. 1,561 (one thousand five hundred sixty-one) shares equivalent to approximately 0.017% (zero point zero seventeen percent) of the share capital;
- Sue Cockeram holder of no. 1,918 (one thousand nine hundred eighteen) shares equivalent to approximately 0.021% (zero point zero twenty-one percent) of the share capital;
- Jason Hill holder of no. 4,134 (four thousand one hundred thirty-four) shares equivalent to approximately 0.045% (zero point zero forty-five percent) of the share capital;
- Lawrence Grech holder of no. 598 (five hundred ninety-eight) shares equivalent to approximately 0.006% (zero point zero zero six percent) of the share capital;
- Simon Gordon holder of no. 897 (eight hundred ninety-seven) shares equivalent to approximately 0.010% (zero point zero ten percent) of the share capital;
- Dave O'Hara holder of no. 598 (five hundred ninety-eight) shares equivalent to approximately 0.006% (zero point zero zero six percent) of the share capital;

are obliged for a three year period commencing July 15, 2008 not to directly or indirectly offer, sell and in general not to dispose by any means the shares owned totalling no. 135,237 shares equivalent to 1.466% (one point four hundred sixty-six percent) of the share capital.

H. Appointment and substitution of directors and amendments to the bylaws

The nomination and substitution of directors is disciplined by Art. 16 (Nomination of Directors) of the bylaws, and is available on the Company's website (www.reply.eu under Investors – Corporate Governance).
Article 16 of the Company's Articles of Incorporation has been revised under the General Meeting's resolution of June 14, 2007, in order to comply to the changes made to the laws and regulations recently introduced, even in relation to the "voting list" mechanisms, under Principle 6.P.1 of the Code that regulates that the nomination of the directors must follow transparent procedures that guarantee the timeliness of adequate information concerning the personal and professional characteristics of the candidate.

Art. 16 of the Corporate Governance, regulates that:

- The list of candidates shall be deposited at the company's registered office fifteen days prior to the date of the first call for the Annual general Shareholders' meeting;
- Only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or the minimum minority voting share required in accordance to binding laws or regulations;
- The lists that do not reach the percentage of votes equivalent to at least half of those required for the presentation of the same, cannot be considered when apportioning the directors to be elected
- The voting mechanism appoints the directors from the list having obtained the majority votes by the shareholders and following the order on the list, five sevenths of the Directors will be selected from the eligible candidates, while the remaining Directors will be selected from the other lists, guaranteeing in any case, that at least one component has been voted by the minority list that has received the most number of votes and that is not connected in any way, not even indirectly, to the shareholders that presented or voted the list that reached the greatest number of votes.

The Articles of Incorporation can be modified by resolution passed by the extraordinary shareholders' meeting that:

- as set out by Art. 13 (Quorum of the Shareholders' meeting), the Shareholders' meeting is validly constituted at first call, with the attendance of shareholders that represent more than half of the share capital, at second call, with the attendance of more than one third of the share capital, and at third call, with the attendance of more than one fifth of the share capital;
- as set out by Art. 14 (Resolution Quorum of the Shareholders' meeting), requests at least two thirds of the voting shares is represented in the meeting.

I. Mandates to increase the share capital and authority to buy new shares

The General Shareholders' meeting authorised the Board of Directors' to increase share capital pursuant to Article 2443 of the civil code. The information regarding the share capital increase is detailed in the table below:

			Amount authorised		Proxy executed	
Shareholders' Resolution	Proxy	Expiry date	Euros	Shares	Euros	Shares
14/06/2005	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, to be executed separately against payment released through payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	14/06/2010	442,000.00	850,000	347,280.44	667,847
15/06/2006	The Board of Directors has the proxy to increase the share capital with the exclusion of pre-emptive rights, to be executed separately against payment released through payment in shares of enterprises having the same business scope or instrumental to the development of the Company's activities.	15/06/2011	312,000.00	600,000	-	-
14/06/2007	The Board of Directors has the proxy to increase the share capital in accordance to Art. 2429 of the Italian Civil Code and to assign shares to employees, directors of the Parent Company and subsidiaries having a key role in achieving the Group's objectives.	14/06/2012	104,000.00	200,000	-	-

On June 14, 2007 the Company approved a share based incentive plan in favour of directors, employees and managers of the Company and its subsidiaries that cover a strategic role in achieving the overall objectives of the group; the plan is to be executed through Stock Granting represented by treasury shares of the company or newly issued shares pursuant to article 2349 of the Italian Civil Code. The Shareholders' have attributed proxy to the Board of Directors to resolve, even more than once and for a five year period, a free capital increase, pursuant to article 2349 of the Italian Civil Code for a maximum amount of 104,000 euros corresponding to 200,000 ordinary shares. At present, the share based incentive plan of Stock Granting has not been activated.

The Shareholder's, following resolution passed on June 12, 2008, have authorised the acquisition of treasury shares in accordance to Art. 2357 of the Italian Civil Code as follows:

number of shares: considering the treasury shares already held by the Company at the said date, a maximum number of 738,493 ordinary shares at 0.52 euros, corresponding to 8.0072 % of the existing share capital, in the limits of 30,000,000 euros;

duration: for a period of 18 months, that is from June 12, 2008 to December 12, 2009, in substitution of the previous authorisation resolved by the shareholders' meeting of June 14, 2007;

minimum purchase price: nominal value of the ordinary shares (presently 0.52 euros);

maximum purchase price not greater than the official trade price on the MTA Market the day prior to the purchase applying a spread of 10% and a disbursement of maximum 30,000,000 euros;

authorisation to sell: on the market or in blocks, through a public bid, sale, transfer, or trade of shares as the acquisition and or negotiation with strategic *partners* against payment in kind pursuant to the regulations of the Stock Granting plans.

At the end of the financial year, the company held no. 186,499 treasury shares.

L. **Change of control clause**

Should Reply S.p.A. undergo a change of control, with relation to contractual agreements the following is noted:

Financing contracts

Reply S.p.A., on December 30, 2005 undersigned a Loan Agreement with a pool of banks, San Paolo Imi (now Intesa San Paolo S.p.A.) as pool leader for a total of 66,000,000 euros, with the major scope of financing the Group for acquisitions on the Italian or European market.
This contract allows the financing banks the faculty to call off the contract if there is a change of control directly or indirectly of Reply S.p.A., in accordance to Art. 2359 of the Italian Civil Code.

Business agreements and contracts

Within some business agreements and contracts undersigned by Reply S.p.A. it is mandatory to notify the change of control, the Company has also undersigned contracts in which the clause "Change of control" implies immediate cancellation of the contract.
Such agreements, which are not very significant, compared to the entire Group activities, are subject to confidentiality clauses.

M. **Directors' indemnity in the event of RESIGNATION, termination or cessation of employment following a takeover bid**

There are no agreements in force between the company and the Board of directors with regards to Directors' indemnities in the event of resignation, termination or cessation employment following a takeover bid.

3. Management and coordination activities

Reply S.p.A. does not perform management and coordination activities pursuant to article 2497 and subsequent of the civil code.

The Parent company does not exercise control and coordination activities over Reply S.p.A. inasmuch as it qualifies as a holding, lacking an autonomous organisational structure and consequently does not carry out management activities for Reply S.p.A.
All the Italian subsidiaries held, directly or indirectly, by Reply S.p.A. have accurately published the control and coordination to which they are subject by Reply S.p.A. in accordance to Art. 2497 – bis of the Italian Civil Code.

4. Board of directors

A. **Members**

The Company's Board of Directors is made up of a variable number of components from a minimum of 3 to a maximum of 11 members. The number of components is resolved by the Annual General Shareholders' Meeting.

As required by the Corporate Governance Code the Board of Directors is made up of executive and non executive directors, the number, competence, authority and time availability of non-executive directors shall be such as to ensure that their judgment may have a significant impact on the taking of board's decisions.

At present the Board of Directors is made up of eight (8) Directors of which five (5) executive:

_ Dott. Mario Rizzante	Chairman and Managing Director
_ Dott. Sergio Ingegnatti	Managing Director
_ Ing. Tatiana Rizzante	Managing Director
_ Dott. Oscar Pepino	Executive Director
_ Ing. Claudio Bombonato	Executive Director

and three (3) non Executive and Independent Directors:

- Dott. Fausto Forti (*Lead Independent Director)*
- Prof. Marco Mezzalama
- Prof. Carlo Alberto Carnevale Maffè

The non Executive and Independent Directors bring about their specific competencies in the meetings contributing in taking decisions of company interest.

The above mentioned directors have been appointed under shareholders' resolution of June 15, 2006, with the exception of Ing. Claudio Bombonato, appointed under shareholders' resolution of December 13, 2007. The mandate of the above directors upon approval of the year end December 31, 2008 financial statements.

The nomination of the next Board of Directors will take place according to the bylaws and are detailed in the paragraph *"appointment and substitution of directors and amendments to the bylaws"*

The Directors operate and take decisions in an informed and unconditioned matter, pursuing the primary objective of creating value for the investor. They hold office with the awareness of being able to dedicate the necessary time in order to carry out their actions diligently.

The Chairman coordinates the activities and conducts the Board of Directors Meetings and takes the necessary actions so as to inform the members well in advance on significant points and useful items in order to participate in a profitable manner.

The Chairman furthermore, by means of the operational members of the company, makes sure that the Directors participate in initiatives aimed at increasing their knowledge of the company reality and its evolution and that they are informed about the major new legislation and regulations that concern the Company and its governing bodies.

Following is a brief description of personal and professional characteristics of the members of the Board of Directors of the company.

Mario Rizzante (Chairman, Chief Executive Officer and founder of Reply S.p.A.)

Mr. Rizzante received a graduate in Science of Informatics at the University of Turin. In the 70's, within the Fiat Group, Mr. Rizzante worked on several projects for manufacturing automation. In 1981 Mr. Rizzante left Fiat and founded Mesarteam S.p.A., a System Integration company that in a few years became one of the leading Italian companies in the ICT sector. In 1990 Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais and Mr. Rizzante contributed as Chairman and strengthened relations with important international clients. In 1994 Mr. Rizzante joined Digital (now HP), as Southern Europe Territory Manager of System Integration and Consulting. In June 1996, together with other partners Mr. Rizzante decided to undertake a new entrepreneur endeavor: constructing a system integration and consulting company specialized in new internet technologies. Reply comes to life. Within only four years since its constitution, in December 2000, Mr. Rizzante leads Reply to the Stock market, listing it on the market in Milan.

Sergio Ingegnatti (Chief Executive Officer and founder of Reply S.p.A.)

Graduate in Science Administration at the Business Administration School of Turin. In the 70's Mr. Ingegnatti within the Fiat Group worked in the informatics area, In 1981, Mr. Ingegnatti left the Fiat Group and founded Mesarteam S.p.A., a System Integration company covering the role of Chief Executive Officer and Chief Finance Officer. In 1990 Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais and Mr. Ingegnatti continued his role as Chief Finance Officer for Italy. After a brief period in 1995 as finance consultant, in June 1996 he participates in the foundation of Reply in capacity of Chief Executive Officer, and which he currently holds.

Tatiana Rizzante (Chief Executive Officer of Reply S.p.A.)

Tatiana Rizzante received a Bachelor degree in Informatics Engineering at the Polytechnics of Turin. Immediately after having graduated, in 1995 Mrs. Rizzante begins working in the field of experimental and research activities on the Internet in collaboration with the Polytechnics of Turin and Cselt. In 1996 within Technology Reply S.r.l., she participates actively in projects involving the realization of Intranet websites, network computing and information retrieving. She continues her career within the Reply Group covering the role of Technical Director in Sytel Reply S.r.l. with the task of developing a competence center related to Internet services for Telecommunication operators. In 2002 Mrs. Rizzante is appointed Senior Partner of Reply with the mission of pursuing the business line Technological Architectures and Portals, along with marketing, communication and partnership activities. In 2003 Mrs. Rizzante was appointed Director of the Board of Directors of Reply and carries out activities of Sales & Marketing in Italy for the entire Group. In 2006 Mrs. Rizzante is appointed Chief Executive Officer of Reply and in the same year becomes member of the Supervisory Board of Syskoplan Ag (Germany).

Oscar Pepino (Executive Director and founder of Reply S.p.A.)

Mr. Pepino received a graduate degree in Science of Informatics at the University of Turin in 1977, in 1981 he founded Mesarteam S.p.A., a System Integration company covering the role of in charge of the headquarters in Milan. After Mesarteam was sold to Sligos, company belonging to the Group Crédit Lyonnais in 1990, Mr. Pepino joins Digital (now HP), covering the role of informatics consultant. In June 1996 he participates in the foundation of Reply and covers the role of Chief Executive Officer with the task of Technical and Quality Director of the Reply Group. Mr. Pepino within the Reply Group is currently is in charge of the Operations Office which heads: the informatics system, quality, the operational quarters, PM Academy and Cmmi.

Claudio Bombonato (Executive Director of Reply S.p.A.)

Mr. Claudio Bombonato graduated in Aeronautics Engineering from the Polytechnics of Turin. He holds Doctorate in Philosophy in Aerospace Engineering from the Turin University, and also Masters degree in Business Administration from *Università Commerciale Luigi Bocconi*.

Since 1981 he has held various positions at McKinsey, including Director and he was responsible for Commercial Banking. In 2006 he left Mckinsey and was appointed Senior Advisor for Europe at Morgan Stanley and he is Member of the Board of Directors at SI Holding and FONSPA.

Fausto Forti (Independent Director and Lead Independent Director of Reply S.p.A.

Mr. Forti has a graduate degree in mathematics. From 1974 to 1983 he held several positions in Inveco S.p.A. (Fiat Group) among which: IS and in charge of Spare parts for the Brazilian affiliate; from 1983 to 1994 in Fiat S.p.A. held the position of Director of Logistics. From 1994 to 2004 joins the TNT Group – Logistics division – where he covers the role of Chief Executive Officer of the Italian Business Unit and South America. In 2005 he joins DHL Express Mediterranean (Italy, Greece, Cyprus, Malta and Israel), Deutsche Post Group World Net, and is appointed Chairman and Chief Executive Officer, position that he currently holds. From 2000 to 2006 he was Chairman of Assologistica (*Associazione Italiana delle Aziende di Logistica*) and Vice-Chairman of Confetra (*Confederazione italiana delle Associazioni di Trasporto e Logistica*).

Marco Mezzalama (Independent Director of Reply S.p.A.)

Mr. Mezzalama received a graduate degree in Science of Informatics at the Polytechnics of Turin in 1972 where he is currently Professor of System Elaborations. Since 2005 he holds office of Vice-Chancellor at the Polytechnics of Turin for the informatics systems. From 2001 to 2005 he was substitute of the Chancellor. From 1993 to 2001 Mr. Mezzalama held office as Vice Chancellor for inforamtics systems and member of the Turin Science Academy. As a representative of the Polytechnics he also covers other roles in research and/or ICT institutions.

Carlo Alberto Carnevale Maffè (Independent Director of Reply S.p.A.)

Mr. Maffè is a professor of Business Strategy at the Strategy Institute and the School of Business Administration at the Bocconi University. He is a member of the Steering Committee “E-business Policies” of the European Commission. He collaborates on a regular basis with newspapers and national and international television. He is independent director of listed companies and strategic advisor for important international companies.

The table below discloses the main information related to the Board of Directors in compliance to Article 144- decies according to *Regolamento Emittenti* Consob.

		Board of Directors											
Name	**Office**	**In office since**	**L.**	**E.**	**N.E.**	**I.**	**I.TUF**	**% Attendance in BoD**	**Other offices**	**Internal Control Committee**		**Remuneration Committee**	
										Attendance	**%**	**Attendance**	**%**
Mario Rizzante	Chairman and Chief executive officer	15/06/06	M	X	-	-	-	100%	N/A	-	-	-	-
Sergio Ingegnatti	Chief executive officer	15/06/06	M	X	-	-	-	100%	N/A	-	-	-	-
Oscar Pepino	Executive Director	15/06/06	M	X	-	-	-	100%	N/A	-	-	-	-
Tatiana Rizzante	Chief executive officer	15/06/06	M	X	-	-	-	100%	N/A	-	-	-	-
Claudio Bombonato	Executive Director	13/12/07	M	X	-	-	-	100%	2	-	-	-	-
Fausto Forti	Lead Independent Director	15/06/06	M		X	X	X	73%	1	X	100%	X	100%
Marco Mezzalama	Non-Executive independent Director	15/06/06	M		X	X	X	82%	N/A	X	100%	X	100%
Carlo Alberto Carnevale Maffé	Non-Executive independent Director	15/06/06	M		X	X	X	82%	1	X	100%	X	100%
Number of meetings held in 2008		Board of Directors meetings.: 11								Internal Control Committee meetings: 2		Remuneration Committee meetings: 2	

Legend:
L: list
M/m: M/majority list m/minority list
E: Executive
N.E.: non executive
I: independent;
I TUF: independent pursuant to Art. 148 TUF

The Board of Directors has verified the other offices held by Directors and Statutory auditors in other listed companies, finance, bank, and insurance companies or big enterprises.
The following arose:

- Mr. Claudio Bombonato is Chairman of the Board of Directors' of Fonspa S.p.A. and a member of the Board of SI Holding S.p.A,
- Prof. Marco Mezzalama is member of the Board of Directors of CSI Piemonte, of San Paolo. and of Fondazione Torinowireless.

- Prof. Carlo Alberto Carnevale Maffè is a member of the Board of Directors' of Poligrafica San Faustino S.p.A.,
- Mr. Fausto Forti is Chairman and is member of the Board of Directors of DHL Express Italy S.r.l..

Compared to the recommendations set out by the Code, the Board of Directors preferred not to express an opinion in relation to the maximum number of offices compatible with the execution of the directors' role, as it believes that such assessment firstly should be made by the shareholders when designating the directors and subsequently by the individual director when accepting the office.
The criteria in evaluating the requisites of the Board of Directors has not been integrated or modified.
Compared to the recommendations set out by the Code, the Board of Directors preferred not to express an opinion in relation to the maximum number of offices compatible with the execution of the directors' role, as it believes that such assessment firstly should be made by the shareholders when designating the directors and subsequently by the individual director when accepting the office.

B. **Role of the board of directors**

The Board of Directors is the statutory managing body of the company invested encompassing all powers with regards to the ordinary and extraordinary administration of the company.
The Board of Directors primarily carry out a management and control function with relation to the general activities of the company and the subsidiary companies.
More specifically the Board of Directors:

a) examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it heads, if any;
b) evaluate the adequacy of the organizational, administrative and accounting structure of the issuer and its subsidiaries having strategic relevance, as established by the managing directors, in particular with regard to the internal control system and the management of conflicts of interest;
c) delegate powers to the managing directors and to the executive committee and revoke them; it shall specify the limits on these delegated powers, the manner of exercising them and the frequency, as a rule no less than once every three months, with which the bodies in question must report to the board on the activities performed in the exercise of the powers delegated to them;
d) determine, after examining the proposal of the special committee and consulting the board of auditors, the remuneration of the managing directors and of those directors who are appointed to particular positions within the company and, if the shareholders' meeting has not already done so, determine the total amount to which the members of the board and of the executive committee are entitled;
e) evaluate the general performance of the company, paying particular attention to the information received from the executive committee (when established) and the managing directors, and periodically comparing the results achieved with those planned;
f) examine and approve in advance transactions carried out by the issuer and its subsidiaries having a significant impact on the company's profitability, assets and liabilities or financial position, paying particular attention to transactions in which one or more Directors hold an interest on their own behalf or on behalf of third parties and, in more general terms, to transactions involving related parties; to this end, the board shall establish general criteria for identifying the transactions which might have a significant impact;
g) evaluate, at least once a year, the size, composition and performance of the Board of Directors and its committees, eventually characterizing new professional figures whose presence on the board would be considered appropriate;

h) provide information, in the report on corporate governance on the number of meetings of the board and of the executive committee, if any, held during the fiscal year plus the related percentage of attendance of each director.

In accordance to the *Corporate Governance Code* (Art. 1.C.1, letter f), the company has granted to the Board of Directors the examination and the approval of the operations deemed "significant" and some specific operations with related parties, fully detailed in this Report at the section dedicated to the topic.
The Board of directors meet on a regular basis, at least every three months or whenever deemed necessary.

The Directors report to the Statutory auditors on a quarterly basis with regards to the activities carried out during the year, to significant operations carried out by the company or its subsidiaries and with regards to operations that could be of potential conflict of interest.
During 2008 the Board of Directors met 11 (eleven) times and the average duration was approximately one hour.

The Board of Directors or scheduled to meet at least 6 (six) times in 2009.
The Board of Directors have held two (2) meetings at the present date of the Report.
The participating members of the Board are also allowed to intervene through audiovisual connection.
In order to facilitate the participation of a greater number of Managers and Statutory auditors, a draft of the annual meetings is scheduled.
Prior to the meetings, the Directors and Statutory auditors are provided with the Agenda of the meeting.

C. Chairman of the Board of Directors, Chief Executive Officers and Executive Directors

The Board of Directors currently holding office is composed of two Managing Directors, an Executive Director and has empowered the Chairman with all operational delegations.
Mr. Mario Rizzante, Chairman of the Board of Directors, has the powers of the ordinary and extraordinary administration of the company with the exception of those specifically empowered by law to the Board of Directors and excluding the operations empowered to the Board of Directors, as set out by the *Regulation on Significant Operations and with related parties*.

Mr. Sergio Ingegnatti and Mrs. Tatiana Rizzante, Chief Executive Officers, have the following disjoint main powers:

- ordinary administration of the company, including the activities related to purchase, sales, trade-in of products, goods and automobiles, real estate and any other asset related to the company's activities;
- undersign rent and lease contracts for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions;
- carry out any type of operation with the offices of the public debt, banking institutions, post offices, administration and finance authorities, customs agents and transport institutions in general, governmental authorities whether federal, provincial or local, with ministries and in general with any public or private office, including the undersigning of any acts or declarations pursuant to fiscal laws;
- to represent the Company before any judicial authority, before any administration authority of the Italian Republic, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;

- request, accept and use short term or long term lines of credit, with no sum limitation, according to the necessary conditions and terms with any banking or credit institution;
- hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 euros; and can:
  - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - confer or receive the related mandate in the event of a temporary group enterprise participation;
  - undersign the contracts following the assignment of the bid;
  - grant to third parties, to the extent foreseen by the law, the execution of the contracts.

Mr. Oscar Pepino, Executive Director, has the following disjoint main powers:

- sign rent and lease contracts for no longer than a nine year period and establishing the relative terms and conditions, and arrange the necessary services such as: telephone lines, telex, water, energy, gas, garbage collection by signing the related contracts with the public administration or private institutions. To accept, negotiate and impose in any of the said contracts, deals, conditions, clauses, prices, fees, commissions, executing the related payments and obtaining receipt of payment; resolve, cancel or draw back from any of the said contracts;
- participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 euros; and can:
  - draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
  - negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 euros for each operation from an asset side and 500,000.00 euros for operations from a liability side;
  - to represent the Company before any judicial authority, before any administration authority of the Italian Republic, even with reference to litigations even of fiscal nature of whatever degree, with reference to appeals, cassation, protests, undersign conservative and executive acts, and retract from them as necessary, intervene in bankruptcy procedures, take part in creditor meetings, insinuate receivables from the principal company, declare the truth, discuss, accept, sign and refuse agreements, grant to the bankrupt the benefits foreseen by law, allow penalties to payments, assist in inventories, appoint lawyers, carry out transactions, appoint arbiters and sign compromises;
  - hire, appoint or suspend employees, undersign the related labour contracts, modify or retract from the same contracts and compromise the related controversies, representing the Company before the labour unions; nominate and engage external consultants and collaborators, agreeing the related terms of the contracts, such as the fee; resolve and revoke the above contracts;

The main proxies empowered to the Executive Director, Ing. Claudio Bombonato, with the scope of supporting the Company in the development of activities, are the following:

- individual powers:

a) represent the Company Reply S.p.A. with external contacts and business negotiations and authorise the issuing of the related business offer with a limit of 5,000,000 euros per transaction;

b) negotiate and undersign contracts for goods and services, and execute any subsequent act useful for the proper outcome of the contracts for a value not greater than 5,000,000.00 euros for each operation;

c) participate in any public or private biddings – even in temporary groups of similar enterprises or even through the constitution of mixed enterprises with the scope of acquiring public investments with an auction value not greater than 5,000,000.00 euros; and can:

- draw up, undersign and present all the documentation and any necessary deed for the Company to participate in the bid;
- confer or receive the necessary mandate in the case of temporary joint ventures;
- undersign contracts following the awarding of the bid
- allow third parties the execution of the contracts awarded;

d) to carry out in the interest of the Company whatever is necessary or convenient within his powers;

- joint powers, with another director having the necessary powers, the powers outlined at letters a), b) and c) in the case the limits defined above are exceeded.

Mr. Claudio Bombonato in the Board Meeting held on March 13, 2009, in capacity of Executive Director, was assigned new powers related to activities under Network Finance & Security within the Reply Group.

The Chairman, the Chief Executive Officers and the Executive Director, during the Board of Director meetings, and at least on a quarterly basis, report to the Board of Directors and to the Board of Statutory Auditors with regards to the activities carried out during the fiscal year and provide adequate information on atypical, unusual or with related party transactions, that are not subject to the Board of Directors approval.
The Chairman, under the company's Articles of Incorporation, has the power to convene the Board of Directors' meetings.

In preparing the Board of Directors' meetings, the Chairman informs the Directors and Statutory Auditors about the agenda and provides the necessary documentation and information for an effective participation in the Board's work.
The Chairman coordinates the activities of the Board of Directors and coordinates the meetings.
In order to have a better management of the Group activities, the Board of Directors of Reply S.p.A. has the possibility to attribute specific delegation powers to several key managers of the Group Companies that can act in name and on behalf and interest of the Company.
At present, the following persons have proxies related to different levels of responsibilities and operational areas: Daniele Angelucci, Domenico Piantelli, Fernando Masella, Riccardo Lodigiani, Riccardo Iezzi, Luigi Luoni, Salvatore Zangari, Elena Previtera Filippo Rizzante, Francesco Savino, Flavia Rebuffat, Daniela Novelli, Giuseppe Veneziano and Fabio Zappelli; detailed information can be obtained by the competent Register of Companies.

D. Independent directors

As previously stated, in the current Board of Directors there are three directors having that qualify as being independent as specified by law and qualify as independent as per the Code:

- Dott. Fausto Forti (*Lead Independent Director)*
- Prof. Marco Mezzalama
- Prof. Carlo Alberto Carnevale Maffè

The independent directors are integral part of the remuneration Committee and internal control Committee.

The Independent non Executive Directors have the same characteristics as the Independent Directors, in compliance to paragraph 3.C.1. of the 2006 edition of the Corporate Governance Code that provides that a director usually does not appear independent in the following events, to be considered merely as an example and not limited to:

a) if he/she controls, directly or indirectly, the issuer also through subsidiaries, trustees or through a third party, or is able to exercise over the issuer dominant influence, or participates in a shareholders' agreement through which one or more persons may exercise a control or considerable influence over the issuer;

b) if he/she is or has been in the previous three accounting periods a key person of the issuer, of one of its subsidiaries having a significant strategic relevance or of a joint venture of the issuer, or a company that together with others or under special agreements control the issuer or is able to exercise a notable influence;

c) if he/she has, or had in the preceding fiscal year, directly or indirectly (e.g. through subsidiaries or companies of which he/she is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:

- with the issuer, one of its subsidiaries, or any of its significant representatives;
- with a subject who, jointly with others through a shareholders' agreement, controls the issuer, or
- in case of a company or an entity – with the relevant significant representatives; or is, or has been in the preceding three fiscal years, an employee of the abovementioned subjects;

d) if he/she receives, or has received in the preceding three fiscal years, from the issuer or a subsidiary or holding company of the issuer, a significant additional remuneration compared to the "fixed" remuneration of non-executive director of the issuer, including the participation in incentive plans linked to the company's performance, including stock option plans;

e) if he/she was a director of the issuer for more than nine years in the last twelve years

f) if he/she is vested with the executive director office in another company in which an executive director of the issuer holds the office of director;

g) if he/she is shareholder or shareholder or director of a legal entity belonging to the same network as the company appointed for the accounting audit of the issuer;

h) if he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

The Board of Directors, in its entirety, verified, in the meeting held March 13, 2009, and obtained positive results with respect to the independency of the abovementioned Directors, by drawing on information provided by each of the Directors in accordance with the definition provided by the Corporate Governance Code.

The Board of Statutory Auditors verifies the proper application of the assessment criteria and procedures adopted by the board in order to annually assess the independence of its members, communicating the outcome of such controls in its report to the shareholders.

In 2008 it was not necessary for solely the independent Directors to convene in specific meetings as they periodically meet when the Internal Control Committee and Remuneration Committee meetings are convened being an integral part of them.

E. **Lead independent director**

The Code requires that, in case the Chairman of the Board of Directors is the key person in charge of the running of the company, and even when office is held by the person that controls the Company, the Board must designate a *"Lead Independent Director"*, that represents a reference and coordination point of the motions of the non executive Directors and more specifically the independent ones; for this scope, should these circumstances occur, in accordance to article 2.C.3 of the Code, the role of *Lead Independent Director* is head by the non Executive and Independent Director, Dott. Fuasto Forti.

5. Processing of confidential information

The Chief Executive Officer (Mr. Sergio Ingegnatti) and the Investor Relator (Mr. Riccardo Lodigiani) handle the processing of confidential information in order to avoid the spreading of such information through means not in compliance with law, provisions or rulings or by means that are not timely, or that are incomplete or inadequate.
More specifically, all company communication to outsiders and all press releases are accurately drawn up and under the strict supervision of the abovementioned persons that verify the correctness and compliance, in terms of content and means of diffusion, to the existing laws.
Furthermore, all employees, and in particular those having a managing position, have been instructed as to their duties concerning confidentiality of information of a listed company and must verify that the chief executive officer's directions are followed.

Following the so called regulation "market abuse" enacted by Community Law 2004 (Law April 18, 2005 no. 62), which restated article 114 of legislative decree 58/1998 (*TUF*) and endorsed by the corresponding Consob regulation (new articles from 152-bis to 152-octies introduced in Title VII of Part III of the regulation of listed companies no. 11971/99, endorsed by Consob resolution no. 15232 of November 29, 2005, in force since April 1, 2006), a law was passed concerning the obligation to notify the public about any transactions carried out by "important persons" and people strictly associated to them in relation to financial instruments of the company.
Consequently, the Internal Conduct Code on Internal Dealing already adopted by Reply S.p.A. since January 2003, was eliminated as of April 1, 2006 date in which the new Consob Regulation no.11971/99 was implemented.
Consequently, the previously in force Internal Dealing included in the Market Regulation organised and managed by Borsa Italiana and related Instructions, applied by Reply since January 1, 2003 through the adoption of a specific Internal Dealing Code, has been abolished since the new regulations set out by Consob came into force, that is since April 1, 2006.

In execution of the new regulation of April 1, 2006, a new Conduct Code was implemented aimed at disciplining the flow of information from "Important persons" and "Parties connected to them" with respect to the Company and the corresponding obligations and informative and communication means with respect to Consob and to the market related to operations carried out by these parties.
The new Corporate Governance Code was enacted starting April 1, 2006 following the Board of Directors' resolution of March 31, 2006.
More specifically, the new Corporate Governance Code, with reference to Internal Dealing concerning operations on financial derivative instruments issued by Reply S.p.A. executed by the so called "key persons", disciplines the information to provide the Company, Consob and the market when purchase, sales, undersigning and negotiating of shares or financial derivative instruments connected to the shares, are executed for personal reasons by "Key Persons", that is those being close to the Company that can legitimately negotiate his shares having access to information concerning the parent Company's or its subsidiaries financial-economic trends.

The new code defines the conduct in terms of "internal dealing" and the ways of applying the same. The code disciplines more specifically, the identification of the so called "key" parties, the types of operations subject to mandatory communication, identification of the party in charge of receiving such information and the notification to Consob and to the market, timing and the means of communication that must be carried out by the so called "Key persons".
The complete version of the Corporate Governance Code is available on the Company's website (www.reply.eu - Investors - Corporate Governance).

6. Committees within the board of directors

The Board of Directors set up consulting committees within the Board, The Internal Control Committee and the Remuneration Committee.

The Board of Directors, as allowed by the Code, have not deemed necessary to constitute within its members a director nomination Committee. More specifically, the definition of the professional characteristics of the candidates and the selection of the candidates is carried out through sharing of the shareholders knowledge of the moral requisites and professional competencies of the persons involved.

7. Remuneration committee

The Board of Directors has internally constituted a Remuneration Committee composed by Prof. Marco Mezzalama and Prof. Carlo Alberto Carnevale Maffè, non Executive and Independent Directors and by Mr. Fausto Forti, *Lead Independent Director*.
The Remuneration Committee has the duty to submit to the Board of Directors proposals on the remuneration of the Chairman and Chief Executive Officers, whereas the latter propose the adoption of general remuneration criteria of the company's directors.
The Committee meets upon request of one of the members, before the Board meetings that resolve the Chief Executive Officers' remuneration, the assignment of stock options or with reference to other forms of remuneration connected to results, or when deemed necessary.
Minutes of the meeting are drawn up and include the proposals made by the Committee.
The Remunerations Committee met two (2) times during 2008 with the presence of all members.
At present, the Committee does not include external consultants.
In accordance to Art. 7.C.4 of the Corporate Governance Code, no director shall participate in meetings of the Remuneration Committee in which proposals are submitted to the Board of directors relating to his/her remuneration.

8. Remuneration of directors

Remuneration of Directors not invested with operational proxies, for each year in office, was resolved by the Shareholders' Meeting of June 15, 2006, upon nomination, and equal to 20.000,00 euros gross of any withholding amounts foreseen by law.
Remuneration of directors invested with special roles, was established by the Board of Directors upon proposal of the remuneration Committee, authorised by the Board of Statutory Auditors.

In compliance to article 7.C.1 of the Code in the March 2006 release, article 22 of the Articles of Incorporation allows the possibility that a variable fee be attributed to the Directors invested with special powers, as participation in the profits of the parent Company, and dependent of the economic trends of the Group and more specifically to the Consolidated Gross Margin, and is resolved by the Annual General Shareholders' Meeting approving the annual financial statements. Such a possibility, that has already been adopted upon since allocation of the 2004 net results, considering that this alternative does not exclude the distribution of dividends to the shareholders, will be once again applied in relation to December 31, 2008 results.

The following table summarises remuneration of controlling bodies:

Director	**Fee resolved (annual in relation to duration of office)**	**Note**
Mario Rizzante Chairman and Chief Executive Officer	Euros 700,000.00	Of which Euro 330,000 annual fee for the office of Chairman and Chief Executive Officer and Euro 370,000 as participation in 2007 results as resolved by the Shareholders' Meeting of June 12, 2008. The amount of Euro 700,000 does not include the amount received by Reply Services S.r.l. in capacity of Director and amounts to Euro 120,000.
Tatiana Rizzante Chief Executive Officer	Euros 360,000.00	Of which Euros 120,000 annual fee for the office of Chief Executive Officer and Euros 240,000 as participation in 2007 results as resolved by the Shareholders' Meeting of June 12, 2008. The amount of Euros 360,000 does not include the amount received by Reply Services S.r.l., in capacity of Director and amounts to Euros 173,000.
Sergio Ingegnatti Chief Executive Officer	Euros 480,000.00	Of which Euros 210,000 annual fee for the office of Chief Executive Officer, Euros 240,000 as participation in 2007 results as resolved by the Shareholders' Meeting of June 12, 2008 and Euros 30,000 in capacity of Chairman and Director of Reply Services S.r.l.
Pepino Oscar Executive Director	Euros 210,000.00	Annual fee for the office of Executive Director.
Bombonato Claudio Executive Director	Euros 300,000.00	Annual fee for the office of Executive Director.
Carnevale Maffè Carlo Alberto Non Executive and Independent Director	Euros 20,000.00	Annual fee for the office of Non Executive and Independent Director.
Mezzalama Marco Non Executive and Independent Director	Euros 20,000.00	Annual fee for the office of Non Executive and Independent Director.
Forti Fausto *Non Executive and* Independent Director *Lead Independent Director*	Euros 24,000.00	Annual fee for the office of Non Executive and Independent Director - *Lead Independent Director* for 20,000 Euros and 4,000 Euros as token of attendance as member of Reply S.p.A.'s Surveillance Body.

In 2008 directors with key responsibilities' remuneration amounted to 3,106 thousand euros, inclusive of Directors' severance indemnities (71 thousand euros).

The table below summarises participations held in Reply S.p.A. by Directors, and managers with strategic commitments in Reply S.p.A. as at December 31, 2008 pursuant to Art. 79 of Consob Regulations resolution no. 11971 of May 14, 1999:

First name and surname	Office held in Reply S.p.A.	Number of shares held at 31/12/2007	Number of shares bought in 2008	Number of shares sold in 2008	Number of shares held at 31/12/2008	% of sharel capital
Mario Rizzante	Chairman and Chief executive officer	11,381	-	-	11,381	0.1234%
Tatiana Rizzante	Chief executive officer	15,734	-	-	15,734	0.1706%
Sergio Ingegnatti	Chief executive officer	9,800	-	-	9,800	0.1063%
Oscar Pepino	Executive Director	11,960	1,750*		13,710	0.1487%
Marco Mezzalama	Independent director	250	-	-	250	0.0027%
Directors with Key responsabilities		697,973	23,457	(1,174)	720,256	7,8095%

* Shares inherited

At present, there are Stock option rights assigned to Directors of the Company in compliance to the Stock Option plans adopted by the Company; the assignment of Stock Option rights to the Directors is summarised in the table below:

Director	Resolution by the Shareholders' meeting	Number of options assigned	Vesting period	Strike price
Tatiana Rizzante	10/06/2004 (2004 plan)	15,000	12/5/09-12/5/2014	Euro 21.339

The Options assigned to the above Director can be exercised, within the vesting period in the above table, in a lump sum solution, within the "exercise window" following fifteen days after the Board of Directors' meeting approving the quarterly reports, the half year report or the annual report.

Stock options cannot be exercised in the "Blocked period", foreseen by the Conduct Code in relation to Internal Dealing, which are 15 days prior to the Board of Directors' meetings approving the annual report, the half year report and the quarterly reports, including the day the meeting is held.
Stock option rights cannot be exercised in the "blocked period", as disciplined by the Conduct Code in relation to Internal Dealing, that is 15 days prior to the Board of Directors of Reply S.p.A. called to approve the year-end financial statements, the half year report and quarterly reports, including the day in which the meeting is held.

In 2008 no stock options were neither assigned nor exercised by the Directors.

9. Internal control committee

In accordance to Art. 8.P.4 of the Corporate Governance, the Board of Directors established the internal control committee composed by Mr. Carlo Alberto Carnevale Maffè and Mr. Marco Mezzalama, non-executive directors and independent director and by Mr. Fausto Forti, *Lead Independent Director*.
The Internal Control Committee:

- evaluates together with the director responsible for the preparation of the company's accounting documents and the auditor, the correct utilization of the accounting principles and, in the event of groups, their consistency for the purpose of the preparation of the consolidated balance sheet;
- upon the request of the executive director, express opinion on specific aspects relating to the identification of the principal risks for the company as well as on the design, implementation and management of the internal control committee;
- review the work plan prepared by the officers in charge of internal control as well as the periodic reports;
- evaluate the proposals submitted by the auditing firm for obtaining the relevant appointment, as well as the work plan prepared for the audit and the results described in the report and the letter of suggestions, if any;
- supervise the validity of the accounting audit process;
- perform any additional duties that are assigned by the Board of Directors;
- report to the board, at least on a half yearly basis, on the occasion of the approval of the balance sheet and the half yearly report, on the activity carried out, as well as on the adequacy of the internal control system.

The Committee meets when deemed necessary, and in any case, at least twice a year, when the half year report and the annual report is approved.
The president of the Board of Auditors or another auditor designated by the president participates in the works for the internal control and at the end of each meeting the minutes are drawn up with the Committee's proposals.
In order to carry out its duties, the Committee can request information and data from head of internal controls, the Board of Statutory Auditors and the independent auditors.

During the year 2008 the Internal control committee met two (2) times and once (1) in 2009 and examined the following:

- The separate financial statements and the consolidated financial statements of 2007 and 2008, half-year report of 2008;
- The projects concerning the revision of procedures according to Law 262/2005 (*Legge sul Risparmio*) and to regulations set out under Legislative Decree 231/2001 and other internal improvement projects;
- Compliance to the anti re-cycling Legislative decree 231/2001.

The Committee reported two times to the Board of Directors in relation to the activities carried out and with reference to the adequate functioning of the internal control System.

10. Internal control system

The internal control system is a set of procedures that contributes to safeguard the company's assets, the efficiency and effectiveness of business transactions, the reliability of financial information and the compliance with laws and regulations.
The Board of Directors is responsible for the internal control and defines the guide-lines of the internal control system and the company's risk management.

In relation to the company's objectives, operational and of compliance and reporting the Company uses the following instruments:

Instruments able to monitor operational objectives

- *Budgeting and management control* - Reply S.p.A. has implemented a structured and periodic system in order to forecast and monitor company activities, aimed at defining the company objectives/strategies and defining a *budget*;
- *Operational procedure system* - In order to properly apply the company directives and to limit the risks connected to the achievement of the company's objectives, Reply S.p.A. has implemented a group of procedures that regulate internal processes, regulating the activities executed within a function and those with other areas; in 2007 a specific procedure of "Offer Authorisation" was adopted by the Group and is applicable to the offers issued by all the Group companies for Public Bids, that in brief regulates that the issuing of an "Offer" by a Group Company is subject to approval at an adequate organisational level corresponding to the value of the offer and, if the offer exceeds 5.000.000,00 euros it must be approved by the Reply Approval Board (RAB) comprising the Chairman of the Board and by the Chief Executive Officers, Sergio Ingegnatti and Tatiana Rizzante; this procedure has been approved by the Internal Control Committee.

Instruments able to monitor compliance objectives

- *Law 262/2005 in relation to accounting and financial disclosures* - Following the coming into force of law 262/2005 concerning the safeguarding of savings, Reply S.p.A. has terminated the project related to the upgrading of procedures and has adopted other initiatives to monitor and improve them. The objective of the initial project was to revise the administrative and accounting procedures with reference to the reliance of the economic-financial information disclosed to the market and more specifically:
  - mapping of the main sub-processes within the administration and relevant accounting procedures;
  - assessment of the adequacy of the existing controls and proposal of further areas of control in view of compliance and greater reliance of the processes considered;
  - drafting of a series of procedures and consequently the drafting of an Administration Procedures Manual;
  - creation of future control and monitoring instruments.
- *Legislative Decree 231/2001* – see related paragraph.
- *Security, environment and quality*– Reply has established a procedure system and an organisational structure dedicated to the management of data security (also with regards to the laws on Privacy), protection of the environment, security of equipment and personnel and the quality of services carried out (Iso certification 9001:2000).
- *Other laws and regulations* - Monitoring the evolution and compliance to new laws and regulations is carried out internally.

Instruments able to monitor reporting objectives

- *Accounting disclosures* – The Group accounting Manual sets the guidelines to the information to be disclosed with relation to consolidated and separate financial statements, to the administrative-accounting procedures recently upgraded/integrated within the Project related to Law no. 262/2005, illustrated previously.
- *Processing of confidential information*: see relevant paragraph;
- *Internal information* – Reply S.p.A. has an internal communication system, orientated to facilitate and promote the internal communication within the company and the Group, also through a structured system as the Management and coordination Committee.

The Internal Control Committee has evaluated the adequacy of the internal controls adopted by the Reply Group and has expressed a positive opinion.

A. Executive officer in charge to supervise the functionality of the internal control system

On June 15, 2006, the Board of Directors, appointed Mr. Sergio Ingegnatti to the position of Executive Officer in charge to supervise the functionality of the internal control system and has nominated Mrs. Celestina Massenzio as head of internal controls.

Head of internal controls reports his activities to the members of the Board of Directors, key management and to the Board of Statutory Auditors.

B. Organisation, management and control model pursuant to legislative decree 231/2001

The Board of Directors approved in November 2004, the “Ethic Code” whose introduction represents an important step towards the constitution of a sound internal control system and transparency principles that guide the company’s internal and external activities, and outlining the fundamental principles necessary to guarantee legality, loyalty and correctness in conducting Reply’s relations.

In 2007 the project to adopt a new organisation, management and control model pursuant to Legislative Decree 231/2001 (the Model) was put in place, with relation to the responsibilities of enterprises, in order to prevent the execution of illicit. The model was approved by the Board of Directors on March 28, 2008. The Model adopted, starting from an accurate analysis of the company activities with the objective of identifying the potential activities at risk, is the set of general principles, rules of conduct, control instruments and organisational procedures, formation and informational activities and disciplinary system finalised at assuring, the prevention of offences.
The types of offences contemplated by Legislative Decree 231/2001 and that have been considered at risk for the Group, as outlined in the attached Model, are the following:

(i) relations with the Public Administration;
(ii) enterprise obligations;
(iii) privileged information;
(iv) security, prevention, health and hygiene on the work site.

The Model was adopted during 2008 by all the Italian Group companies.

The Organisational Model of Reply S.p.A is published on the company website (www.reply.eu – Investors – Corporate Governance).

The Model and the Code of Ethics have been distributed to all Group employees and collaborators through the company Intranet. The Code of Ethics is also supplied to newly hired employees of the Group.

The Board of Directors has nominated a Compliance Committee which has the duty to verify the correct function of the Model and to update the following. The Compliance Committee has to refer to the Board and in the worst cases must refer to the Internal Control Committee. The Compliance Committee comprises external members (Eng. Franco Gianolio) as Chairman, Lead Independent Director (Mr. Fausto Forti) and a member employed in the company (Mrs. Celestina Massenzio) that will hold office until the approval of December 31, 2008 financial statements.

The Italian Group companies have entrusted the function of the Compliance Committee to their Directing body, which performs the functions of compliance through resources within the Compliance Committee of the Parent Company, on the basis of specific agreements.
Upon drive of the Compliance Committee a risk assessment related to offences disciplined by Legislative Decree 231/01 ("*Delitti informatici"* and *"Riciclaggio")* was carried out with the scope of updating the Model and presented to the Board of Directors in the meeting held on March 13, 2009.

In 2008 the Compliance Committee met five (5) times and referred to the Board of Directors and to the Statutory Auditors in relation to their activities and the state of the art concerning the Model.

C. Independent audit firm

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

With the modifications introduced by Law no. 262 of December 2005 and the Legislative decree no. 303 of December 2006 with regards to accounting principles, the Shareholders' Meeting of June 14, 2007 have evaluated positively the extension of the term of the auditing firm Deloitte & Touche S.p.A from 2007-2009, in order to guarantee the coordination and the adaptation of the measures introduced by the same Law with the existing regulations. The auditing period will terminate with the auditing of the Financial statements of 2009.

D. Director in charge of drawing up the accounting and legal documents

The Board of Directors, pursuant to Law 262/2005, has appointed in capacity of *Director in charge of drawing up the accounting and legal documents,* with approval of the Board of Statutory Auditors, Mr. Giuseppe Veneziano. On September 15, 2006 a specific proxy was conferred in order to enable him to execute his powers.
Pursuant to article 24 of the Articles of Incorporation, the Director must set up adequate administration and accounting procedures for the drawing up of the statutory financial statements, the consolidated statements and any other financial communication.
The Director, together with the other executive organs, must assert in a specific report, annexed to every financial statement and to any other financial communications that the procedures set up have been abided to.

With reference to his tasks, the *Director in charge of drawing up the accounting and legal documents* has the same responsibilities and liabilities as those foreseen by law for the Directors, with the exception of those executed under work relations with the company.

11. Director's interests and transactions with elated parties

In compliance with the Corporate Governance Code transactions carried out with related parties are preformed in a transparent manner and meet criteria of substantial and procedural fairness. Directors who have an interest, even if only potential or indirect with related parties shall:

- promptly inform the board in detail of the existence of the interest and of the related circumstances;
- abandon the board meeting when the issue is discussed.

The Board of Directors can however, under certain circumstances, allow the directors to participate and/or vote.

The Company has adopted a Regulation on Significant Operations with related parties and can be consulted on the company's website (www.reply.eu – Investors – Corporate Governance) and regulated what follows.

Significant operations

Pursuant to the Corporate Governance Code, the Board of Directors has the task of reviewing and approving operations of significant economic, financial and earning value, including the most significant operations with related parties, which are subject to specific substantial procedural correctness criteria.
Decisions concerning Significant Operations cannot be taken by delegated directors.
Significant operations are those that put the Company in the position to make the necessary communication to the market and accompany it with ad-hoc accounting situations according to the requirements of the market controlling body[1].

When the Company has to put in action significant operations, the delegated directors provide the Board of Directors, reasonably in advance, a summary of the analysis conducted in terms of strategic coherence, economic feasibility, and the expected benefits for the company.

(1) Currently Consob communication no. DIS/98081334 of October 19, 1998.

Operations with related parties

Identification of related parties

Related parties are:

a) subjects which control, are controlled by (even 100%) or are under the same control as Reply S.p.A..;

b) subjects which hold an interest sufficient to exercise considerable influence over Reply S.p.A.;

c) the under signers of non competition agreements, pursuant to article 122, paragraph 1 of Legislative decree 58/1998, related to the right of vote;

d) subjects associated with Reply S.p.A;

e) subjects which have power and responsibility in the planning, management and control of Reply S.p.A. or in holdings i.e. The Board of Directors and Board of Statutory Auditors;

f) subjects' close relatives in a), b), c), d), and e). a subject close relative means those potentially capable of influencing or being influenced by the natural person in their relationship with Reply S.p.A and may include cohabitant, and relatives up to second degree;

g) subjects controlled, jointly controlled or subject to considerable influence by any of the subjects in a), b), c), d), and e), or subjects in a), b), c), d), and e) who exercise considerable influence;

h) subjects who have the same majority directors as Reply S.p.A.

According to the Accounting Principle "IAS 24" control means the power to determine financial and management policies of an organization in order to enjoy the benefits of its business.

Therefore, pursuant to Art. 2359 of the Italian Civil Code and to Art. 93 of Legislative decree 24 no. 58 of February 1998, subsidiary (controlled) companies are:

1) the company in which the other company has the majority voting rights in the general Shareholders' meeting;
2) the company in which the other company has sufficient votes in order to have dominating influence in the general Shareholders' meeting;
3) the company, Italian or foreign, in which a subject has the right, in view of a contract or a statutory clause, to exercise a dominating influence, where the law allows such contracts or clauses;
4) the company, Italian or foreign, in which a shareholder, on the basis of agreements with other shareholders, has alone sufficient voting rights in order to have dominating influence in the general Shareholders' meeting.

Pursuant to the International accounting standard IAS 28, a company is considered an associate when the holder of the investment has a significant influence but is neither a subsidiary nor a joint venture. Significant influence means the power to participate in administration and operational decisions of the company without having control of it. Therefore, pursuant to Art. 2359 of the Italian Civil Code, associate companies are also those over which another company has significant influence; significant influence is presumed when the company, in the general Shareholders' meeting, can exercise at least one fifth of the voting rights or a tenth if the company's shares are listed.

Three different types of categories of operations with related parties have been defined and are the following:

A) significant operations

These significant operations are with related parties. If the nature, prices or mode/timing of implementation of significant operations with related parties may affect shareholders' equity or the correctness of information (including accounting data) relating to Reply S.p.A., such operations must be made public pursuant to CONSOB regulations. These operations must be previously authorized by the Board of Directors and specific notice must be provided to CONSOB.

B) Intercompany transactions

These are defined as the transactions realized with companies whose financial statements are consolidated in reply S.p.A.'s consolidated financial statements on a line by line basis.
These transactions must previously be authorized by the Board of Directors when each have a value greater than 5,000,000 euros and are related to atypical, unusual or transactions regulated under non standard market conditions.
Atypical, unusual or transactions regulated under non standard market conditions having a value lower than 5,000,000 euros must, in any case, be specifically referred to the Board of directors in the following board meeting.
The operations qualifying as ordinary business activities of Reply S.p.A., and are carried out at normal market conditions, do not require the Board of Directors authorization.

C) Transactions with related parties

These are defined as transaction with related parties other than "group companies".
These transactions must previously be authorized by the Board of Directors when each have a value greater than 2,000,000 euros or greater than 1,000,000 euros if related to atypical, unusual or transactions regulated under non standard market conditions.
Atypical, unusual or transactions regulated under non standard market conditions having a value lower than 1,000,000 euros must, in any case, be specifically referred to the Board of directors in the following board meeting.

12. Appointment of statutory auditors

The appointment and the substitution of statutory auditors is disciplined by Article 23 (Statutory Auditors) of the Company bylaws, and can be consulted on the company's internet website (www.reply.eu – Investors – Corporate Governance).
Article 23 of the Company bylaws has been modified with the resolution of the Extraordinary Shareholders' meeting of June 14, 2007 in compliance to modifications in the legislations and regulations recently introduced with regards to the "voting lists", Principle 10.P.1 which states that the appointment of auditors shall occur according to a transparent procedure. It shall ensure, inter alia, timely adequate information on the personal and professional characteristics of the candidates.

Article 23 of the bylaws regulates, among other, the following:

- The lists of the candidates for the office of Statutory Auditor must be deposited at the Company's offices at least fifteen days prior to the date set for the Shareholders' Meeting on first call; only those shareholders that alone or together with others represent 2.5% of the ordinary voting shares have the right to present the lists or any other minimum number requested by other laws and regulations;
- The voting mechanism foresees that the votes obtained from each list, Statutory Auditors are separated from Alternate Auditors, will be divided by one, two, three for the Statutory Auditors and one, two for the Alternate Auditors, according to the progressive number of auditors to be appointed. These percentages will then be progressively assigned to the candidates on each list and a grade in descending order will be formed. The candidates with the highest percentage will be appointed, being that one Statutory Auditor and Alternate Auditor have been elected from the second list according to the number of votes obtained and must not be connected, neither indirectly, to the Shareholders which presented or voted the list which obtained the highest number of votes;
- President of the Board of Statutory Auditors is held by the statutory auditor which was elected from the minority list which obtained the highest number of votes.

13. Statutory auditors

The Board of Statutory Auditors is made up of three standing auditors and two alternate auditors and the Board is comprised as follows:

- Dott. Tommaso Vallenzasca	President
- Dott.ssa Ada Alessandra Garzino Demo	Statutory auditor
- Dott. Paolo Claretta – Assandri	Alternate auditor
- Dott. Alessandro Mikla	Alternate auditor

The Board of Statutory Auditors was appointed during the Shareholders' Meeting on June 15, 2006 and expired on December 31, 2008 with the approval of the financial statements. In the month of August 2008 Prof Piergiorgio Re resigned from office in capacity of President of the Board of Statutory Auditors of Reply S.p.A., and upon his resignation, Mr. Paolo Claretta Assandri took office as Alternate Auditor, consequently, Mr. Tommaso Vallenzasca took office as President pursuant to Art. 2401 of the Italian Civil Code.
The appointment of the statutory auditors will be in accordance with the new laws as better explained in the section "Appointment of Statutory Auditors".

The table below summarises the Board of Statutory Auditors and explains the main information requested in accordance to Article 144-decies of the Consob Regulation of Issuers.

Name	Office held	In office since	List	Independent from Code	% of attendance in meetings	Other offices held (1)
Tommaso Vallenzasca	Statutory auditor until 08.08.2008 President since 08.08.2008	15/06/2006	M	X	100%	6
Ada Alessandra Garzino Demo	Statutory auditor	15/06/2006	M	X	100%	15
Paolo Claretta-Assandri	Statutory auditor since 08.08.2008	15/06/2006	M	X	100%	28
Alessandro Mikla	Alternate auditor	15/06/2006	M	X	NA	NA

Legend:

M/m: M/majority list, m/minority list
(1) Other offices held in joint stock companies

The following table summaries information related to resigned auditors:

Name	Office held	In office since	List	Independent from Code	% of attendance in meetings
Piergiorgio Re	President until 08.08.2008	15/06/2006	M	X	66.67%

In 2008 the Board of Statutory Auditors, were remunerated for a total of 85,474 euros as follows:

Piergiorgio Re	34,448 euros
Tommaso Vallenzasca	25,306 euros
Ada Alessandra Garzino Demo	24,377 euros
Paolo Claretta Assandri	1,343 euros

In 2008 the Statutory Auditors met eight (8) times.

14. Investor relations

The Board of Directors ensures that a person in charge of relations with investors id identified and periodically assesses the need to constitute a structural function within the company.

Mr. Riccardo Lodigiani has been appointed, under resolution made June 15, 2006, the person in charge of relations with Institutional Investors and with Shareholders (*Investor relator*) in order to create continuous dialogue with the said persons.

The abovementioned person must exclusively and periodically inform the Chairman and the Chief Executive Officer, Mr. Sergio Ingegnatti of his activities.

On the Company's website (www.reply.eu, Investors - Corporate governance) the following documents are available:

- Company bylaws;
- Annual calendar of company events;
- Organisational Model pursuant ex Art. 6 Legislative Decree no. 231/01 and the ethic Code;
- Code of conduct for internal dealing;
- Corporate Governance Code;
- Regulations on significant operations and related party transactions.

Pursuant to *Regolamento di Borsa,* the company's calendar for 2009 and the events have been made available to the public within the established terms, and the following dates have been established:

- the Board of Directors meeting to approve the Annual Financial Statements;
- the Shareholders' Meeting to approve the Annual Financial Statements;
- the Board of Directors meeting to approve the first quarter Interim Management Report of 2009 the Half-year report and the third quarter Interim Management Report 2009.

15. General meetings

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

Article 12 of the Company bylaws establishes that shareholders have the right to intervene during the General Shareholders' Meeting if they have provided written notice pursuant to Art. 2370, paragraph two of the Italian Civil Code, two work days prior to the day of the meeting.

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

15. Changes subsequent to the year end close

Following the year end close no significant changes have been made to the structure of the Corporate Governance.

Information concerning Other requirements of the Corporate Governance have been included at Table 1, annexed herein.

Turin, March 13, 2009

For the Board of Directors
The Chairman

Mario Rizzante

Table 1: Other requirements of the corporate governance code

System for delegating powers and handling transactions With related parties	YES	NO	Summary explanation of reasons deviating from the guidelines
Has the Board of Directors has delegated powers and defined:			
a) scope of the power	X		
b) manners in which the powers may be exercised?	X		
c) regular reporting intervals?	X		
Has the Board of Directors reserved the right to approve transactions of significance in the balance sheet, economic and financial figures (including transactions with related parties)?	X		
Has the Board of Directors provided guidelines and criteria for identifying "significant" transactions?	X		
Are these guidelines and criteria described in the Report?	X		
Has the Board of Directors defined special procedures for reviewing and approving transactions with related parties?	X		
Are the procedures for approving transactions with related parties described in the Report?	X		
Procedures followed in the most recent appointments of directors and statutory auditors			
Were the names of candidates for the post of director filed at least 10 days in advance?	X		
When the names of candidates for the post of director were filed, did the filing contain adequate information?	X		
When the names of candidates for the post of director were filed, did the filing contain information about the qualifications of the candidates to serve as independent directors?	X		
Were the names of candidates for the post of statutory auditor filed at least 10 days in advance?	X		
When the names of candidates for the post of statutory auditor were filed, did the filing contain adequate information?	X		
General Meetings			
Has the company approved Procedures for General Meetings?		X	The Company does not deem necessary a manual procedures for General Meetings as the bylaws are sufficient
Are the Procedures appended to the Report (or does the Report indicate where the Procedures are available or downloadable)?	X		
Internal Control			
Has the Company appointed Compliance Officers?	X		
Are the Compliance Officers hierarchically independent of executives with operational responsibility?	X		
Department in charge of internal control (as per Article 9.3 of the Code)	X		
Investor relations			
Has the company appointed an Investor Relations Officer?	X		Mr. Riccardo Lodigiani
Name of the Department and contact information of the Investor Relations:			E-mail: investor@reply.it Reply S.p.A., Corso Francia 110, 10143 Torino; telephone: 011/7711594.

Corporate information

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