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REPLY FINANCIAL REPORT 2000

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FINANCIAL REPORT 2000



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# CORPORATE BODIES



## **Board of Directors**

<i>Chairman</i>	Mario Rizzante
<i>Chief Executive Officers</i>	Sergio Ingegnatti Oscar Pepino
<i>Directors</i>	Marco Mezzalama (1) Paul de Sury (1)

1.  
Independent directors,  
according to the corporate  
governance code for listed  
companies

## **Board of Statutory Auditors**

<i>Statutory Auditors</i>	Piergiorgio Re - Chairman Giorgio Gianeri Tommaso Vallenzasca
<i>Alternate Auditors</i>	Paolo Claretta-Assandri Domenica Gai

## **Independent Auditors**

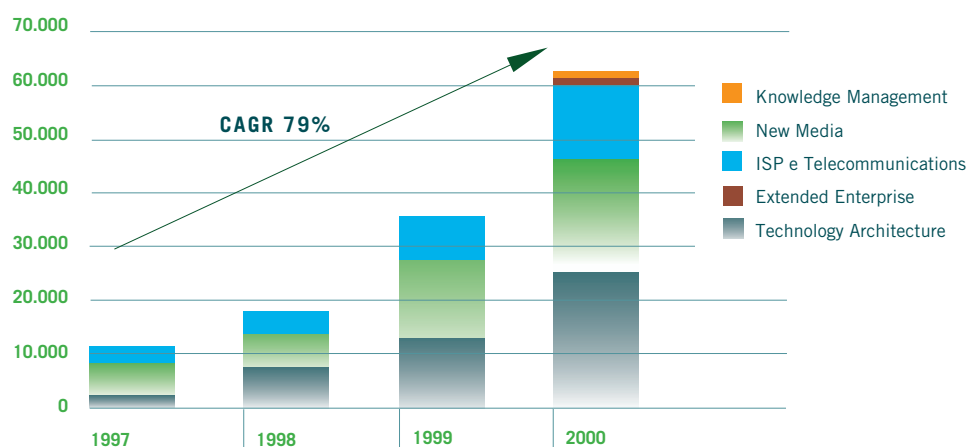
PricewaterhouseCoopers S.p.A.

# REPLY GROUP FINANCIAL HIGHLIGHTS

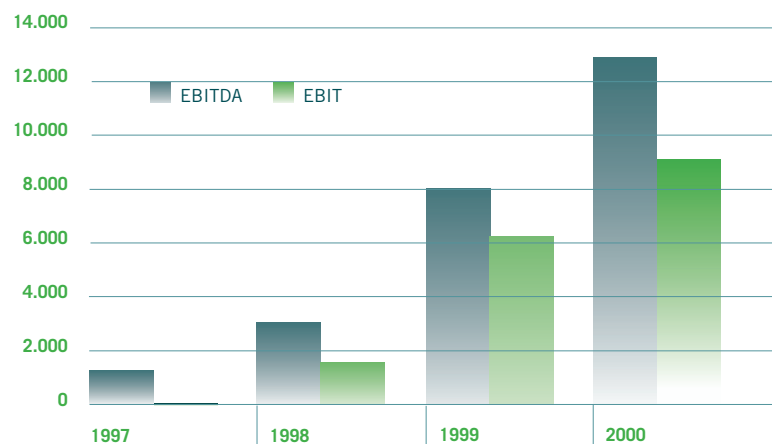
Statement of operations data (in millions of Lire)	2000	%	1999 proforma	%	1998 proforma	%	1997 proforma	%
<b>Revenues</b>	<b>64.552</b>	<b>100,0</b>	<b>36.007</b>	<b>100,0</b>	<b>18.715</b>	<b>100,0</b>	<b>11.482</b>	<b>100,0</b>
<b>Gross operating income</b>	<b>12.894</b>	<b>20,0</b>	<b>7.915</b>	<b>22,0</b>	<b>2.978</b>	<b>15,9</b>	<b>1.313</b>	<b>11,4</b>
<b>Operating income</b>	<b>9.001</b>	<b>13,9</b>	<b>6.203</b>	<b>17,2</b>	<b>1.525</b>	<b>8,1</b>	<b>(23)</b>	<b>(0,2)</b>
<b>Income before extraordinary items (*)</b>	<b>8.797</b>	<b>13,6</b>	<b>5.940</b>	<b>16,5</b>	<b>1.308</b>	<b>7,0</b>	<b>(227)</b>	<b>(2,0)</b>
<b>Net income / (loss)</b>	<b>3.646</b>	<b>5,6</b>	<b>2.834</b>	<b>7,9</b>	<b>279</b>	<b>1,5</b>	<b>(433)</b>	<b>(3,8)</b>

(\*) Income before extraordinary items includes net operating income and net financial income.

## Revenues by business line



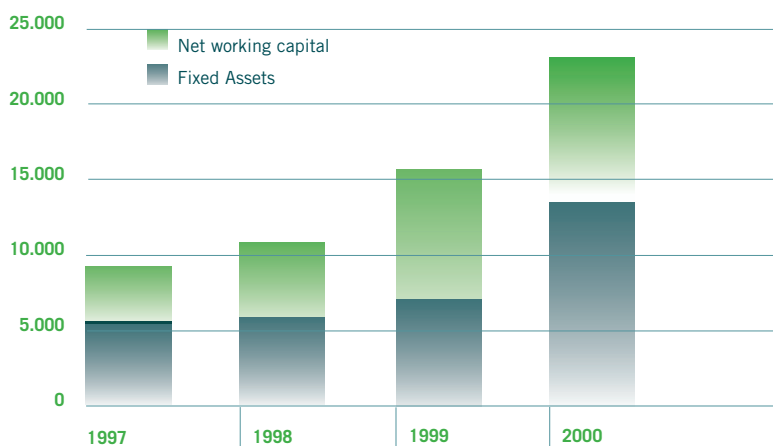
## Development of profitability



Balance sheet components (in millions of Lire)	2000	1999 proforma	1998 proforma	1997 proforma
<b>Shareholders' equity</b>	<b>80.860</b>	<b>12.463</b>	<b>8.980</b>	<b>7.866</b>
<b>Total assets</b>	<b>110.359</b>	<b>29.964</b>	<b>19.878</b>	<b>13.531</b>
<b>Share capital</b>	<b>8.218</b>	<b>3.232</b>	<b>2.803</b>	<b>2.045</b>
<b>Working capital, Net</b>	<b>9.063</b>	<b>7.828</b>	<b>4.275</b>	<b>2.492</b>
<b>Cash Flow (*)</b>	<b>7.064</b>	<b>4.546</b>	<b>1.732</b>	<b>903</b>
<b>Fixed assets</b>	<b>15.565</b>	<b>8.971</b>	<b>8.283</b>	<b>7.857</b>
<b>Net financial position</b>	<b>58.259</b>	<b>(3.134)</b>	<b>(2.903)</b>	<b>(2.101)</b>

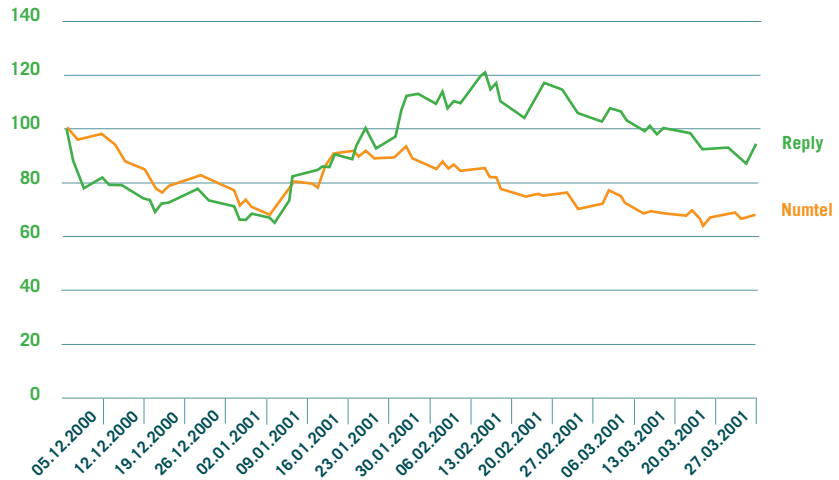
(\*) Calculated as sum of net income, amortisation and depreciation

#### Mouvements in net invested capital



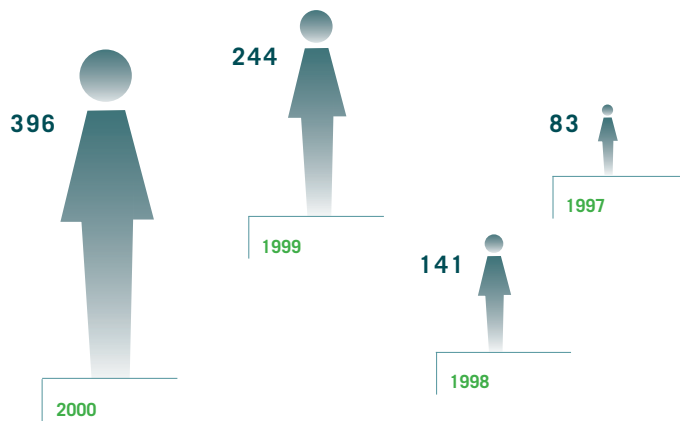
Data relative to single share (in Lire)	2000	1999 proforma	1998 proforma	1997 proforma
<b>Number of shares</b>	<b>8.162.200</b>	<b>3.232.000</b>	<b>2.803.000</b>	<b>2.045.000</b>
<b>Operating result per share</b>	<b>1.103</b>	<b>1.919</b>	<b>544</b>	<b>(11)</b>
<b>Net result per share after tax deduction</b>	<b>432</b>	<b>879</b>	<b>100</b>	<b>(213)</b>
<b>Net profit per share</b>	<b>447</b>	<b>877</b>	<b>100</b>	<b>(212)</b>
<b>Cash flow per share</b>	<b>865</b>	<b>1.407</b>	<b>618</b>	<b>442</b>
<b>Net worth per share</b>	<b>9.907</b>	<b>3.856</b>	<b>3.204</b>	<b>3.846</b>





Other information	2000	1999 proforma	1998 proforma	1997 proforma
<b>Number of employees</b>	<b>396</b>	<b>244</b>	<b>141</b>	<b>83</b>

**Human resources**



# LETTER TO THE SHAREHOLDERS

To our Shareholders,

The year 2000 has been characterised by considerable events and results, both in terms of growth and development of the supply.

The consolidated revenues have increased by 79%, the gross operating margin is 20% of sales, the operating results have increased by 45%, and this demonstrates the validity of our organisation and development strategies.

The important results achieved demonstrate the quality of our services and the capability to continuously create innovations to the value produced. These elements make Reply a Company able to respond to the market demand and to even accomplish them through agreements at an international level, such as the business agreement with TNT Post Group, related to solutions for extended enterprise.

The year has concluded with Reply's listing into the stock market, an extraordinary event in the Company's history that will give a larger impulse to expansion strategies for the Group.

In 2001 Reply intends to operate with the same effort and determination, engaging itself even outside the national market.

The strategic agreement with IBM in the first months of the year, the starting-up of new operating units, the starting of the new E-sourcing activity, and the acquisition of the communication agency XYZ are only the first results and initiatives of the plan that Reply intends to realize.

I believe that in the overall scenario of the financial markets, in which the investors are consolidating a more attentive and selective behaviour, Reply differentiates itself by its capacity in realising profits, its spirit of innovation and its potential for growth.

**The Chairman**  
Mario Rizzante





**DIRECTORS'  
REPORT  
ON OPERATIONS**

## DISTINCTIVE FEATURES OF THE GROUP

The Reply Group was founded in June 1996, responding to the technological revolution started in those years that required a new way of communicate and doing “business”.

The coming of the digital economy, characterised by a growth in technology and by the development of new services, spur the development of new model of organization, promoting in this way the rise of new Companies based on innovative communication channels like Internet, while traditional Companies started a process of transformation towards the so-called “Extended Enterprise”, where the distances between suppliers, company and customers are reduced and where reaction times become increasingly shorter. Performances offered by these new media, increasing the speed by which information travels and is shared, make knowledge the prime asset to capitalise on in order to adapt quickly to rapid changes in the market.

In this regard and in order to provide to the customers the instruments necessary to reformulate the strategies and models of organisation to face the fast digital evolution, the Reply Group, now one of the main Italian companies working in the consultancy for “e-business” sector, developed an integrated offer of services, including the consulting, communication and technological skills/ability.



Professional services of the Group include:

- > E-business consulting (strategic, organisational and processing consultancy)
- > E-business communication (web-marketing and multimedia communication consulting)
- > E-business implementation (projection and implementation of Internet Systems such as Portals, e-commerce systems, web-sites, CRM and SCM system, and Telecommunication and Service Provider systems)

The Reply Group carries on these activities through its Controlled Companies, specialised and focused on offer lines in order to combine the flexibility and dynamism which are typical of small-sized structures with a projection and organisational ability that are typical of large entities.

The main market in which the group works are those in which the middle-sized and large industrial entities and the telecommunication companies operate.

The Reply “business-model” is strongly characterised by a number of distinctive features that well place the Company in the e-business services market. This market is going through a fast development phase, from the simple web-sites development to the implementation of complex and complete e-business projects that involve all the company structures, require a review of the models of organisation, and need technological infrastructures with high reliability and high performance.

These features are detectable:

- A.** In the characterization of Reply services, focused on the following topics:
  - > Analysis and design of e-business process, particularly relative to SCM and CRM field
  - > New telecommunication channels
  - > Realization of contents for the new interactive channel (broad-band, interactive TV)
  - > Consultancy on Internet technologies, particularly in connection with the “back-end integration”
  - > Consultancy on marketing strategies e communication on new media
  - > Knowledge Management
- B.** In the ability to establish long-term relationship with large industrial companies and with the main telecommunication market dealers.
- C.** In the strategic international agreements with TNT Post Group and IBM
- D.** In the significant partnership with the leading software vendors
- E.** In a skilled and firm management team, strongly addressed to make profit.

In year 2000 professional services offered by the Reply Group within the E-business area, were divided into 5 different business lines:

#### TECHNOLOGICAL ARCHITECTURE AND PORTALS



Web technologies as well as complex software architectures for the E-business, which, in their complete form, allow the creation of portals for a big numbers of users.

#### EXTENDED ENTERPRISE



Business processes which, exploiting the Internet as a mass medium, involve parties pertaining to the whole production cycle, from the supplier to the manufacturer and the customer. In this scenario, Supply Chain Management (SCM) and Customer Relationship Management (CRM) are key-elements, based on the development of new digital mass media.



### INTERNET SERVICE PROVIDER AND TELECOMMUNICATIONS

Services addressed to Internet Service Providers (ISP) for the planning implementation and support of Internet systems like, for instance, e-mail, chat, profiling and hosting, and the management of communities.

Within the telecommunications area, the object of this offer is the management of net infrastructures, the development of applications for mobile communication and Customer Care & Billing services.



### KNOWLEDGE MANAGEMENT

Services addressed both to the definition of supporting processes for the creation and the implementation of knowledge, and to the planning of technological solutions on Web architectures for the admittance and use of information (for example, search engines, Enterprise Portals).



### NEW MEDIA

Communication and marketing strategies for new interactive channels, communication planning, Art Direction, Web Design, implementation of integrated solutions on different media (i.e. internet, CD, video, cellular phones).

The various lines of offer, as developed by the Reply Group in terms of contents and through dedicated companies, are focused in order to pursue the following objectives:

- > Specialization of working groups in each single sector;
- > Development of synergies in projects requiring different professions;
- > Presence, for more consolidated services, of dedicated companies in the main industrial areas of Italy.

Side-by-side with the offer of professional services, one finds proprietary software platforms created by the Reply Group, in particular within the extended enterprise (Click and Lyra) and in the area of Internet Service Providers (People & Web).

To complement the proprietary software, the Group works with software developed by a selected number of producers (strategic partners of the Group), in order to satisfy at their best the customers' needs as well as maintaining the specialisation on innovative technologies

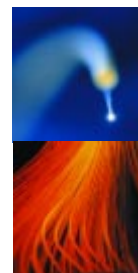
## FUTURE PLANS AND STRATEGIES

Reply Group's strategic objective is to gain a leading position in the Italian market for E-business services and solutions as well as to increase its presence on international markets. To achieve such objectives, management intend to follow these main directions:

### LAUNCH OF NEW PRODUCTS AND DEVELOPMENT OF THE LINES OF OFFER

The development of new services including the creation of a line of business, named E-sourcing, having as its object the management of Web systems. Within E-sourcing, Reply includes all management activities of Internet systems including Interactive support, technical assistance on Internet systems, Customer Care, evolution of applications as well as ordinary repairs for such activities.

In launching new services, such as E-sourcing, and in the expansion of most recent lines of business such as Knowledge Management and New Media, the Group should continue to benefit from the synergies between the Group companies.



### METHODOLOGICAL APPROACH AND KNOWLEDGE MANAGEMENT

Rapid technological evolution, which is an identifying characteristic of the world of the Internet, demands specialised competencies as well as a methodological approach in order to facilitate the prompt implementation of efficient solutions.

In order to maintain and benefit from this characteristic, identified as one of the most important by management, the Group strategy will be aimed on the one hand at financing the development of the Reply methodology; on the other hand, at sharing the knowledge acquired during the implementation of projects thanks to a constant improvement of the internal knowledge management systems.

### TERRITORIAL EXPANSION - ACQUISITIONS

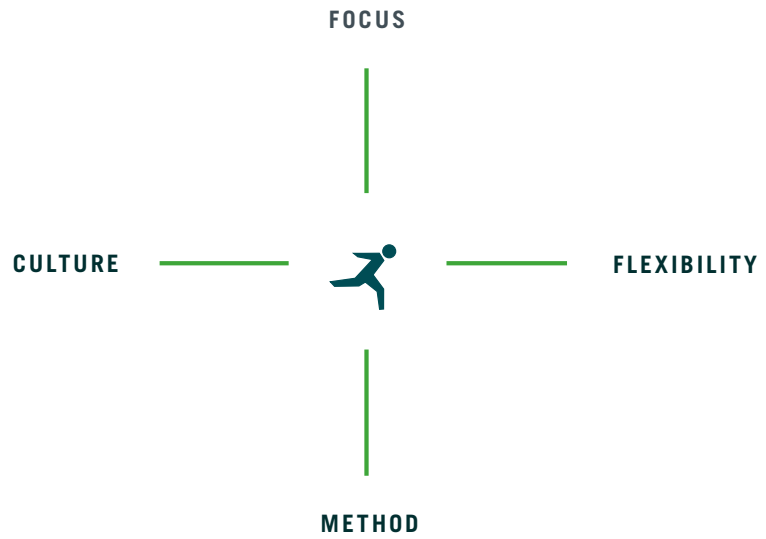
The Group intends to expand, both in domestic and international markets, replicating the current business model of a network of operating companies, that are both specialised and flexible, with a customer portfolio ranging from medium to large clients. The geographical development, both nationally and abroad, can also be achieved through the acquisition of innovative niche businesses, which would be equipped with qualified human resources, operating within the current lines of offer of the Group.

### HUMAN RESOURCES MANAGEMENT

Management consider the capacity to attract professionals in the E-business sector as a key-element for success, in order to achieve the development strategies. In fact, a competitive characteristic of the Group is the source of its professional staff, coming from the best universities and polytechnics for the sector. Reply intends to keep this factor as a distinctive feature in the process of staff expansion, increasing investments dedicated to training, as well as relationships with universities and to a constant innovation of business, technological and



communication competencies. In order to maintain these privileged channels for attracting highly skilled staff, the Company intends to consolidate the co-operative relationships set up with different universities in the past.



## LINES OF OFFER

### NEW MEDIA



The development of the Internet caused a radical change in the approach towards marketing and communication, characterised by the passage from a mass communication addressed solely to an indistinct public to an interactive and customised one between the author of the message and its recipient.

On the other hand, the variety and complexity of digital means of communication allows one to reach customers in a way that tends to be more and more personalised independently of one's physical location.

Services in this area include the projection of multimedia contents – which is an essential part of the implementation of E-business solutions forming one of the specialisation sectors of the Group, in which it combines the knowledge of new technologies with the ability to offer *E-business Communication* services.



Such services involve the communication and content planning related to Internet sites and Portals defining new marketing strategies linked with digital initiatives, Web design and result measuring.

The *New Media* line is focused on solution planning that exploits the convergence between new media – (Internet, Cellular phones, CD, palmtops) and traditional means of communication (video and printing) and requires the ability to integrate different skills. In presenting its own strategic, communication and marketing services, the Reply Group uses technological and applicable competencies developed by other lines of offer in order to propose *Web marketing* strategies, which are customised and innovative.

### TECHNOLOGICAL ARCHITECTURE AND PORTALS



The Group has developed a significant competence in the design of complex computer structures and in mastering software infrastructures for E-business that allow the building of Portals for a significant number of users.

Portals offer users easy access to information, products and services offered by enterprises, allow for the research of information by index and category, and allow an ability to bundle contents. In their most developed form, they allow for the insertion of services and contents intended for a specific section of the public (interest community).

Services of the Reply Group aimed towards the development of technological architecture for the Internet are articulated on three different specialisation levels:

**Infrastructure services:** system support and hardware and software architectures used for development of Web sites, characterised by efficiency, reliability and



security, despite an ever-growing number of users;

**Basic services:** services and solutions forming the basis of E-business systems, such as e-mails, chat, profiling, hosting, support for co-operative work (traditional or multimedia systems based);

**Value-added services:** creation of customised applications according to the client's needs: from electronic commerce solutions to on-line services aimed at a specific community of users.

I N T E R N E T		
Advertising management	E-publishing	Search engines
Profiling and customising	Community	Structure and navigation
Integration towards business information systems	Access to data in different formats	Indexing and categorisation
Security	Support for business processes	Support for work of collaboration
I N T R A N E T		

## KNOWLEDGE MANAGEMENT



Changes brought about by the new digital economy, based on E-business, make knowledge a corporate asset, which is necessary in order to maintain and increase the competitiveness. *Knowledge Management* is the group of solutions and systems responding to the growing necessity to organise, distribute and re-use information within the company.

Furthermore, the flow of internal information (for example, documents, mail and publications) as well as external information (for example, Internet site contents, news) which the Company is in daily touch with grows and creates the necessity for re-organisation processes that allow value creation and a timely and focused distribution of knowledge.

Services offered by the Reply Group within the context of *Knowledge Management* are addressed both towards the definition of processes supporting the creation and organisation of knowledge, as well as towards the planning of safe and modular technological application based solutions.

In this context, the Reply Group works in two principal areas: the first is focused on recovering and using the knowledge spread within the enterprise, for example through the planning of *Enterprise Portals*: the second in order to capture and gather the knowledge produced from the daily interaction among users.

An element of overlap between *Knowledge Management* and the Internet is formed by services and by solutions for content publishing. In this area the Group has consolidated experience in E-publishing systems and on the creation of both manual contents (done by editors) and automated ones (done by software agents) based on the indexing of enterprise knowledge or on instruments of content management.

## EXTENDED ENTERPRISE



An Extended enterprise is a group of systems and processes integrating in an efficient and effective way the activity of the Company with that of its suppliers and customers, using the Internet digital channel.

The implementation of applications for the Extended enterprise demands competence in Internet technologies, experience in *System Integration* and applications competence for the entire value chain

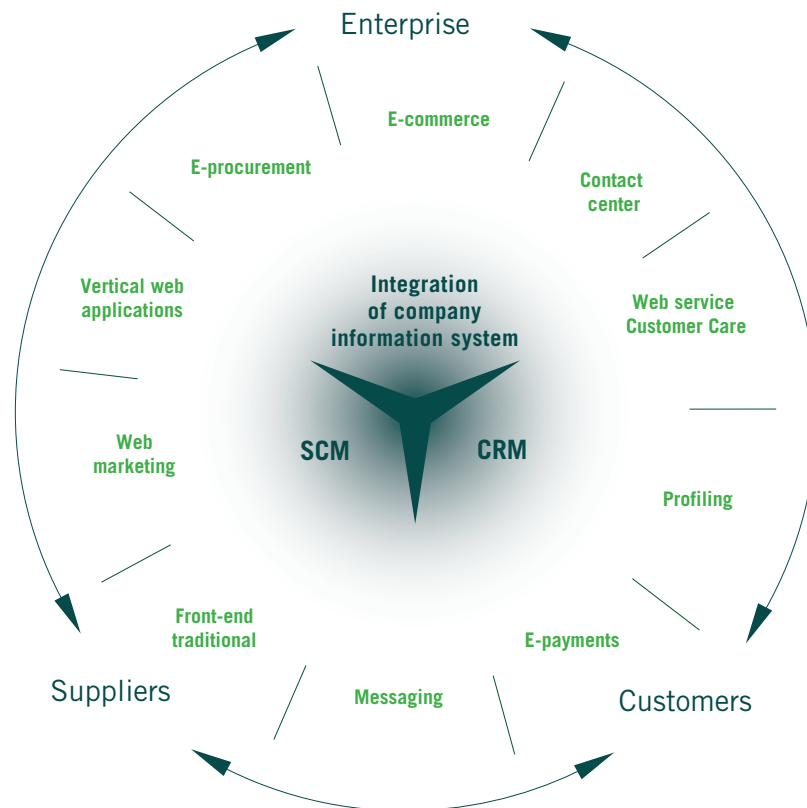
Areas, which characterise the offers of the Reply Group within Extended enterprise, are represented by *Supply Chain Management* (SCM) and *Customer Relationship Management* (CRM).

Within SCM, the Reply Group is focused on solutions for E-business evolution of supply processes, logistics, warehouse management as well as order management (so-called order fulfilment). These solutions, jointly with the competence in Internet technologies, allow the Group to propose a complete offer – from the electronic commerce interface to systems for

logistics – in the implementation of a virtual market for enterprises (Marketplace, Business-to-Business).

For SCM solutions, Reply Group uses both their own software products such as warehouse management systems as well as systems for physical movement of materials (“Click”) and systems for transport management (“Lyra”), as well as software products of strategic partners.

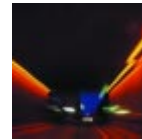
Within the CRM solution field – aimed towards real time collaboration between an enterprise and its clients, from the integration of Front-end and Back-end systems to the synchronisation of all channels of interaction between an enterprise and the market (call centre, mobile sales force, Internet) Reply Group is specialised in the creation of shared Customer Repositories and in the realisation of Front-end solutions (Contact centre, Sales Force Automation, E-commerce, Customer Care).



## INTERNET SERVICE PROVIDER AND TELECOMMUNICATION

The Reply Group carries out its business for the implementation of Internet initiatives for the main national telephone operators, in this way acquiring a complete knowledge related to the most diffused software platforms in use and an understanding of the characteristics that services should give to the user. The experience obtained allows the Group to combine the knowledge acquired with competence in network infrastructures and in applications for mobile communication, forming the development of Business-to-Consumer interfaces.

On the other hand, the speed of evolution within the telecommunications market and the nature of services offered force emerging operators to have a different focus, looking at problems related to the definition of pricing policies, flexibility in sales and customer loyalty schemes. The competitive nature of these clients markets creates a need for technologically advanced and integrated Customer Care & Billing.



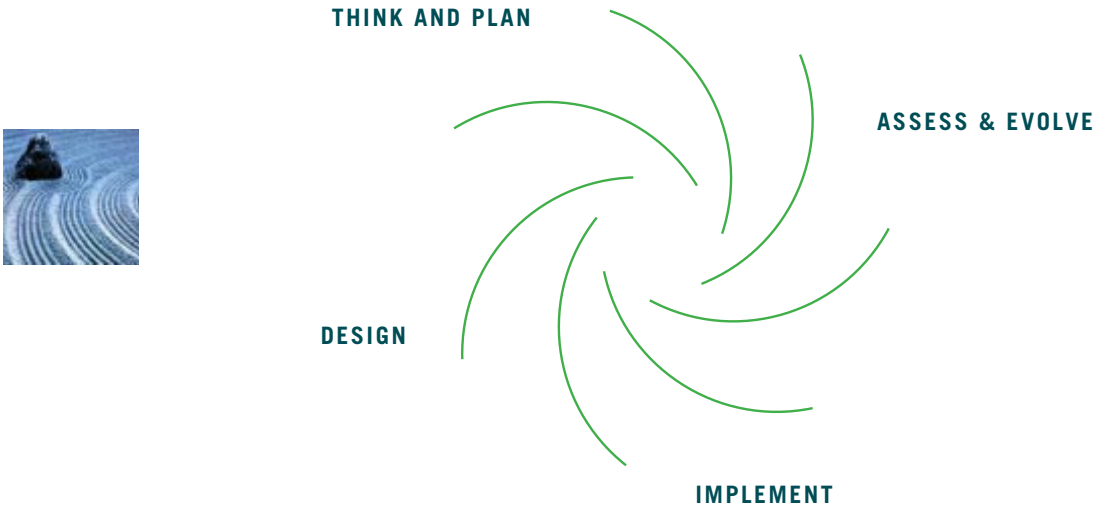
In this respect, the Reply offer is articulated along two main levels:

- > Specialised consultancy in the analysis, planning and implementation of Customer Care & Billing, systems, addressed to telecommunications operators at local and national levels as well as towards the ISP world. Planning takes advantage of platforms and products on which Reply has partnership agreements with some of the most important operators in this sector.
- > Specialised consultancy in planning, implementation and management of systems allowing the control and configuration of fixed and mobile telecommunication networks.

## METHODOLOGY

The services of Reply Group are based on a methodological approach linking consultancy cycles (E-business Consultancy and E-business Communication), bound to specific application areas of the offer, to implementation phases (E-business Implementation).

Reply, in order to follow and respond to the rapid changes to which its customers' strategies are linked in E-business initiatives, has developed a methodology that comprises 4 phases: *Think & Plan, Design, Implement, Assess & Evolve*.



### THINK & PLAN

In this phase, business, communication and marketing strategies related to the customer are defined, as well as the project plan managing the implementation. This phase is organised as follows:

**E-business strategy:** analysis of the existing business and future strategies, up to the definition of milestones and project teams;

**business process re-engineering:** analysis and definitions of corporate processes to favour E-business strategy as well as applicable limitations imposed by the customers technological platforms;

**marketing and communication strategy:** the study of the image and of marketing strategy, the study of communication, style and structure of contents;

**project planning:** planning for the implementation of E-business solutions according to those priorities identified from the analysis of business, marketing and technological structure.

## DESIGN

This is the phase of planning of contents, technological structure as well as functionality of the E-business solution to be implemented. This phase is subdivided as follows:

**communication design:** structure of contents, navigation and access interfaces to services and definitions of publishing plan;

**software requirements:** definition of software functionality, of data flow, of users and their roles, of editing requirements and updating mechanisms;

**architectural design:** definition of software structures, hardware, of the network environment, of the basis of knowledge (structured and non-structured data) and of integration with other systems.

## IMPLEMENT

This is the phase of development of software and components of integration of other corporate systems as well as multimedia content production. This phase is organised as follows:

**web & content production:** interface design on different devices and production of text, graphics and multimedia contents;

**development:** software environment configuration and development of application logic;

**test:** checking of solutions in terms of efficiency, accuracy (graphics and contents), performance and robustness;

**deployment:** transfer from a test environment to an executive one with monitoring of the first phase of operation.

## ASSESS & EVOLVE

This is the last phase of the methodological approach of the Group, during which results obtained are measured and further developments planned as described below:

**measure:** monitoring of the current system and statistical analysis of results of the proposed solution;

**E-business strategy:** evolution of strategies in based on the results and changes experienced by business plan;

**marketing & communication strategy:** evolution of marketing strategy relating to digital initiatives bases upon the results obtained in the previous cycle.



## REPLY'S TECHNOLOGY



### PROPRIETARY SOFTWARE

#### People&Web

This allows the creation as well as the updating of personal Web sites and pages assuring configurability and efficiency along with growth in user numbers, and simplifying its management for system operators.

#### Click

This is a system for warehouse management, materials handling and allotment, based on Web architecture and which can be integrated with E-commerce systems or with the latest order-form management systems through standard XML.

#### Lyra

This allows the management of vehicle routing, for the pick up of materials and delivery to their recipients.

### CO-OPERATION AGREEMENTS

The Group strategy is also based upon strategic partnership agreements with some of the major global software developers. With several of these, Reply Group entered into co-operation agreements, (Microsoft, Oracle, Broadvision, Autonomy, Portal, Selectica, Net Perceptions, Siebel, Open Market, Open Text, LHS) aimed on the one hand at re-enforcing market penetration, and on the other, to increase the number of technological solutions which can be developed for the customer.

These agreements, having various names, allow the Group to have an interactive link with such producers that involves co-operation as well as support by the supplier's technical staff, access to information on products outside the public domain, support at a pre-sale stage and a joint trademark marketing approach.

### NON-PROPRIETARY TECHNOLOGIES OF REFERENCE

In the Internet solutions offered to customers, the Group has developed, based upon the above mentioned agreements, and independently, significant competencies based on non-proprietary technologies from the most of the leading producers in their respective markets, among which are: Autonomy, Bea System, Broadvision, Clarus, CompaQ, Hewlett Packard, IBM, Intec, LHS, Linux, Lucent Technologies, Microsoft, Midgard, Open Market, Open Text, Oracle, Portal, SAP, Siebel, Netonomy, Selectica, Sun, Dynamo, Net perceptions, Kenan, Vignette.

The development and implementation achieved on the basis of such technologies independently and with a significant use of resources, today allow the Reply Group to possess the competence and the reliability necessary for the development of solutions based on information technology platforms which are recognised as being the market trend-setters.

## THE REFERENCE MARKET

Reply Group has developed an integrated offer of E-business professional services; this forms an emerging component within the Information Technology market.

The world Information Technology market, according to Assinform, is developing at a significant growth rate and at the end of 1999 reached a value equal to \$ 790 billion (1), with a growth of 10.5% compared to the previous year. The United States is the country in which the highest rate of penetration of computer technologies is present, but the phenomenon is also becoming increasingly prevalent in Europe and Asia/Pacific.

It was mainly the spread of the Internet within enterprises and the setting up of numerous E-business applications that contributed to the growth of the IT market (2). The Internet in particular has significantly changed the way in which companies can communicate, obtain and spread information, sell and purchase goods and services.

Companies, which have an interest in incorporating Web solutions within the area of their Information Technology strategies and business, feel the necessity to receive integrated professional services, which can combine business strategy components with a high-level of technological knowledge in order to create infrastructures, applications, and safe systems which can be extended and flexible.

According to forecasts made by Forrester Research, which is one of the main research institutes in this sector, the world market for Internet related professional services (e.g. services relating to strategy design, e-technology, etc) would reach US\$ 64.8 billion dollars in 2003, increasing during the period 1998-2003 at an annual compound rate equal to 74%.

Internet services markets will provide greater possibilities compared to those created for traditional IT services and the reduction of the life span of Internet solutions will maintain a higher stability in demand growth trends (3).

According to a forecast made by IDC, by 2003, the market for Internet services in Europe will reach US\$ 22.8 billion, growing over the period 1998-2003 at a CAGR equal to 67% (4). Again according to IDC, the market for Internet services in Europe, despite at present being slower than that of the United States, will show a more significant growth by comparison and will in future years be second only to the Japanese.

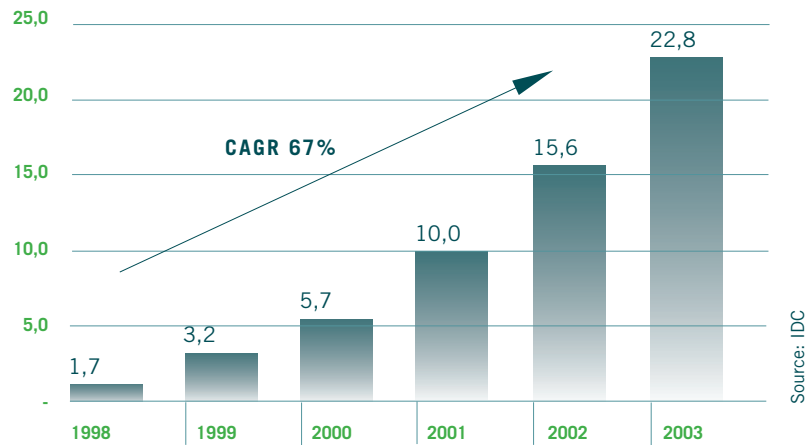
1.  
Assinform: Associazione nazionale Produttori Tecnologie e Servizi per l'informazione e la Comunicazione (National Association of Producers of Technologies and Services for Information and Communication). *Rapporto Assinform 2000.*

2.  
Assinform, *Rapporto Assinform 2000.*

3.  
MSDW, *Building and Managing the Digital Economy*, April 2000.

4.  
International Data Corporation, *European Internet and E-Commerce Services Markets and Trends 1998-2003*, September 1999.

**The market for Internet Services in Europe**  
(in billions of \$)



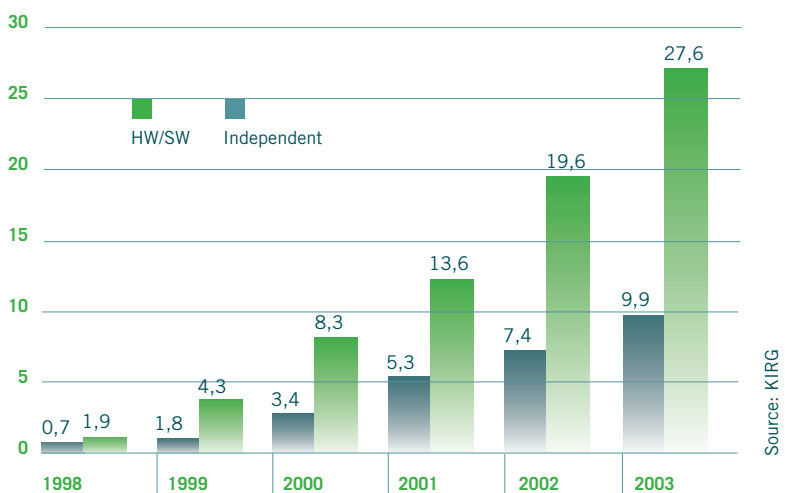
In part, professional services for E-business relate to applications for the electronic commerce.

Consequently the growth of electronic commerce will affect the growth of the consultancy services. In particular KIRG deems that within the E-commerce market an ever-growing market quota will be held by companies offering consultancy services which have not had any software or hardware production history, and whose income, on a global scale, will rise from less than US\$2 billion in 1998 up to US\$28 billion in 2003 (5).

**5.**

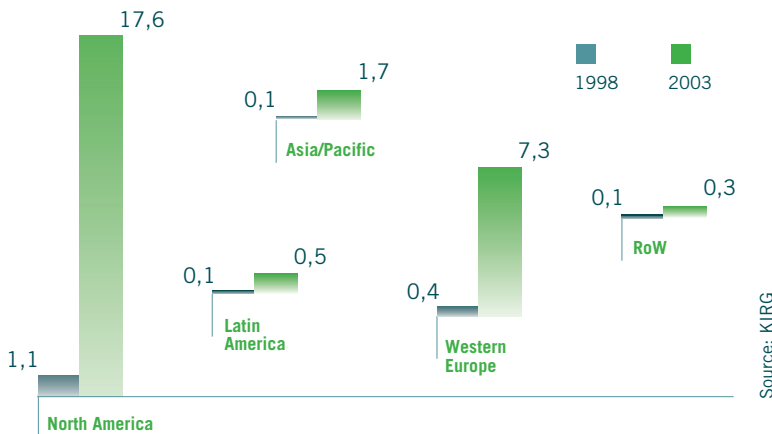
Kennedy Information LLC,  
*E-Commerce Consulting -  
Forecasts, Analysis & Key  
Data*, Edition 1999.

**The global market for consultancy services for ecommerce**  
(in billions of \$)



Analysis carried out by KIRG on a geographical basis shows during the period 1998 – 2003 the European E-commerce consultancy market, for companies independent from hardware manufacturers and software developers, will grow from US\$ 0.4 billion up to US\$ 7.3.

**The market for e-commerce consultancy services by geographic area, 1998-2003**  
(in billions of \$)

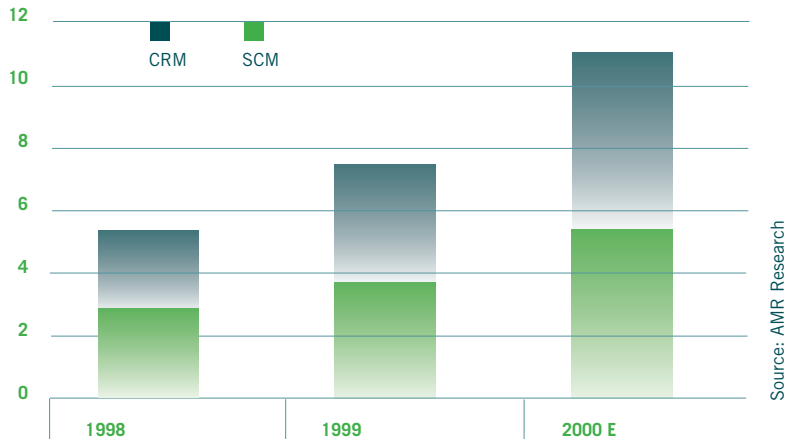


In relation to specific components of the Reply Group services, the following is noted.

**SUPPLY CHAIN MANAGEMENT AND CUSTOMER RELATIONSHIP MANAGEMENT**

According to AMR Research, the market of SCM and CRM applications in the year 2000 will reach US\$ 11 billion, with a growth-rate of 46% compared with the previous year (6).

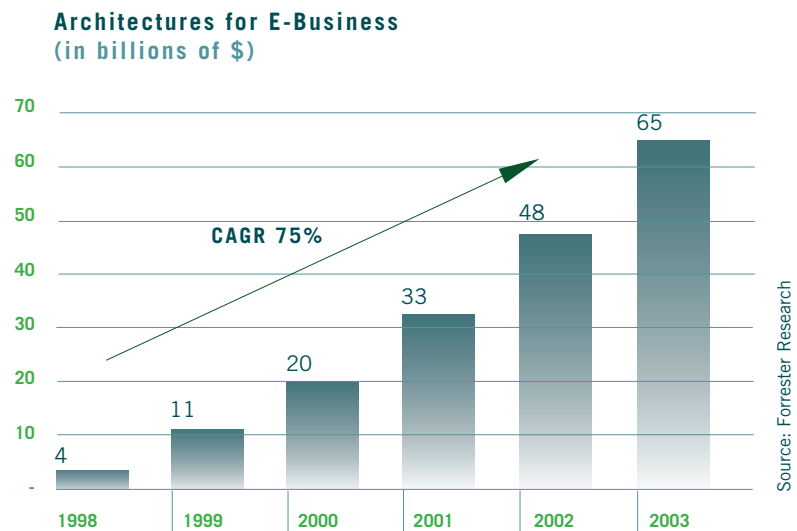
**SCM and CRM applications**  
(in billions of \$)



**6.**  
AMR Research Inc.,  
*The Report on Enterprise Application, January 2000.*

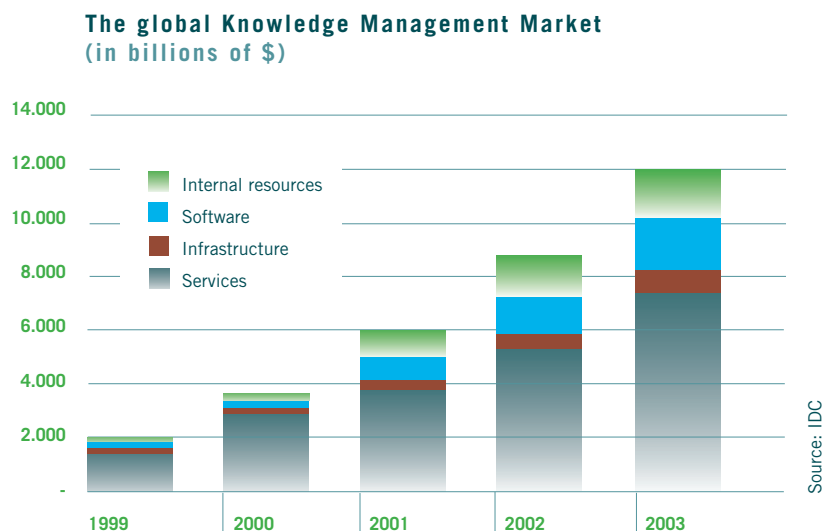
## TECNOLOGICAL ARCHITECTURE FOR E-BUSINESS

According to the forecasts made by Forrester Research, the demand for services aimed at the implementation of technological architectures for E-business will grow at a CAGR of 75% over the period 1998 – 2003, reaching US\$ 20 billion in 2000 and US\$ 65 billion in 2003.



## KNOWLEDGE MANAGEMENT

The tendency of enterprises to evolve towards business models based on Knowledge Management, brings one to forecast a strong growth for the next years in the global market of Knowledge Management, which in 2003, according to IDC forecasts will reach US\$ 7,3 billion against US\$ 1,5 billion in 1999 and US\$ 2,8 billion in 2000.



## INTERNET SERVICE PROVIDER APPLICATION AND TELECOMMUNICATIONS

Growth trends within the market for applications for ISP and telecommunications are directly correlated to the development of the communications sector and to the spread of the Internet.

In Italy, according to Assinform, the Telecommunications market in 1999 registered a growth equal to 14,6% compared with the previous year (7), a rate higher than that in other European countries and the global average. The year 2000 is confirming positive growth trends in the sector which will see a strong development of activities linked with call centre services as well as WAP (Wireless Application Protocol) services, these latter allowing access to the Internet with a mobile phone.

With reference to the Internet Service Provider market in Italy, according to Eito estimates, Web users will grow from 5,3 million in 1999 to 13,3 million in 2002 with a CAGR of 35,5%.

7.  
Assinform, *Rapporto  
Assinform 2000.*

## GROUP RESULTS



The Reply Group, with branches in Milan Turin and Rome, operates through a network composed by the subsidiary companies integrated with one another and specialised in three distinct business areas:

- > E-Business Consulting (strategic, organisational and processing consultancy);
- > E-Business Communication (digital communication and web-marketing consulting)
- > E-Business Implementation (planning and implementation of internet systems: Portals, E-commerce systems, web sites, CRM and SCM systems, systems for Telecommunication Internet Service Providers)

The Group's consolidated revenues amount to 64,6 billion at year end, with a gross operating margin and an operating result equal to 20% and 13,9% of revenues respectively (inclusive of the amortisation of the listing expenses for 1,8 billion) and a net profit of 3,6 billion, equal to 5.6% of revenues.

As of 31 December 2000 total net equity of the Reply Group amounts to 80,9 billion of Lire.

The net financial position as of 31 December 2000 amounts to 58,3 billion of Lire.

Total investments in intangible assets and tangible assets amount to 17,4 billion of Lire.

## RECLASSIFIED CONSOLIDATED STATEMENT OF INCOME

The economic trend of the Reply Group can be analysed from the reclassified statement of income shown below, compared to the figures of previous years and of the 1999 pro-forma statement of income provided in the Prospectus.

(in millions of Lire)	2000	%	1999	%	1999 proforma	%
Revenues from sales and services	62.918		34.963		35.397	
Change in work in progress and finished goods	1.434		469		469	
Other revenues	200		132		141	
<b>Value of production</b>	<b>64.552</b>	<b>100,0</b>	<b>35.564</b>	<b>100,0</b>	<b>36.007</b>	<b>100,0</b>
Raw materials, supplies and merchandise, net of change in inventories	(4.740)	(7,3)	(1.427)	(4,0)	(1.436)	(4,0)
Services	(19.043)	(29,5)	(11.202)	(31,5)	(9.360)	(26,0)
Leases and rentals	(1.273)	(2,0)	(836)	(2,4)	(1.264)	(3,5)
Other operating costs	(489)	(0,8)	(320)	(0,9)	(391)	(1,1)
<b>Value added</b>	<b>39.007</b>	<b>60,4</b>	<b>21.779</b>	<b>61,2</b>	<b>23.556</b>	<b>65,4</b>
Personnel costs and directors' remuneration	(26.113)	(40,5)	(14.545)	(40,9)	(15.641)	(43,4)
<b>Gross operating income</b>	<b>12.894</b>	<b>20,0</b>	<b>7.234</b>	<b>20,3</b>	<b>7.915</b>	<b>22,0</b>
Depreciation and amortisation	(2.132)	(3,3)	(1.241)	(3,5)	(1.712)	(4,8)
<b>Operating income before amortisation of listing expenses</b>	<b>10.762</b>	<b>16,7</b>	<b>5.993</b>	<b>16,9</b>	<b>6.203</b>	<b>17,2</b>
Amortisation of listing expenses	(1.761)	(2,7)	-	0,0	-	0,0
<b>Operating income</b>	<b>9.001</b>	<b>13,9</b>	<b>5.993</b>	<b>16,9</b>	<b>6.203</b>	<b>17,2</b>
Financial income/(expenses), net	(204)	(0,3)	(188)	(0,5)	(263)	(0,7)
<b>Income before extraordinary items</b>	<b>8.797</b>	<b>13,6</b>	<b>5.805</b>	<b>16,3</b>	<b>5.940</b>	<b>16,5</b>
Extraordinary income/(expenses), net	116	0,0	(11)	(0,0)	(8)	(0,0)
<b>Income before taxes</b>	<b>8.913</b>	<b>13,8</b>	<b>5.794</b>	<b>16,3</b>	<b>5.932</b>	<b>16,5</b>
Income taxes	(5.267)	(8,2)	(3.104)	(8,7)	(3.098)	(8,6)
Minority interests	-	0,0	(516)	(1,5)	-	0,0
<b>Net income/(loss)</b>	<b>3.646</b>	<b>5,6</b>	<b>2.174</b>	<b>6,1</b>	<b>2.834</b>	<b>7,9</b>



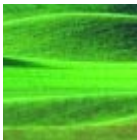
Considered on an annual basis revenues amounting to Lire 64.552 million show an increase of 81% compared to the revenues resulting from the previous statement of income (79% compared to the 1999 pro-forma revenues), confirming the continuous and incremental growth trend that the Group registered in the three year period 97-99, equal to an average annual rate of 76%.

The value added has registered a growth of 79% compared to the previous year (66% compared to the pro-forma value in 1999), and if considered net of revenues from sales, it would impact 65% on the value of revenues.

The Gross Operating Income (EBITDA), inclusive of investments made for the starting-up of the new business lines, New Media and Knowledge Management, amounts to Lire 12.894 million, showing an increase of 78% compared to the corresponding margin of the previous year (63% EBITDA pro-forma 1999), confirming the solid profitability of the Group.

The operating income, which would have increased by 80% if expenses for listing had not been incurred (74% compared to the 1999 pro-forma operating result), amounting to Lire 10.762 million, shows an increase of 51%.

Such results include research and development costs, charged to the statement of income, that the Group incurs to develop knowledge, solutions and services.



The consolidated net result of the year 2000 amounts to Lire 3.646 million, net of an average tax burden of 59%, registering an increase of 68% compared to the corresponding margin of the previous year (29% compared to the 1999 pro-forma net results).

## LINES OF BUSINESS

With reference to the trend of revenues by lines of business, the increase compared to the previous year is broken-down as follows:

(in millions of Lire)	2000	%	1999	%
Technological Architecture and Portals	24.412	38,8%	13.076	37,4%
Extended Enterprise	22.400	35,6%	13.670	39,1%
ISP and Telecommunication	13.464	21,4%	8.217	23,5%
New Media	1.447	2,3%	-	0,0%
Knowledge Management	1.195	1,9%	-	0,0%
<b>Total</b>	<b>62.918</b>	<b>100%</b>	<b>34.963</b>	<b>100%</b>

During the year 2000 the Group has expanded its supply in the New Media and Knowledge Management segments, through the foundation of Creative Reply S.r.l. and Aktive Reply S.r.l.

## ANALYSIS OF THE BALANCE SHEET OF THE GROUP

The group balance sheet as of 31 December 2000, compared to 31 December 1999, is provided below:

(in millions of Lire)	31.12.2000 (a)	%	31.12.1999 (b)	%	Difference (a-b)
<b>CURRENT ASSETS</b>					
Financial receivables and securities	59.311	53,7	944	4,2	58.367
Operating assets	35.482	32,2	19.854	89,3	15.628
<b>Total current assets</b>	<b>94.793</b>	<b>85,9</b>	<b>20.798</b>	<b>93,5</b>	<b>73.995</b>
<b>NON-CURRENT ASSETS</b>					
Financial receivables and securities	398	0,4	230	1,0	168
Other assets	15.168	13,7	1.212	5,4	13.956
<b>Total non-current assets</b>	<b>15.566</b>	<b>14,1</b>	<b>1.442</b>	<b>6,4</b>	<b>14.124</b>
<b>Total assets</b>	<b>110.359</b>	<b>100,0</b>	<b>22.240</b>	<b>100,0</b>	<b>88.119</b>
<b>CURRENT LIABILITIES</b>					
Financial liabilities	502	0,5	3.152	14,2	(2.650)
Operating liabilities	26.420	23,9	12.521	56,3	13.899
<b>Total current liabilities</b>	<b>26.922</b>	<b>24,4</b>	<b>15.673</b>	<b>70,5</b>	<b>11.249</b>
<b>NON-CURRENT LIABILITIES</b>					
Financial liabilities	550	0,5	242	1,1	308
Other non-current liabilities	2.027	1,8	1.160	5,2	867
<b>Total non-current liabilities</b>	<b>2.577</b>	<b>2,3</b>	<b>1.402</b>	<b>6,3</b>	<b>1.175</b>
<b>Total liabilities</b>	<b>29.499</b>	<b>26,7</b>	<b>17.075</b>	<b>76,8</b>	<b>12.424</b>
<b>Total Shareholders' equity</b>	<b>80.860</b>	<b>73,3</b>	<b>5.165</b>	<b>23,2</b>	<b>75.695</b>
<b>Total liabilities and Shareholders' equity</b>	<b>110.359</b>	<b>100,0</b>	<b>22.240</b>	<b>100,0</b>	<b>88.119</b>

Total assets, amounting to Lire 22.240 million as of 31 December 1999, are equal to Lire 110.359 million as of 31 December 2000, with an increase of Lire 88.119 million.

The changes include:

- > Lire 73.995 million related both to financial current assets, arising from cash flow of the Global Offer of the Parent Company shares, and to current assets of operational nature arising from the increase of trade receivables as a consequence of the significant increase of revenues;
- > Lire 14.124 million due to long-term assets, related to the acquisition of minority interests and the Reply trademark by the holding company Alister and the capitalisation of costs incurred for the listing in the New Market on behalf of the Parent Company.

The ratio between current assets, amounting to Lire 94.793 million (Lire 20.798 million at 31 December 1999) and current liabilities amounting to Lire 26.922 million (Lire 15.673 million at 31 December 1999), is equivalent to 3,52 (1,32 at 31 December 1999). The variance is due to the temporary investment of the liquidity deriving from the listing in the stock market in short-term financial assets; the liquidity rate would be equal to 1,66 if short-term financial assets were excluded.

### ANALYSIS OF THE ECONOMIC AND FINANCIAL STRUCTURE

The analysis of capital invested as at 31 December 2000 and its covering can be analysed in the following table:

(in millions of Lire)	31.12.2000 (a)	%	31.12.1999 (b)	%	Difference (a-b)
<b>CURRENT ASSETS</b>					
Current operating assets	35.482		19.854		15.628
Current operating liabilities	(26.420)		(12.521)		(13.899)
<b>Net current operating assets</b>	<b>9.062</b>		<b>7.333</b>		<b>1.729</b>
<b>NON-CURRENT ASSETS</b>					
<b>Net invested capital (A)</b>	<b>24.628</b>	<b>100,0</b>	<b>8.775</b>	<b>100,0</b>	<b>15.853</b>
M/L term non financial liabilities	2.027	8,2	1.160	13,2	867
Net shareholders' equity	80.860	328,3	5.165	58,9	75.695
<b>Total non financial sources (B)</b>	<b>82.887</b>	<b>336,5</b>	<b>6.325</b>	<b>72,1</b>	<b>76.562</b>
<b>Net financial position (A-B)</b>	<b>(58.259)</b>	<b>(236,5)</b>	<b>2.450</b>	<b>27,9</b>	<b>(60.709)</b>



Net invested capital as of 31 December 2000 amounts to Lire 24.628 million, compared to Lire 8.775 million as at 31 December 1999 with a variance of Lire 15.853 million mainly due to an increase of non-current assets.

Net invested capital has been financed for Lire 2.027 million by non-financial medium-long term liabilities comprising the reserve for employee termination indemnities and the reserve for directors' severance indemnities, by net equity for Lire 80.860 million, with a residual net financial liquidity of Lire 58.259 million.

### NET INVESTED CAPITAL

(in millions of Lire)	31.12.2000 (a)	31.12.1999 (b)	Difference (a-b)
Work in progress and inventories	3.476	1.503	1.973
Net trade receivables from third parties	30.440	16.151	14.289
Other assets	1.566	2.200	(634)
<b>Current operating assets</b>	<b>35.482</b>	<b>19.854</b>	<b>15.628</b>
Trade payables to third parties	14.393	4.319	10.074
Other liabilities	12.027	8.202	3.825
<b>Current operating liabilities</b>	<b>26.420</b>	<b>12.521</b>	<b>13.899</b>
<b>Non-current assets</b>	<b>15.566</b>	<b>1.442</b>	<b>14.124</b>
<b>Net invested capital</b>	<b>24.628</b>	<b>8.775</b>	<b>15.853</b>

### NET FINANCIAL POSITION

The details of the net financial position of the Group as of 31 December 2000, analysed by expiry date and compared to the same situation as of 31 December 1999, is provided below:

(in millions of Lire)	31.12.2000	31.12.1999
Bank accounts and Cash on hands	9.308	944
Financial assets not held as fixed assets	50.003	-
Due to banks	(392)	(3.034)
Due to other providers of finance within 12 months	(110)	(118)
<b>Short term financial position</b>	<b>58.809</b>	<b>(2.208)</b>
Due to banks beyond 12 months	(466)	-
Due to other providers of finance beyond 12 months	(84)	(242)
<b>Total net financial position</b>	<b>58.259</b>	<b>(2.450)</b>

Net financial position as of 31 December 2000 amounted to Lire 58.259 million with an improvement of Lire 60.709 million compared to 31 December 1999, and can be analysed as follows:

(in millions of Lire)	2000
Cash flow from operating activities before working capital movements	8.435
Change in working capital	(2.233)
<b>Cash flow from operating activities (A)</b>	<b>6.202</b>
<b>Cash flow used in investing activities (B)</b>	<b>(17.542)</b>
<b>Cash flow used in financing activities (C)</b>	<b>72.049</b>
<b>Change in net financial position (A+B+C)</b>	<b>60.709</b>

### HUMAN RESOURCES

The strong growth that has characterised the Company is also reflected through the number of employees that as of 31 December 2000 totalled 396, compared to 244 employees as of 31 December 1999.

Personnel mainly comprise Graduates in Electronics, Informatics Engineering and Economics and Commerce coming from the best Universities.

The Company intends to keep this distinctive feature in view of organic expansion, and intends on increasing investments dedicated to training courses and relations with universities.

### RESEARCH AND DEVELOPMENT ACTIVITIES

The Group supplies services and solutions for E-business at high technologic content in a market in which innovation assumes primary importance.

Research activity is identified mainly in the activity of updating and improving services and solutions proposed by the market. In particular, research and development of the Group is aimed at updating and improving proprietor software.

These activities are charged to the statement of income in the year in which they are incurred.

## THE PARENT COMPANY REPLY S.p.A.

The Parent Company Reply was founded on 30 December 1997 with the name Reply Europe SàRL, under Luxembourg law.

On 9 June 2000 the company resolved the transfer of the legal and administrative headquarters to Italy and on 10 July resolved to transform the company into a public limited company with the current name.



Between May and June 2000, the Company undertook several financial operations aimed exclusively at rationalising and ensuring the transparency of the Group in order to be admitted to Stock Exchange listing on the New Market, which took place on 6 December 2000.

Specifically the following operations have been carried out with the holding companies Alister Holding, Iceberg and Alika:

- > Alister Holding bought from minority shareholders of the subsidiary companies minority interests for a total amount of Lire 4.118,5 million by means of a transaction signed in May 2000;
- > On 9 June 2000 the share capital of the Company, at the time Reply Europe, was increased by Alister Holding by means of contribution of its investments in the operating companies (for the acquisition value mentioned above) and of the “Reply” trademark (valued at 3.300 million);
- > On 10 July, in order to transfer to the Company (as Holding of the Group) the remaining assets, instrumental to the achievement of the Company’s mission, Alika sold to Reply the company branch comprising all the activities managed with the objective of performing consulting services in the Information Technology sector, and carrying out group administrative services.

The financial position of the Company, compared to the previous year following the operations described above and the Global Offer of 1,970,000 ordinary shares, representing 24.14% of the Company’s share capital subsequent to the increase, resolved by the extraordinary Shareholders’ meeting on 10 July 2000, constituted by 1,862,200 shares, and 107,800 shares offered by the selling shareholders, is detailed as follows:

(in millions of Lire)	31.12.2000 (a)	31.12.1999 (b)	Difference (a-b)
Fixed assets	15.644	801	14.843
Net working capital	2.367	291	2.076
<b>Net invested capital</b>	<b>18.011</b>	<b>1.092</b>	<b>16.919</b>
M/L term non financial liabilities	2.458	-	2.458
Net financial position	(61.982)	(629)	(61.353)
Shareholders’ equity	77.535	1.721	75.814
<b>Financing capital</b>	<b>18.011</b>	<b>1.092</b>	<b>16.919</b>

The changes that have occurred in the items of the balance sheet are fully analysed and illustrated at the notes to the financial statements.

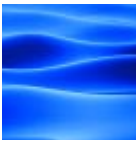
### ECONOMIC TREND

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

(in millions of Lire)	2000	1999	Difference
Value of production	5.410	922	4.488
Costs of production	(7.052)	(856)	(6.196)
<b>Difference</b>	<b>(1.642)</b>	<b>66</b>	<b>1.708</b>
Financial income and expenses	6.406	5	6.401
<b>Result before taxation</b>	<b>4.764</b>	<b>71</b>	<b>4.693</b>
Income taxes	(1.878)	-	(1.878)
<b>Result for the year</b>	<b>2.886</b>	<b>71</b>	<b>2.815</b>

As of 31 December 2000 Reply S.p.A.'s revenues amounted to Lire 5.410 million (922 million of Lire as at 31 December 1999) due mainly to royalties charged and to Administration Contracts with the operating Companies of the Group.

Operating result of the year-ended 2000 presents a negative figure amounting to Lire 1.642 million, after having accounted for amortisation 2.268 million of Lire, mainly due to the capitalisation of the listing expenses and the acquisition of the trademark "Reply".



Net result of the year-ended 2000 amounted to Lire 2.886 million (71 million in the previous year) and it includes the dividends from subsidiary companies of the year 2000, charged to the statement of income according to the accruals based accounting method (amounting to Lire 3.950 million) and the relative tax credit (amounting to Lire 2.320 million) off-set by the accrual of deferred tax liabilities for the same amount.

### RELATED PARTY TRANSACTIONS

With the conclusion of the financial operations aimed exclusively at rationalising and ensuring the transparency of the Group in order to be admitted to listing on the New Market, current business transactions with related parties are strictly connected to the optimisation of the Group activities which consist mainly in providing services, central management of administration services and in the co-ordination of all Group activities in connection with the role of Parent Company.

The economic and financial effects deriving from such relations, regulated by the normal market conditions, can be detailed as follows:

(in millions of Lire)	2000
<b>Revenues from royalties</b>	<b>1.900</b>
<b>Revenues from services</b>	<b>1.264</b>
<b>Revenues from other charges</b>	<b>776</b>
<b>Costs for professional services</b>	<b>1.535</b>
<b>Financial receivables</b>	<b>7.000</b>
<b>Trade receivables and other</b>	<b>6.785</b>
<b>Trade payables</b>	<b>1.450</b>

These relations are also provided in more detail at the notes to the Financial Statements of Reply S.p.A.

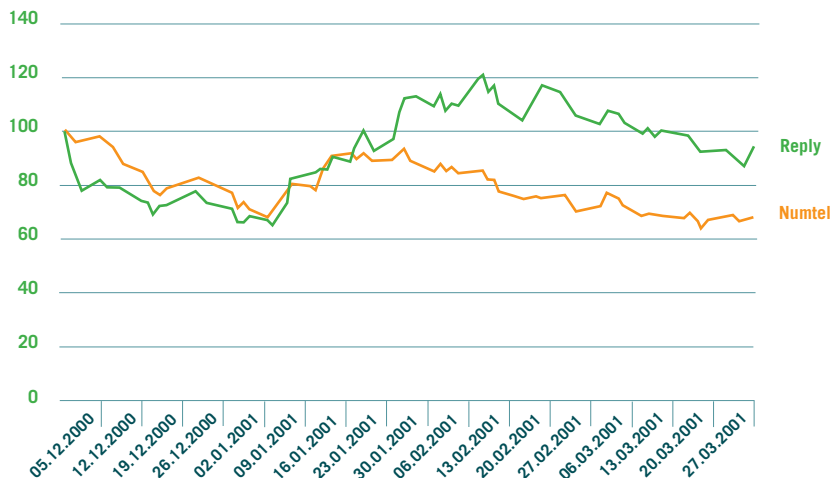
### REPLY ON THE STOCK MARKET

At the listing date, the following activities have been carried out in respect of the market:

- > Approximately 60 institutional investors and 10 financial analysers have been contacted;
- > 7 research articles on the Group, conducted by financial institutes, have been published, and all recommend the purchase.

The results of such activities are reflected in the rating of the shares, that as of 31 March 2001, even if 6,6% less than the placing price, showed an upstream trend compared to the Numtel rate, that has experienced a downward trend of 31,3% in the period in consideration.

The graph below illustrates the trend of Reply's shares from the first closing date of the rating and the first quarter 2001, with respect to the general trend of the Numtel index:







### SHARES HELD BY DIRECTORS AND STATUTORY AUDITORS OF THE PARENT COMPANY AND ITS SUBSIDIARIES

At the balance sheet date, the members of the Board of Directors and Statutory Auditors do not directly hold Company shares.

At the balance sheet date, the members of the Board of Directors that indirectly hold investments in the Company are the following:

- > Messer Mario Rizzante, Sergio Ingegnatti, Oscar Pepino hold 51%, 22% and 22% respectively, of Alister Holding which directly holds 2,654,383 shares of the Company, equivalent to 32,52% of the Company's share capital.
- > Alister Holding, in the aforementioned list, holds 100% of Iceberg's share capital, company governed by Luxembourg laws with headquarters at 400, Route d'Esch, Luxembourg.  
Iceberg holds directly 966,060 shares of the Company, equivalent to 11,84% of the Company's share capital.
- > Messer Mario Rizzante, Sergio Ingegnatti and Oscar Pepino hold 51%, 22% e 22% respectively of Alika, a limited company with headquarters in C.so Francia 110, Turin.

Alika S.r.l. holds directly 1,297,445 Company shares, equivalent to 15,9% of the Company's share capital.

## OTHER INFORMATION

### TREASURY SHARES

In compliance with paragraph 2 of art. 2428 Italian Civil Code numbers 3) and 4) the Company does not hold, at the balance sheet date, treasury shares or shares of subsidiary companies

### JUDICIAL AND ARBITRATION PROCEEDING

At the balance sheet date, the Group companies are not undergoing judicial or arbitration proceedings that could influence, directly or indirectly, the economic and financial position.

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

### CORPORATE GOVERNANCE

The shareholders' extraordinary meeting of Reply S.p.A. held on 10 July 2000, has modified the Company's By-laws in order to make them compliant with the provisions of the Code of Self-discipline defined by the Corporate Governance Committee of Listed Companies.

In particular, in order to guarantee that the appointment of the Directors is carried out on the basis of transparent procedures, able to provide the shareholders adequate information concerning the qualities of the candidates, article 16 of the By-laws provides that, unless the shareholders unanimously decide otherwise, the appointment is forth coming from a list presented by the shareholders that, alone or jointly with others, represent at least 2% of the ordinary voting shares.

In addition, article 17 of the By-laws provides that the Board of Directors should meet at least once every quarter.

In light of resolutions made on 10 July 2000, 5 September 2000 and 26 October 2000, the Board of Directors comprises 3 executive directors, (Mario Rizzante, Sergio Ingegnatti and Oscar Pepino) and 2 independent non-executive directors (Marco Mezzalama and Paul de Sury).

The Board of Directors appointed Mario Rizzante, Marco Mezzalama and Paul de Sury as:

- > Members of the Remuneration Committee, aimed at formulating proposals concerning remuneration of the Chief Executive Officers and those directors having particular appointments, as well as upon counselling of the Chief Executive Officers, proposals for the determination of remuneration criteria for the Company's Top Management;
- > Members of the Internal Control Committee, having the duty of evaluating the adequacy of the internal control system and of making suggestions on the issue.

## EVENT SUBSEQUENT TO 31 DECEMBER 2000



### SPLIT OF TECHNOLOGY REPLY S.R.L

Following agreements between Reply S.p.A. and the TNT POST GROUP N.V., aimed at regulating the terms of a partnership with the scope of supplying to customers integrated SCM solutions, the Board of Directors of Technology Reply S.r.l on 26 January 2001 has prepared a partial split project, with the objective of decentralising into a new company the activities related to the design and realisation of Web application from those related to Supply Chain Management.

Such operation will concentrate in the split company the branch having as object the application of logistics within the SCM environment for extended enterprise, in respect of the agreements reached by the Parent Company Reply with the TNT Group.

Technology Reply S.r.l.'s extraordinary Shareholders' Meeting resolved on 8 March 2001 as follows:

- > The approval of the split project;
- > The spin-off of the company branch with activities of design and realisation of Web applications based on Oracle technologies and Internet Open Standards, to the newly-established beneficiary company, Technology Reply S.r.l., as well as the transfer of the investments in Cluster Reply Milano S.r.l., Technology Reply Torino S.r.l. and Sytel Reply Milano S.r.l. to the same;
- > The share capital of the beneficiary company divided in quotas and attributed to the sole shareholder of the split company determined at 150 million Lira
- > To modify, starting from the date in which the split becomes effective, the name of the company being split to @LOGISTICS REPLY S.r.l.

### ACQUISITION AND CONSTITUTION OF COMPANIES AND STRATEGIC AGREEMENTS

In the first months of 2001 the Parent Company Reply has concluded important business initiatives whose results will be evident starting from the accounting year 2001 and in particular:

- > The company purchased 70% of XYZ S.r.l., company operating in communications and multimedia consulting, which in the past few years has played an active role in Italian advertising and marketing consulting segments;  
The acquisition is aimed to enhancing and reinforcing the knowledge and proficiency in Web marketing and the supply of multimedia topics, increasing the critical volume of the Group in E-business. Communications.  
XYZ operates in Italy since 1996 with branches in Milan, and Rome and in the year 2000, it carried out communication activities generating revenues of approximately 5 billion of Lire.

- > The company Link Reply S.r.l. was constituted whereby the Parent Company holds 70% of the share capital.

Link Reply will provide Enterprise Application Integration (EAI) and Business-to-Business integration (B2Bi) solutions. These solutions will enable, on one hand, companies to adapt their internal procedures to E-business needs and on the other hand, to intensify relations with their business partners in order to satisfy and improve customer expectations.

- > A strategic agreement was signed with IBM for the combined supply of services on the telecommunications (Tlc) and E-business market. The agreement is related mainly to Billing systems in the Tlc market and as for E-business to Customer Relationship Management (CRM), to Enterprise of Application Integration, and to Web design and Web development.

The agreement is extended to the South European area (EMEA South Region) and in particular, to Italy, Spain, Portugal, Greece, Turkey, Israel and Cyprus in correlation with IBM's subsidiary companies in Italy.

The Business Plan of the agreement foresees that Reply will reach revenues of approximately 100 billion lira in the next three years (2001-2002-2003), of which 45% attributable to the Tlc area and the remaining 55% attributable to E-business solutions. The expected margins arising from this agreement are in line with the actual Group performance.

## OUTLOOK FOR 2001

The established development strategies will allow Reply, in 2001, to consolidate its leadership role and to improve its competitive position in the E-services market.

In the first quarter of 2001, Reply's consolidated revenues and the principle margins already reached a significant upward trend compared to the first quarter of 2000.



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

Reply S.p.A.'s financial statements for the year-ended 2000, recorded a net result of Lire 2.885.601.533 and a net equity amounting to Lire 77.535.291.116 as at 31 December 2000 detailed below:



(in Lire)	31/12/2000
Share capital	8.218.195.957
Additional paid-in capital	66.302.222.051
Legal reserve	6.890.884
Extraordinary reserve	122.380.691
<b>Total Share Capital and Reserves</b>	<b>74.649.689.583</b>
Net result for the year	2.885.601.533
<b>Total</b>	<b>77.535.291.116</b>

The Board of Directors therefore propose to the Shareholders, to allocate the net result for the year, amounting to Lire 2.885.601.533 as follows:

- > Lire 144.280.077 to the legal reserve, equivalent to 5% of the net result as at 31 December 2000;
- > Lire 2.741.321.456 to retained earnings

Turin, 13 April 2001

On behalf of the Board of Directors  
**The Chairman**  
 (Mario Rizzante)

```
<html>
<head>
<title>Reply</title>
<SCRIPT LANGUAGE = "javascript" SRC = "rep_writeStyle.js">

</script>
```



## STRATEGIC MARKETING

```
<script type="text/javascript" language="JavaScript">
```

```
<!-- Hide from old browsers
```



## INTERNET SERVICE PROVIDER

```
img_dir = "../img_dir";
if (document.images) js=1; else js=0;
```

```
function stopError() { return true; }
window.onerror = stopError;
```

## KNOWLEDGE MANAGEMENT

```
function pic(img_name,ext,width,height)
if (js) {
this.off = new Image(width,height);
this.off.src = img_dir + img_name + "_off." + ext;
this.on = new Image(width,height);
this.on.src = img_dir + img_name + "_on." + ext;
}
}
```



## WAP

```
function new_pic(img_name,ext,width,height)
if (js) { pic[img_name] = new Image(ext,width,height); }
}
```

## THE ERA OF INFORMATION AND KNOWLEDGE

```
if (js) {
new_pic("azienda_home_e", "gif", 122, 14);
new_pic("newmedia_home", "gif", 104, 14);
new_pic("know_home", "gif", 148, 13);
new_pic("architetture_home_e", "gif", 169, 14);
new_pic("telecom_home_e", "gif", 126, 14);
new_pic("company", "gif", 49, 10);
new_pic("people", "gif", 36, 10);
new_pic("job", "gif", 17, 10);
new_pic("intranet", "gif", 42, 10);
new_pic("portfolio", "gif", 46, 10);
new_pic("partner_e", "gif", 99, 10);
new_pic("press", "gif", 29, 10);
new_pic("investor", "gif", 97, 10);
new_pic("events", "gif", 15, 10);
new_pic("contattaci_e", "gif", 58, 9);
new_pic("press", "gif", 29, 10);
}
```



## EXTENDED ENTERPRISE



## TECHNOLOGICAL ARCHITECTURES

```
function hilite(pic_name) {
document[pic_name].src = pic[pic_name].on.src; }
DESIGN AND IMPLEMENTATION
```



```
function unlite(pic_name) {
if (js) { document[pic_name].src = pic[pic_name].off.src; }
}
```

## TELECOMMUNICATIONS

```
function scheda(str) {
window.open(str,'misura','scrollbars=yes,resizable=no,width=383,height=360,status=no,location=no,toolbar=no');
}
```

```
function wap(str) {
window.open(str,'misura1','scrollbars=yes,resizable=no,width=780,height=460,status=no,location=no,toolbar=no');
}
```

```
// Stop hiding from old browsers -->
```

```
</script>
```

```
</head>
```

```
<body bgcolor="#5B789D" leftmargin=0 topmargin=0 text="White" link="White" vlink="White" alink="White" marginheight="0" marginwidth="0">
```

```
<table width="740" border="0" cellspacing="0" cellpadding="0">
```

```
<tr><a name="top">
```

```
<td></td>
```

```
<td></td>
```

```
<td></td>
```

```
</tr>
```

```
<tr>
```

```
<td align="center" height="111"><br></td>
```

```
<td><br>
```

```
<td align="center" classid="clsid:D27CDB6E-AE6D-11cf-96B8-444553540000"
```

```
codebase="http://active.macromedia.com/flash2/cabs/swflash.cab#version=2.0.0.20">
```

```
ID=home WIDTH=286 HEIGHT=45>
```

```
<PARAM NAME=movie VALUE="home3_e.swf">
```

```
<PARAM NAME=quality VALUE="best">
```

```
<PARAM NAME=bgcolor VALUE="#5B789D">
```

```
<SCRIPT LANGUAGE="JavaScript">
```

```
<!--
```

```
var plugin = (navigator.mimeTypes && navigator.mimeTypes["application/x-shockwave-flash"]) ? navigator.mimeTypes["application/x-shockwave-
```

```
flash"].enabledPlugin : 0;
```

```
if ( plugin && parseInt(plugin.description.substring(plugin.description.indexOf(".")-1)) >= 4 ) {
```

```
// Check for Flash version 4 or greater in Netscape
```

```
document.write('<EMBED src="home3_e.swf" quality=best bgcolor=#5B789D');
```

```
document.write(' swLiveConnect=FALSE WIDTH=286 HEIGHT=45');
```

```
document.write(' TYPE="application/x-shockwave-flash"
```

```
PLUGINSPAGE="http://www.macromedia.com/flash2/cabs/swflash.cab#version=2.0.0.20">P1_Prod_Version=ShockwaveFlash">');
```

```
} else if (!(navigator.appName && navigator.appName.indexOf("Netscape")>=0 && navigator.appVersion.indexOf(".2.")>=0)){
```

```
// Netscape 2 will display the IMG tag below so don't write an extra one
```

```
document.write('<IMG SRC="../images/animated.gif" WIDTH=286 HEIGHT=45 BORDER=0><br>');
```

```
}
```

```
//-->
```

```
</SCRIPT>
```

```
<NOEMBED><IMG SRC="../images/animated.gif" WIDTH=286 HEIGHT=45 BORDER=0><br></NOEMBED>
```

```
<NOSCRIPT><IMG SRC="../images/animated.gif" WIDTH=286 HEIGHT=45 BORDER=0><br></NOSCRIPT>
```

```
</OBJECT></td>
```

```
<td valign="top" height="100"><a href="../ita/default.html" onmouseover="win-
```

```
indow.status='Extended Enterprise';return true"></a></td>
```

```
</tr>
```

```
<tr>
```

```
<td valign="top">
```

```
<!-- xxxxxxxxx MENU A SINISTRA xxxxxxxxxx -->
```

```
<table width="286" border="0" cellspacing="0" cellpadding="0" bgcolor="#FDA201">
```

```
<tr>
```

```
<td></td>
```

```
<td></td>
```

```
<td></td>
```

```
<td bgcolor="#5B789D"></td>
```

```
</tr>
```

```
<tr>
```

```
<td></td>
```

```
<td valign="bottom"><a href="azienda.html" onmouseover="window.status='Extended Enterprise'; return true"><img src="../images/icon_azien-
```

**INTERNET**

**NEW MEDIA**



**INTERACTIVE TV**



**CD ROM**

**PORTALS**



**A NETWORK OF EXCELLENT COMPANIES**

**FLEXIBILITY**



**E-BUSINESS SOLUTIONS**



**METHODOLOGY AND CULTURE**

**INTRANET**

**OPERATIVE MARKETING**

**PLANNING AND COMMUNICATION**







REPLY SPA  
**FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2000**

# REPLY S.P.A.

## BALANCE SHEET

(in Lire)

31/12/00

31/12/99

31/12/00  
(in Euro)

### ASSETS

<b>A) AMOUNT DUE FROM SHAREHOLDERS</b>	-	-	-
<b>B) FIXED ASSETS</b>			
<i>I Intangible fixed assets</i>			
1 Start-up and expansion costs	7.061.012.542	22.116.923	3.646.709
3 Industrial patents and intellectual property rights	128.093.993	-	66.155
4 Concessions, licenses, trademark and similar rights	2.937.000.000	-	1.516.834
5 Goodwill	252.000.000	-	130.147
<b>Total intangible fixed assets</b>	<b>10.378.106.535</b>	<b>22.116.923</b>	<b>5.359.845</b>
<i>II Tangible fixed assets</i>			
1 Land and buildings	-	-	-
2 Plant and machinery	4.404.318	-	2.275
3 Industrial and commercial equipment	10.342.956	-	5.342
4 Other assets	169.851.466	-	87.721
<b>Total tangible fixed assets</b>	<b>184.598.740</b>	<b>-</b>	<b>95.338</b>
<i>III Financial fixed assets</i>			
1 Equity investments:			
a) subsidiary companies	5.081.438.064	778.875.512	2.624.344
	5.081.438.064	778.875.512	2.624.344
2 Receivables:			
a) subsidiary companies	7.000.000.000	403.000.000	3.615.198
d) other	8.774.000	-	4.531
	7.008.774.000	403.000.000	3.619.729
<b>Total financial fixed assets</b>	<b>12.090.212.064</b>	<b>1.181.875.512</b>	<b>6.244.073</b>
<b>Total fixed assets</b>	<b>22.652.917.339</b>	<b>1.203.992.435</b>	<b>11.699.256</b>

(in Lire)	31/12/00	31/12/99	31/12/00 (in Euro)
<b>ASSETS</b>			
<b>C) CURRENT ASSETS</b>			
<i>I Inventories</i>	-	-	-
<i>II Receivables due within 12 months</i>			
1 Trade receivables	1.408.079.939	-	727.213
2 Subsidiary companies	6.784.696.659	775.759.284	3.504.003
4 Parent companies	4.276.800	-	2.209
5 Other receivables	3.479.612.600	4.167.599	1.797.070
<b>Total receivables</b>	<b>11.676.665.998</b>	<b>779.926.883</b>	<b>6.030.495</b>
<i>III Financial assets not held as fixed assets</i>	50.002.751.349	-	25.824.266
<i>IV Liquid funds</i>			
1 Banks and post office deposits	4.959.044.946	226.578.154	2.561.133
3 Cash in hand	11.459.821	-	5.919
<b>Total liquid funds</b>	<b>4.970.504.767</b>	<b>226.578.154</b>	<b>2.567.052</b>
<b>Total current assets</b>	<b>66.649.922.114</b>	<b>1.006.505.037</b>	<b>34.421.813</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>	<b>108.704.459</b>	<b>-</b>	<b>56.141</b>
<b>TOTAL ASSETS</b>	<b>89.411.543.912</b>	<b>2.210.497.472</b>	<b>46.177.210</b>

(in Lire)

31/12/00

31/12/99

31/12/00  
(in Euro)**LIABILITIES AND SHAREHOLDERS' EQUITY****A SHAREHOLDERS' EQUITY**

I Share capital	8.218.195.957	1.377.500.000	4.244.344
II Additional paid-in capital	66.302.222.051	214.750.000	34.242.240
IV Legal reserve	6.890.884	2.930.689	3.559
VII Other reserves	122.380.691	55.683.086	63.204
IX Net result for the year	2.885.601.533	70.657.800	1.490.289
<b>Total shareholders' equity</b>	<b>77.535.291.116</b>	<b>1.721.521.575</b>	<b>40.043.636</b>

**B RESERVES FOR RISKS AND CHARGES**

2 Taxation	2.319.835.000	-	1.198.095
<b>Total reserves for risks and charges</b>	<b>2.319.835.000</b>	<b>-</b>	<b>1.198.095</b>

**C RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES**

	138.542.832	-	71.551
--	-------------	---	--------

**D PAYABLES**

6 Trade payables	6.524.893.290	471.418.500	3.369.826
8 Due to subsidiary companies	1.449.623.545	-	748.668
10 Due to parent companies	916.242.000	-	473.200
11 Due to tax authorities	120.551.453	17.557.397	62.260
12 Due to social security authorities	204.303.367	-	105.514
13 Other payables	202.261.309	-	104.460
<b>Total payables</b>	<b>9.417.874.964</b>	<b>488.975.897</b>	<b>4.863.928</b>

**E ACCRUED EXPENSES AND DEFERRED INCOME**

	-	-	-
--	---	---	---

**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**

	<b>89.411.543.912</b>	<b>2.210.497.472</b>	<b>46.177.210</b>
--	-----------------------	----------------------	-------------------

**MEMORANDUM ACCOUNTS**

Guarantees issued on behalf of group companies	3.865.000.000	1.440.000.000	1.996.106
Obligations for leasing commitments	340.753.946	410.109.037	175.985
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>4.205.753.946</b>	<b>1.850.109.037</b>	<b>2.172.091</b>



# REPLY S.P.A.

## STATEMENT OF INCOME

(in Lire)	2000	1999	2000 (in Euro)
<b>A VALUE OF PRODUCTION</b>			
1 Revenues from sales and services	5.226.244.663	919.076.400	2.699.130
5 Other income	183.517.858	3.208.149	94.779
<b>Total value of production (A)</b>	<b>5.409.762.521</b>	<b>922.284.549</b>	<b>2.793.909</b>
<b>B COSTS OF PRODUCTION</b>			
6 Raw and other materials, consumables and good for resale	59.242.647	–	30.596
7 Services	3.139.819.807	50.848.352	1.621.582
8 Leases and rentals	640.173.970	765.897.000	330.622
9 Personnell			
a) wages and salaries	644.917.712	–	333.072
b) social security charges	199.930.828	–	103.256
c) employee termination indemnities	44.660.696	–	23.065
	889.509.236	–	459.393
10 Amortisation, depreciation and writedowns			
a) ammortisation of intangible fixed assets	2.222.723.214	5.281.406	1.147.941
b) depreciation of tangible fixed assets	45.440.746	–	23.468
d) writedowns of receivables among current assets and liquid funds	14.717.730	–	7.601
	2.282.881.690	5.281.406	1.179.010
14 Other operating costs	39.841.316	34.369.028	20.576
<b>Total costs of production (B)</b>	<b>7.051.468.666</b>	<b>856.395.786</b>	<b>3.641.779</b>
<b>Difference between value and costs of production (A-B)</b>	<b>(1.641.706.145)</b>	<b>65.888.763</b>	<b>(847.870)</b>

(in Lire)	2000	1999	2000 (in Euro)
<b>C FINANCIAL INCOME AND EXPENSES</b>			
15 Income from equity investments - subsidiary companies	6.269.835.000	-	3.238.100
<b>16 Other financial income</b>			
a) Income from receivables held as financial assets	-	5.691.660	-
c) Income from securities held as current assets	79.044.470	-	40.823
<b>d) Other</b>			
- subsidiary companies	21.619.110	-	11.165
- other	42.624.401	-	22.014
17 Interest and other financial expenses	(7.173.419)	(922.623)	(3.705)
<b>Total financial income and expenses (C)</b>	<b>6.405.949.562</b>	<b>4.769.037</b>	<b>3.308.397</b>
<b>D ADJUSTMENTS TO FINANCIAL ASSETS</b>			
	-	-	-
<b>E EXTRAORDINARY INCOME AND EXPENSES</b>			
20 Income	548.381	-	283
21 Expenses	(1.523.465)	-	(787)
<b>Total extraordinary income and expenses (E)</b>	<b>(975.084)</b>	<b>-</b>	<b>(504)</b>
<b>RESULT BEFORE TAXATION</b>	<b>4.763.268.333</b>	<b>70.657.800</b>	<b>2.460.023</b>
22 Income taxes for the year	1.877.666.800	-	969.734
<b>NET RESULT FOR THE YEAR</b>	<b>2.885.601.533</b>	<b>70.657.800</b>	<b>1.490.289</b>





# NOTES TO THE FINANCIAL STATEMENTS

## FORM AND CONTENTS OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2000 have been prepared in accordance with the provisions of the Italian Civil Code, interpreted by the Italian accounting principles issued by the National Board of “Dottori Commercialisti and of Ragionieri”, and, in absence thereof, by those issued by the International Accounting Standards Committee (IASC). They consist of the balance sheet (prepared using the format specified in articles 2424 and 2424 bis of the Italian Civil Code), the statement of income (prepared using the format specified in articles 2425 and 2425 bis of the Italian Civil Code) and these Notes to the financial statements.

These notes explain, analyse and supplement the financial statement data with the information required by article 2427 of the Italian Civil Code and by other laws. Additional information is provided in order to present a true and fair view of the state of the Company, even where this is not required by specific legislation.

The amounts indicated in the notes to the financial statements are expressed in millions of Lire if not otherwise indicated.

## ACTIVITY OF THE COMPANY

Reply S.p.A. is the Holding of a group of companies that are very focused and specialized in the E-business market where they work with operating branches in Turin, Milan and Rome.

The Company mainly carries out the operating co-ordination and the financial direction of the Group, as well as administration, financial assistance, portion of purchasing activities and marketing.

## ACCOUNTING PRINCIPLES

The following accounting principles have been adopted in observance of article 2426 of the Italian Civil Code, also taking account of CONSOB indications.

### Intangible fixed assets

Intangible fixed assets are recorded at purchase or production cost, including related charges; book value is amortized on a straight-line-basis in relation to the residual period they are expected to benefit. In compliance with accounting principle No. 24 the costs incurred by the Parent Company for the listing in the New Market, have been included in start-up and expansion costs. The duration of the amortisation plans is based on the estimated useful lives of the related assets. In particular:

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

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

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

### **Tangible fixed assets**

Tangible fixed assets are generally recorded at purchase or construction costs including related charges and other direct or indirect expenses reasonably attributable to the individual assets. Neither monetary nor economical revaluations have been made to the historical cost of the assets. Tangible assets are written down to reflect a permanent impairment of value, regardless of the amortization already accounted for. Their book value is reinstated in subsequent year if the reasons for such write-down no longer apply. Ordinary maintenance costs are fully expensed as incurred, while improvement expenditures are allocated to the related assets and depreciated over their residual useful lives.

Depreciation is calculated on a straight-line basis using rates that reflect the estimated useful lives of the related assets. In the first year such assets enter into service these rates are halved, in consideration of their shorter period of use. Acquisitions with a unit value of less than Lire 1 million are recorded in the statement of income in the year in which they are incurred.

The annual depreciation rates applied are as follows:

	<b>Percentage</b>
Plants and machinery	40%
Industrial and commercial equipment	30%
Electronic office equipment	40%
Mobile telephones	40%
Automobiles	50%

### **Assets leased**

Assets leased are accounted for in compliance with the existing Italian legislation: leasing instalments are charged to the statement of income on the basis of the duration of the related contract.

### **Equity investments**

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

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

**Accounts receivable and accounts payables**

Accounts receivable are recorded at their estimated realisable value. Accounts payable are stated at face value.

**Other financial assets not held as fixed assets**

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

Securities purchased under agreement to resell are recorded at cost and classified as financial assets not held as fixed assets. The difference between the related spot and forward prices is recognized on an accruals basis over the duration of the contract.

**Liquidity funds**

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

**Accruals and Deferrals**

Accruals and deferrals are recorded using the accrual method to match costs and revenues in the accounting periods to which they relate.

**Reserves for risks and charges**

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

**Reserve for employee termination indemnities**

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

**Revenue recognition**

Revenues from services are recognised at the time of execution.

Revenues from the execution of specific contracts are recognised at the moment of the customer approval of the completion of the work or on the basis of the percentage of completion method.

Revenues from sales of products are recognised at the moment title passes to the clients, which is generally at the time of shipment.

**Dividends**

Dividends from subsidiaries are recorded in the financial period to which they accrue (and namely in the financial period in which the corresponding income is earned). Deferred taxes are provided for against such dividends.

The relative tax credits that will arise at time the dividends are collected, based on the accrual principle, are also credited to financial income in the financial period during which the said dividends accrue with a balance sheet contra-item "Prepaid taxes" under other receivables.

### **Income taxes**

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

The net balance between deferred tax assets and liabilities is also accounted for.

Deferred tax assets arise from costs and expenses that are not tax deductible at year-end, and from benefits on tax losses carried forward; deferred tax assets are only accounted for if there is a reasonable belief that they will be recovered.

Deferred tax liabilities refer to transactions where taxation is deferred to future years, such as gains on the disposal of tangible and intangible fixed assets or consolidation adjustments arising from lease transactions recorded as finance leases.

### **Translation of foreign currency items**

At year-end short-term receivables and payables denominated in foreign currency, including short-term portions of long-term receivables, payables and investment funds, are translated and recorded using the year-end exchange rate.

Non-current receivables and payables denominated in foreign currency are translated and booked at the year-end exchange rate. If net exchange loss arises from the translation of long-term receivables and payables, this is charged to the statement of income. On the other hand resulting net exchange gain is not recognised, on the basis of prudence.

## **OTHER INFORMATION**

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

No exceptions allowed under art. 2423.4 of the Italian Civil Code have been taken advantage of with respect to the financial statements.

### **Comparability of items**

In order to allow comparisons the financial statements of as of 31 December 1999 of the Company, at the time Reply Europe SàRL, prepared in compliance with Luxembourg law, has been adjusted in accordance to paragraph 5 of art. 2423 ter of the Italian Civil Code.

### **Balance Sheet and Statement of Income items expressed in Euro as at 31 December 2000**

The balance sheet and statement of income items as of 31 December 2000 have been translated in Euro using the fixed exchange rate of Lire 1.936,27 per Euro established by the Finance Ministry, member of the European Monetary Union. The values expressed in Euro, have been provided solely for information purposes and are not to be mistaken as an effective translation from Lira to Euro.

## COMMENTS ON ASSETS INCLUDED IN THE BALANCE SHEET

### B) FIXED ASSETS

#### I. Intangible fixed assets

Net intangible assets, as at 31 December 2000 amount to Lire 10.378,1 million (Lire 22,1 million as at 31 December 1999).

(in Lire)	Historical cost	Accumulated amortisation	Net book value at 31/12/00
<b>Start-up and expansion costs</b>	<b>8.838.375.786</b>	<b>1.777.363.244</b>	<b>7.061.012.542</b>
<b>Industrial patents and intellectual property right</b>	<b>192.140.989</b>	<b>64.046.996</b>	<b>128.093.993</b>
<b>Concessions, licenses, trademarks and similar rights</b>	<b>3.300.000.000</b>	<b>363.000.000</b>	<b>2.937.000.000</b>
<b>Goodwill</b>	<b>280.000.000</b>	<b>28.000.000</b>	<b>252.000.000</b>
<b>Total</b>	<b>12.610.516.775</b>	<b>2.232.410.240</b>	<b>10.378.106.535</b>

Movements in intangible fixed assets during the year 2000 can be summarized as follows:

(in Lire)	Net book value at 31/12/99	Acquisition of company branch	Increases	Amortisation	Net book value at 31/12/00
<b>Start-up and expansion costs</b>	<b>22.116.923</b>	–	<b>8.806.571.837</b>	<b>(1.767.676.218)</b>	<b>7.061.012.542</b>
<b>Industrial patents and intellectual property rights</b>	–	<b>187.086.089</b>	<b>5.054.900</b>	<b>(64.046.996)</b>	<b>128.093.993</b>
<b>Concessions, licenses, trademarks and similar rights</b>	–	–	<b>3.300.000.000</b>	<b>(363.000.000)</b>	<b>2.937.000.000</b>
<b>Goodwill</b>	–	<b>280.000.000</b>	–	<b>(28.000.000)</b>	<b>252.000.000</b>
<b>Total</b>	<b>22.116.923</b>	<b>467.086.089</b>	<b>12.111.626.737</b>	<b>(2.222.723.214)</b>	<b>10.378.106.535</b>

*Start-up and expansion costs* refer to charges related to the operations of share capital increase. In particular the increase refers to costs incurred by the Company in relation to the Global Offer of 1,970,000 ordinary shares representing about 24.14% of Reply S.p.A.'s share capital for a corresponding amount of Lire 8.806,6 million.

*Industrial patents and intellectual property rights* refer mainly to software patents deriving from the acquisition of the business branch.

*The increase of Concessions, licences, trademarks and similar rights* is due to the increase of the company's share capital (at the time Reply Europe), which was resolved on 9 June 2000, and subscribed by Alister Holding SA through the contribution of its shares in subsidiary companies and the "Reply" trademark.

Such trademark is amortised over a 5-year period calculated from the date of acquisition.

*Goodwill*, amounting to Lire 280 million, and amortised over a 10-year period is related to the value of the business branch purchased by the holding, Alika S.r.l.

## II. Tangible fixed assets

Tangible fixed assets amounting to Lire 184,6 million are detailed as follows:

(in Lire)	31/12/00	31/12/99	Difference
<b>Generic plants</b>	<b>4.404.318</b>	–	<b>4.404.318</b>
<b>Electronic equipment</b>	<b>168.692.495</b>	–	<b>168.692.495</b>
<b>Generic equipment</b>	<b>10.342.956</b>	–	<b>10.342.956</b>
<b>Automobiles</b>	<b>618.750</b>	–	<b>618.750</b>
<b>Mobile phones</b>	<b>540.221</b>	–	<b>540.221</b>
<b>Total</b>	<b>184.598.740</b>	–	<b>184.598.740</b>

Property, plant and equipment in the year 2000 had the following movements:

(in Lire)	Plant and machinery	Industrial and Commerc. equip.	Other assets	Total
<b>Historical cost</b>	-	-	-	-
<b>Accumulated Depreciation</b>	-	-	-	-
<b>Balance as at 31 December 1999</b>	-	-	-	-
<i>Historical cost</i>				
<b>Acquisition of business branch.</b>	-	12.168.186	110.014.896	122.183.082
<b>Additions</b>	5.505.398	-	102.351.006	107.856.404
<b>Disposal</b>	-	-	-	-
<i>Accumulated Depreciation</i>				
<b>Depreciation</b>	1.101.080	1.825.230	42.514.436	45.440.746
<b>Disposals</b>	-	-	-	-
<b>Historical cost</b>	5.505.398	12.168.186	212.365.902	230.039.486
<b>Accumulated Depreciation</b>	1.101.080	1.825.230	42.514.436	45.440.746
<b>Balance as at 31 December 2000</b>	4.404.318	10.342.956	169.851.466	184.598.740

During the year 2000 the Company has carried out investments amounting to Lire 230,1 million related mainly to computers and network equipment.

In compliance with law n.72 of 1983, art. 10, it is important to point out that no revaluations in accordance with specific law have been made to the assets of the Company.

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

Tangible assets as of 31 December 2000 are depreciated for 19,7% of their gross value.



### III. Financial fixed assets

#### Equity investments

Equity investments as of 31 December 2000 amount to Lire 5.081,4 million, with an increase of Lire 4.302,5 million compared to 31 December 1999 (Lire 778,9 million).

(in Lire)	Balance as at 31/12/1999	Contributions	Acquisitions and subscription	Disposals	Balance as at 31/12/2000	Interest
<b>Business Reply S.r.l.</b>	<b>100.858.352</b>	<b>639.200.000</b>	–	<b>(15.000.000)</b>	<b>725.058.352</b>	<b>100%</b>
<b>Cluster Reply S.r.l.</b>	<b>219.030.111</b>	<b>809.500.000</b>	–	–	<b>1.028.530.111</b>	<b>100%</b>
<b>Sytel Reply S.r.l.</b>	<b>240.093.375</b>	<b>907.300.000</b>	–	–	<b>1.147.393.375</b>	<b>100%</b>
<b>Technology Reply S.r.l.</b>	<b>178.547.162</b>	<b>1.755.600.000</b>	–	–	<b>1.934.147.162</b>	<b>100%</b>
<b>Sytel Reply Milano S.r.l.</b>	<b>4.840.676</b>	–	–	–	<b>4.840.676</b>	<b>25%</b>
<b>Aktive Reply S.r.l.</b>	<b>15.490.160</b>	<b>3.900.000</b>	–	–	<b>19.390.160</b>	<b>100%</b>
<b>Cluster Reply Milano S.r.l.</b>	<b>6.633.000</b>	–	–	–	<b>6.633.000</b>	<b>25%</b>
<b>Cluster Reply Roma S.r.l.</b>	<b>8.542.00</b>	–	–	–	<b>8.542.000</b>	<b>35%</b>
<b>Technology Reply Torino S.r.l.</b>	<b>4.840.676</b>	–	–	–	<b>4.840.676</b>	<b>25%</b>
<b>Creative Reply S.r.l.</b>	–	<b>3.000.000</b>	<b>16.458.296</b>	–	<b>19.458.296</b>	<b>100%</b>
<b>YH Reply S.r.l.</b>	–	–	<b>173.600.600</b>	–	<b>173.600.600</b>	<b>100%</b>
<b>Bewit Reply S.r.l. (1)</b>	–	–	<b>4.066.167</b>	–	<b>4.066.167</b>	<b>70%</b>
<b>BLUE Reply S.r.l. (1)</b>	–	–	<b>4.937.489</b>	–	<b>4.937.489</b>	<b>85%</b>
<b>Total</b>	<b>778.875.512</b>	<b>4.118.500.000</b>	<b>199.062.552</b>	<b>(15.000.000)</b>	<b>5.081.438.064</b>	

(1) Companies constituted in December 2000. The balance sheet amount represents the paying-in of 3/10 of the share capital subscribed.

The remarkable increase in the value of investments is mainly due to:

- Increase of the Company's share capital (at the time Reply Europe Sarl), resolved on 9 June 2000 and subscribed by Alister Holding by means of contribution of investments in the subsidiaries for an overall amount of Lire 4.118,5 million. Such contribution was not carried out in compliance with Luxembourg laws;
- Acquisition of 100% of Yellow House Reply during the year 2000 for a total investment amounting to Lire 173,6 million.

In compliance with of article 2426 n. 3 of the Italian Civil Code, the subsidiary Aktive Reply S.r.l. is recorded at an higher value compared to the respective equity holding for Lire 83 million. This difference is attributable to the start-up of the company.

It is to be noted that the carrying values of the other investments, are lower than their corresponding equity holding, resulting from the last approved financial statements, net of dividends and adjustments carried out in compliance with accounting principles required for the preparation of the consolidated financial statements.

The Company, in accordance with existing laws, prepared the consolidated financial statements to which we refer in relation to the economic, monetary and financial position of the Reply Group.

A list of investments is annexed at the notes herein, as requested by art. 2427 of the Italian Civil Code.

### **Receivables**

#### *Receivables from subsidiary companies*

This item includes loans granted in the month of December, to the subsidiary companies for a total amount of Lire 7.000 million.

The interest rate applied to loans granted to the subsidiaries is the 3 month Euroribor with an additional spread of 2%. The detail is as follows:

	Millions of Lire
Aktive Reply Srl	700
Business Reply Srl	900
Cluster Reply Milano Srl	500
Cluster Reply Roma Srl	800
Creative Reply Srl	650
Sytel Reply Srl	1.000
Sytel Reply Milano Srl	550
Technology Reply Srl	1.200
Technology Reply Torino Srl	300
YH Reply	400
<b>Total</b>	<b>7.000</b>

## C. CURRENT ASSETS

### II. Receivables

#### *Trade Receivables*

Trade receivables, mainly constituted by highly rated companies, all collectable within the year, arise from normal sales transactions. Details are provided below:

(in Lire)	31/12/00	31/12/99	Difference
<b>Trade receivables from third parties</b>	<b>1.423.072.669</b>	-	<b>1.423.072.669</b>
<b>Credit notes to be issued</b>	<b>(275.000)</b>	-	<b>(275.000)</b>
<b>Total</b>	<b>1.422.797.669</b>	-	<b>1.422.797.669</b>
<b>Allowance for doubtful accounts</b>	<b>(14.717.730)</b>	-	<b>(14.717.730)</b>
<b>Total net receivables</b>	<b>1.408.079.939</b>	-	<b>1.408.079.939</b>

These receivables refer to professional services relative to third parties agreements with the Holding Reply S.p.A. and subcontracted by the latter to the subsidiaries.

As of 31 December 2000, after having carried out a careful risk evaluation, the provision made for doubtful accounts amounted to Lire 14,7 million.

**Receivables from subsidiary companies**

The detail is as follows:

(in Lire)	31/12/00	31/12/99	Difference
<b>Dividends from subsidiaries recorded on accrual basis</b>	<b>3.950.000.000</b>	–	<b>3.950.000.000</b>
<b>Other receivables</b>	<b>2.834.696.659</b>	<b>775.759.284</b>	<b>2.058.937.375</b>
<b>Total</b>	<b>6.784.696.659</b>	<b>775.759.284</b>	<b>6.008.937.375</b>

*Dividends from subsidiary companies recorded on accrual basis* were resolved by the shareholders' meeting of the subsidiaries at the time of allocation of the net result of the year 2000.

The detail is as follows:

	Millions of Lire
Business Reply Srl	250
Cluster Reply Srl	1.690
Technology Reply Srl	480
Sytel Reply Srl	1.000
YH Reply Srl	530
<b>Total</b>	<b>3.950</b>

*Other receivables* refer to the exploitation of the trademark "Reply" by the subsidiaries and to service contracts that the Parent Company Reply carries out in favour of the subsidiaries, and more precisely:

- > Operating co-ordination, technical and quality direction;
- > Administration, financial assistance, portion of purchasing activities and marketing.

**Other receivables**

The detail is as follows:

(in Lire)	31/12/00	31/12/99	Variance
<b>Advances to suppliers</b>	<b>30.841.294</b>	–	<b>30.841.294</b>
<b>Receivables from tax authorities for prepaid taxes on dividends</b>	<b>2.319.835.000</b>	–	<b>2.319.835.000</b>
<b>Deferred tax assets</b>	<b>505.478.000</b>	–	<b>505.478.000</b>
<b>VAT receivables</b>	<b>485.343.748</b>	–	<b>485.343.748</b>
<b>Other receivables</b>	<b>138.114.558</b>	<b>4.167.599</b>	<b>133.946.959</b>
<b>Total</b>	<b>3.479.612.600</b>	<b>4.167.599</b>	<b>3.475.445.001</b>

The significant changes compared to the previous year is due to the following:

- > Receivables from tax authorities for prepaid taxes on dividends recorded on accrual basis, amounting to Lire 2.319,8 million; this amount will be reversed in 2001 against the related tax credit;

- > Recording of the benefit arising from the tax loss carried forward for Lire 505 million;
- > VAT receivable amounting to Lire 485,3 million, due to the significant increase of payables relevant to costs incurred for the listing of the Company.

### III. Financial assets not held as fixed assets

This item, amounting to Lire 50.002,8 million, reflects the investments made by Reply with third parties for the temporary commitment of liquidity deriving from the Global Offer of shares. The detail is as follows:

(in Lire)	31/12/00	31/12/99	Variance
<b>Receivables from sale of securities</b>	<b>21.981.397.907</b>	–	<b>21.981.397.907</b>
<b>Government Bond (BTP) and Treasury Certificates (CCT)</b>	<b>17.759.463.600</b>	–	<b>17.759.463.600</b>
<b>Mutual investment funds</b>	<b>9.999.765.226</b>	–	<b>9.999.765.226</b>
<b>Other</b>	<b>262.124.616</b>	–	<b>262.124.616</b>
<b>Total</b>	<b>50.002.751.349</b>	–	<b>50.002.751.349</b>

*Receivables from sale of securities* reflect the purchase cost of securities held under agreements to resell at established date and price.

Gains and losses related to this operation, calculated in function of the difference between spot and forward price are recorded in compliance with the accruals accounting method and are classified within “other financial income and expenses” of the statement of income.

*Mutual Investment funds* represent the purchase cost of the share of a SAN PAOLO IMI ASSET MANAGEMENT SGR liquidity fund.

### IV. Liquid funds

This item amounting to Lire 4.970,5 million, shows a difference of Lire 4.743,9 million compared to 31 December 1999, and is referred to cash at banks and in hand at year-end.

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

### D. ACCRUED INCOME AND PREPAID EXPENSES

This item amounting to Lire 108,7 million, equal to zero at 31 December 1999, mainly refers to accrued income from interest on securities and prepaid expenses from leasing contracts and other utility expenses, which are accounted for in accordance with the accruals accounting method.

## COMMENTS ON SHAREHOLDERS' EQUITY AND LIABILITIES INCLUDED IN THE BALANCE SHEET

### A) SHAREHOLDERS' EQUITY

The table below shows changes in shareholders' equity as of 31 December 2000:

(in Lire)	Share Capital
<b>Balance as at 31 December 1999</b>	<b>1.377.500.000</b>
Allocation of 1999 result	-
Increase of share capital through contribution of investments and trademark	1.854.600.000
Free capital increase	2.665.900.000
Translation adjustment of share capital in Euro	40.462.639
Increase of share capital set aside for the company managers of 102,000 shares (price 0,81 Euro)	102.699.761
Increase of share capital set aside for strategic partners of 300,000 shares (price: 0,949 euro)	302.058.120
Global Offer of 1.832.200 shares (price: 18 Euro)	1.844.769.625
Global Offer of 30.000 shares set aside for employees (price: 16,2 Euro)	30.205.812
Net result of the year	-
<b>Balance as at 31 December 2000</b>	<b>8.218.195.957</b>

As of 31 December 2000 the fully subscribed paid-in share capital of Reply S.p.A. amounted to Lire 8.218,2 million (Lire 1.377,5 as at 31 December 1999).

This is represented by 8.162.200 ordinary shares, par value 0,52 Euro each.

Movements in the share capital during the year have been determined by the following transactions:

- > On 9 June 2000 the Company (at the time Reply Europe Sàrl) increased its share capital from Lire 1.377.500.000 to Lire 3.232.100.000, through the issuing of 18.546 shares each at Lire 100.000 (in addition to a share premium amounting to Lire 5.563.900.000), fully subscribed by Alister Holding through the contribution of its investments in operating companies and the "Reply" trademark;
- > On 10 July 2000, the Extraordinary Shareholders' Meeting of Reply S.p.A. resolved as follows (the resolution was subsequently approved by the Tribunal of Turin on 21 July 2000):
  - A free increase of the share capital from Lire 3.232.100.000 to Lire 5.898.000.000 using the additional paid-in capital reserve for Lire 2.665.900.000,
  - The conversion of the increased share capital to 3.066.960 euro, represented by 5,898,000 shares of 0,52 Euro each, using the additional paid-in capital reserve for Lire 40.462.639; the paid increase in the share capital, following the share-

Additional paid-in capital	Legal Reserve	Other Reserves	Net result for the year	Total
<b>214.750.000</b>	<b>2.930.689</b>	<b>55.683.086</b>	<b>70.657.800</b>	<b>1.721.521.575</b>
–	<b>3.960.195</b>	<b>66.697.605</b>	<b>(70.657.800)</b>	–
<b>5.563.900.000</b>	–	–	–	<b>7.418.500.000</b>
<b>(2.665.900.000)</b>	–	–	–	–
<b>(40.462.639)</b>	–	–	–	–
<b>57.274.866</b>	–	–	–	<b>159.974.627</b>
<b>249.197.949</b>	–	–	–	<b>551.256.069</b>
<b>62.012.640.467</b>	–	–	–	<b>63.857.410.092</b>
<b>910.821.408</b>	–	–	–	<b>941.027.220</b>
–	–	–	<b>2.885.601.533</b>	<b>2.885.601.533</b>
<b>66.302.222.051</b>	<b>6.890.884</b>	<b>122.380.691</b>	<b>2.885.601.533</b>	<b>77.535.291.116</b>

holder's waiver of stock option rights, from 3.066.960 euro to 4.303.546 euro through the issuing, in a lump sum or in several sums, of a maximum number of 2,378,050 new shares, of 0,52 euro each and the allocation of the aforementioned increase as follows:

- To the managers of the Reply Group up to a total of 102,000 shares, in different proportions;
  - Up to 1,862,200 shares to third parties in compliance with the Italian Legislative decree 24-2-1998 no.58 and in accordance with CONSOB resolutions;
  - Up to 413,850 shares to strategic business partners.
- On 5 September 2000 the managers entirely subscribed and paid-in the share capital increase set aside for them for a total amount of 82.620 euro.
- On 2 November 2000 TNT, a strategic Group partner, subscribed part of the increase reserved for third party strategic investors, and precisely, 300,000 shares at 0,949 euro per share, equivalent to 284.700 euro.
- On 6 December 2000, with the beginning of negotiations, the Global Offer of 1,970,000 ordinary shares representing 24.14% of the Company's share capital, following its increase resolved by the Extraordinary Shareholder's Meeting on 10 July 2000 in 1,862,200 shares and in 107,800 shares sold by the Shareholders, was concluded.

**B) RESERVES FOR RISKS AND CHARGES***Taxation reserve*

Reserve for taxes, as of 31 December 2000, amounts to Lire 2.319,8 million, entirely set aside in the accounting year in relation to deferred tax payables on dividends from subsidiaries, amounting to Lire 3.950 million, and is recorded according to the "maturity" principle.

**C) RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES**

Movements in the reserve during the year were as follows:

(in Lire)

<b>Balance as at 31 December 1999</b>	-
<b>Reserve transferred following acquisition of business branch</b>	<b>85.674.977</b>
<b>Provision for the year</b>	<b>44.660.696</b>
<b>Utilizations</b>	<b>(11.445.447)</b>
<b>Reserves transferred from Group companies</b>	<b>19.652.606</b>
<b>Balance as at 31 December 2000</b>	<b>138.542.832</b>

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

The number of employees, transferred with the acquisition of the business branch, as at 31 December 2000 is 21.

**D) PAYABLES**

Payables as at 31 December 2000 amount to Lire 9.417,9 million, with an increase of Lire 8.928,9 million compared to 31 December 1999 (Lire 488,9 million).

(in Lire)	31/12/00	31/12/99	Difference
<b>Financial payables</b>	-	-	-
<b>TRADE PAYABLES AND OTHER PAYABLES (within 12 months)</b>			
<i>6) Trade payables</i>	6.524.893.290	471.418.500	6.053.474.790
<i>8) Due to subsidiary companies</i>	1.449.623.545	-	1.449.623.545
<i>10) Due to parent companies</i>	916.242.000	-	916.242.000
<i>11) Due to tax authorities</i>			
Due to Foreign tax authorities	11.097.453	17.557.397	(6.459.944)
Withholding taxes (employees)	81.605.000	-	81.605.000
Withholding taxes (self-employed workers)	27.849.000	-	27.849.000
	120.551.453	17.557.397	102.994.056
<i>12) Due to social security authorities</i>			
Inps	52.532.190	-	52.532.190
Inpdai	88.949.739	-	88.949.739
Inail	2.560.000	-	2.560.000
Previndai	9.403.934	-	9.403.934
Contribution on employees accruals	50.857.504	-	50.857.504
	204.303.367	-	204.303.367
<i>13) Other payables</i>			
Employees accruals	153.832.423	-	153.832.423
Other payables to employees	928.000	-	928.000
Due to Directors	655.500	-	655.500
Other payables	46.845.386	-	46.845.386
	202.261.309	-	202.261.309
<b>Total trade payables and other payables</b>	<b>9.417.874.964</b>	<b>488.975.897</b>	<b>8.928.899.067</b>
<b>Total Payables</b>	<b>9.417.874.964</b>	<b>488.975.897</b>	<b>8.928.899.067</b>

Non-financial short-term payables comprise the following items.

**Trade payables**

They are related to normal trade transactions. The increase of Lire 6.053,5 million compared to the previous year, is mainly due to the costs incurred by the Company near year-end, in relation to the listing in the New Market, organised and run by Borsa Italiana.



**Due to subsidiary companies**

This item refers to trade transactions carried out at normal market conditions.

Such payables refer to professional services related to third parties agreements with Reply S.p.A. and subcontracted by the latter to subsidiaries.

**Due to parent companies**

The balance expresses the payables still due to one of the holding companies for the acquisition of the exploitation rights for the trademark "Reply" until the date of contribution.

**Due to tax authorities**

This item mainly refers to payables due to tax authorities for the amounts to be incurred by employees and self-employed workers.

**Due to Social security authorities**

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

**Other payables**

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

**ANALYSIS OF THE NET FINANCIAL POSITION**

The Company does not have financial payables at the balance sheet date due to the liquidity generated by the increase of the share capital following the Global Offers of shares.

The net financial position as of 31 December 2000 amounts to Lire 61.982,0 million and is detailed as follows:

(in Lire)	31/12/00	31/12/99	Difference
<b>Fin. receivables from subsid. (due within 12 months)</b>	<b>7.000.000.000</b>	<b>403.000.000</b>	<b>6.597.000.000</b>
<b>Other financial receivables (due beyond 12 months)</b>	<b>8.774.000</b>	<b>-</b>	<b>8.774.000</b>
<b>Total financial fixed assets</b>	<b>7.008.774.000</b>	<b>403.000.000</b>	<b>6.605.774.000</b>
<b>Receivables from the sale of securities</b>	<b>21.981.397.907</b>	<b>-</b>	<b>21.981.397.907</b>
<b>Securities</b>	<b>17.759.463.600</b>	<b>-</b>	<b>17.759.463.600</b>
<b>Mutual Investment Funds</b>	<b>9.999.765.226</b>	<b>-</b>	<b>9.999.765.226</b>
<b>Other</b>	<b>262.124.616</b>	<b>-</b>	<b>262.124.616</b>
<b>Liquid funds</b>	<b>4.970.504.767</b>	<b>226.578.154</b>	<b>4.743.926.613</b>
<b>Total financial assets within current assets</b>	<b>54.973.256.116</b>	<b>226.578.154</b>	<b>54.746.677.962</b>
<b>Total financial assets</b>	<b>61.982.030.116</b>	<b>629.578.154</b>	<b>61.352.451.962</b>
<b>Financial payables</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET FINANCIAL POSITION</b>	<b>61.982.030.116</b>	<b>629.578.154</b>	<b>61.352.451.962</b>

### MEMORANDUM ACCOUNTS

The details are as follows:

(in Lire)	31/12/00	31/12/99	Difference
<b>Guarantees issued on behalf of subsidiary companies</b>	<b>3.865.000.000</b>	<b>1.440.000.000</b>	<b>2.425.000.000</b>
<b>Obligations for leasing commitments</b>	<b>340.753.946</b>	<b>410.109.037</b>	<b>(69.355.091)</b>
<b>Total</b>	<b>4.205.753.946</b>	<b>1.850.109.037</b>	<b>2.355.644.909</b>

Guarantees issued on behalf of subsidiary companies mainly refer to patronage letters in favour of credit institutions, in order to provide the subsidiaries with autonomous credit lines.

## NOTES TO THE STATEMENT OF INCOME

## A) VALUE OF PRODUCTION

## Revenues from sales and services

Revenues amount to Lire 5.226,2 million and are detailed as follows:

(in Lire)	2000	1999	Variance
<b>Revenues from services</b>	<b>1.285.995.663</b>	–	<b>1.285.995.663</b>
<b>Royalties on “Reply” trademark</b>	<b>1.900.249.000</b>	<b>919.076.400</b>	<b>981.172.600</b>
<b>Inter-company services</b>	<b>1.264.000.000</b>	–	<b>1.264.000.000</b>
<b>Other inter-company charges</b>	<b>776.000.000</b>	–	<b>776.000.000</b>
<b>Total</b>	<b>5.226.244.663</b>	<b>919.076.400</b>	<b>4.307.168.263</b>

*Revenue from services* mainly refers to professional services related to third parties agreements with the Parent Company Reply S.p.A. and subcontracted by the latter to the subsidiaries.

*Royalties on “Reply” trademark* refer to charge to subsidiaries, equal to 3% of the subsidiaries’ revenues from third parties.

Revenues from *inter-company services* refer to activities that the Parent Company Reply carries out for the subsidiaries, and more precisely:

- > Operating co-ordination, technical and quality direction;
- > Administration, financial assistance, portion of purchasing activities and marketing.

*Other inter-company charges* are related to the cost of managerial personnel working for subsidiary companies.

## B) COSTS OF PRODUCTION

### Services

The cost of services is detailed as follows:

(in Lire)	2000	1999	Difference
<b>Commercial and technical consultancy</b>	<b>85.474.564</b>	–	<b>85.474.564</b>
<b>Professional services from Group companies</b>	<b>1.535.640.665</b>	–	<b>1.535.640.665</b>
<b>Services from Parent companies</b>	<b>143.500.000</b>	–	<b>143.500.000</b>
<b>Directors' remuneration</b>	<b>256.200.000</b>	–	<b>256.200.000</b>
<b>Travel and professional training expenses</b>	<b>89.392.175</b>	–	<b>89.392.175</b>
<b>Marketing expenses</b>	<b>290.944.938</b>	–	<b>290.944.938</b>
<b>Administrative and legal services</b>	<b>152.793.591</b>	<b>50.848.352</b>	<b>101.945.239</b>
<b>Statutory Auditors' and Independent Auditors' fees</b>	<b>130.000.000</b>	–	<b>130.000.000</b>
<b>Utilities</b>	<b>74.932.551</b>	–	<b>74.932.551</b>
<b>Other</b>	<b>380.941.323</b>	–	<b>380.941.323</b>
<b>Total</b>	<b>3.139.819.807</b>	<b>50.848.352</b>	<b>3.088.971.455</b>

Services from Parent Company refer to contracts related to the use of premises, domiciliation and secretarial services.

### Leases and rentals

Charges for leases and rentals are detailed as follows:

(in Lire)	2000	1999	Difference
<b>Rentals</b>	<b>6.860.000</b>	–	<b>6.860.000</b>
<b>Leasing of automobiles</b>	<b>66.756.179</b>	–	<b>66.756.179</b>
<b>Royalties on trademarks</b>	<b>474.823.500</b>	<b>765.897.000</b>	<b>(291.073.500)</b>
<b>Other</b>	<b>91.734.291</b>	–	<b>91.734.291</b>
<b>Total</b>	<b>640.173.970</b>	<b>765.897.000</b>	<b>(125.723.030)</b>

The item “Royalties on trademarks” represents the costs incurred by the company for the acquisition of the exploitation rights for the “Reply” trademark until 9 June 2000.

### Personnel Costs

Costs for personnel amount to Lire 889,5 million, and are detailed in the statement of income.

The following table indicates the number of employees by category:

(Number)	31/12/00	31/12/99	Differences
<b>Executives</b>	<b>5</b>	–	<b>5</b>
<b>Managers</b>	<b>4</b>	–	<b>4</b>
<b>Staff</b>	<b>12</b>	–	<b>12</b>
<b>Total</b>	<b>21</b>	–	<b>21</b>

**Amortisation, depreciation and writedowns**

Amortisation of Intangible assets amounts to Lire 2.222,7 million. The details are provided at the notes to Intangible Assets herein.

Depreciation of tangible assets, amounting to Lire 45,4 million, 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.

Writedowns of receivables and liquid funds amounting to Lire 14,7 million refer to the provision for doubtful accounts.

**Other operating costs**

These expenses include:

(in Lire)	2000	1999	Difference
<b>Hospitality expenses</b>	<b>4.325.700</b>	–	<b>4.325.700</b>
<b>Gift to clients</b>	<b>11.291.664</b>	–	<b>11.291.664</b>
<b>Other costs</b>	<b>21.770.745</b>	<b>34.369.028</b>	<b>(12.598.283)</b>
<b>Magazines</b>	<b>962.500</b>	–	<b>962.500</b>
<b>Taxes on automobiles</b>	<b>1.490.707</b>	–	<b>1.490.707</b>
<b>Total</b>	<b>39.841.316</b>	<b>34.369.028</b>	<b>5.472.288</b>

**C) FINANCIAL INCOME AND EXPENSES****Interest and other financial charges**

This item is detailed as follows:

(in Lire)	2000	1999	Difference
<b>Dividends and tax credit</b>	<b>6.269.835.000</b>	–	<b>6.269.835.000</b>
<b>Interest from securities</b>	<b>79.044.470</b>	–	<b>79.044.470</b>
<b>Interest from subsidiaries</b>	<b>21.619.110</b>	–	<b>21.619.110</b>
<b>Interest income on bank accounts</b>	<b>42.624.344</b>	<b>5.691.660</b>	<b>36.932.684</b>
<b>Interest due to banks</b>	<b>(6.965.259)</b>	<b>(922.623)</b>	<b>(6.042.636)</b>
<b>Losses on exchange differences</b>	<b>(208.103)</b>	–	<b>(208.103)</b>
<b>Total</b>	<b>6.405.949.562</b>	<b>4.769.037</b>	<b>6.401.180.525</b>

## E) EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income is mainly related to costs booked in previous years that have become non-payable.

Extraordinary expenses are mainly related to unexpected losses.

### INCOME TAXES

Income taxes due for the year 2000 amount to Lire 1.877,7 million.

(in Lire)	2000	1999	Difference
<b>Current taxes</b>	<b>63.309.800</b>	–	<b>63.309.800</b>
<b>Deferred taxes, net</b>	<b>1.814.357.000</b>	–	<b>1.814.357.000</b>
<b>Total</b>	<b>1.877.666.800</b>	–	<b>1.877.666.800</b>

Net deferred taxes include:

- > Lire 505,5 million related to tax benefits of losses carried forward at fiscal period end, stated on the basis of the reasonable certainty of their recovery in subsequent years.
- > Lire 2.319,9 million related to deferred tax liability on dividends from the subsidiary companies, recorded according to the “maturity” principle.
- > The impact of tax burden before taxation is equivalent to 39.4%, compared to the theoretical tax incidence of 41.25%.

## OTHER INFORMATION

**Emoluments of Directors and Statutory Auditors**

Emoluments due to Directors for the year 2000 amount to Lire 338,2 million (of which 82,0 from subsidiaries).

Emoluments due to Statutory Auditors amount to Lire 98,8 million.

The detail is as follows:

Name	Office	Term of office (days)	Office emoluments	Other Fees	Notes
<b>Mario Rizzante</b>	<b>Chairman</b>	<b>174</b>	<b>125.000.000</b>		
<b>Sergio Ingegnatti</b>	<b>Chief Executive Officer</b>	<b>174</b>	<b>58.000.000</b>		
<b>Oscar Pepino</b>	<b>Chief Executive Officer</b>	<b>174</b>	<b>58.000.000</b>	<b>82.000.000</b>	<b>(1)</b>
<b>Marco Mezzalama</b>	<b>Independent Director</b>	<b>117</b>	<b>10.000.000</b>		
<b>Paul de Sury</b>	<b>Independent Director</b>	<b>66</b>	<b>5.200.000</b>		
<b>Total Directors</b>			<b>256.200.000</b>	<b>82.000.000</b>	
<b>Giuseppe Nistri</b>	<b>Chairman</b>	<b>151</b>	<b>11.100.000</b>		
<b>Ada Alessandra Garzino Demo</b>	<b>Regular Auditor</b>	<b>151</b>	<b>7.800.000</b>		
<b>Piergiorgio Re</b>	<b>Chairman (already regular auditor)</b>	<b>205</b>	<b>38.700.000</b>		
<b>Giorgio Gianeri</b>	<b>Regular auditor</b>	<b>54</b>	<b>20.600.000</b>		
<b>Tommaso Vallenzasca</b>	<b>Regular auditor</b>	<b>54</b>	<b>20.600.000</b>		
<b>Total Statutory auditors</b>			<b>98.800.000</b>	<b>-</b>	

(1) the other fees refer to the office of Director held in Cluster Reply Milano Srl from 1/1/00 to 31/7/00.

The Statutory Auditors of the Company were nominated on 9 June 2000; on 7 November 2000 the shareholders' meeting proceeded in their partial renewal.







**REPLY S.P.A.****STATEMENT OF CASH FLOWS**

(in Lire)	31/12/00	31/12/00 (in Euro)
Net result for the year	2.885.601.533	1.490.289
Depreciation and amortization	2.268.163.960	1.171.409
Accrual for employee severance indemnities	44.660.696	23.065
Accrual for reserve for risk and charges	2.319.835.000	1.198.095
Accrual for allowances for doubtful accounts	14.717.730	7.601
<b>Cash flows from operating activities before working capital movements</b>	<b>7.532.978.919</b>	<b>3.890.459</b>
Change in trade receivables	(1.422.797.669)	(734.814)
Change in other current assets	(9.597.363.635)	(4.956.625)
Change in trade payables	6.053.474.790	3.126.359
Change in other current liabilities	2.980.751.860	1.539.430
Change in employee severance indemnities	(11.445.447)	(5.911)
<b>Change in net working capital</b>	<b>(1.997.380.101)</b>	<b>(1.031.561)</b>
<b>Cash flows from operating activities (A)</b>	<b>5.535.598.818</b>	<b>2.858.898</b>
Capitalisation of intangibles assets	(12.111.626.737)	(6.255.133)
Purchase of plant, property and equipment	(107.856.404)	(55.703)
Acquisition of the business branch from Alike	(589.269.171)	(304.332)
Change in other long term assets	(4.302.562.552)	(2.222.088)
<b>Cash flows used in investing activities (B)</b>	<b>(17.111.314.864)</b>	<b>(8.837.257)</b>
Increase in share capital and share premium	72.928.168.008	37.664.256
<b>Cash flows used in financing activities (C)</b>	<b>72.928.168.008</b>	<b>37.664.256</b>
<b>Change in net financial position (A + B + C)</b>	<b>61.352.451.962</b>	<b>31.685.897</b>
Net financial position at the beginning of the year	629.578.154	325.150
Change in net financial position	61.352.451.962	31.685.897
<b>Net financial position at the end of the year</b>	<b>61.982.030.116</b>	<b>32.011.047</b>

# REPLY S.P.A.

## RECLASSIFIED BALANCE SHEET

(in Lire)	31/12/00	31/12/99	31/12/00 (in Euro)
Intangible fixed assets	10.378.106.535	22.116.923	5.359.845
Tangible fixed assets	184.598.740	-	95.337
Financial fixed assets	5.081.438.064	778.875.512	2.624.344
<b>Total fixed assets (A)</b>	<b>15.644.143.339</b>	<b>800.992.435</b>	<b>8.079.526</b>
Inventories	-	-	-
Trade receivables	8.197.053.398	775.759.284	4.233.425
Other current assets	3.588.317.059	4.167.599	1.853.211
<b>Total current assets (B)</b>	<b>11.785.370.457</b>	<b>779.926.883</b>	<b>6.086.636</b>
Trade payables	(8.890.758.835)	(471.418.500)	(4.591.694)
Other current liabilities	(527.116.129)	(17.557.397)	(272.233)
<b>Total current liabilities (C)</b>	<b>(9.417.874.964)</b>	<b>(488.975.897)</b>	<b>(4.863.927)</b>
<b>Net current assets (D) (B + C)</b>	<b>2.367.495.493</b>	<b>290.950.986</b>	<b>1.222.709</b>
Employee severance indemnities (E)	(138.542.832)	-	(71.551)
Reserve for risks and charges (F)	(2.319.835.000)	-	(1.198.095)
<b>Net invested capital (A + D + E + F)</b>	<b>15.553.261.000</b>	<b>1.091.943.421</b>	<b>8.032.589</b>
Shareholders' equity	77.535.291.116	1.721.521.575	40.043.636
Long-term net financial position	-	-	-
Short-term net financial position	(61.982.030.116)	(629.578.154)	(32.011.047)
<b>Shareholders' equity and net financial position</b>	<b>15.553.261.000</b>	<b>1.091.943.421</b>	<b>8.032.589</b>

# REPLY S.P.A.

## EQUITY INVESTMENTS IN SUBSIDIARY COMPANIES

Subsidiaries	Registered office	Share Capital	Shareholders' equity	Net result for the year 2000
Aktive Reply S.r.l.	Torino	19.362.700	(63.590.851)	(82.953.551)
BeWit Reply S.r.l.	Torino	19.362.700	(1)	(1)
Blue Reply S.r.l.	Torino	19.362.700	(1)	(1)
Business Reply S.r.l.	Torino	150.000.000	601.747.726	273.653.571
Cluster Reply S.r.l.	Torino	100.000.000	3.062.861.405	1.694.035.350
Cluster Reply Milano S.r.l.	Torino	20.000.000	840.871.138	517.273.665
Cluster Reply Roma S.r.l.	Roma	20.000.000	425.154.210	147.631.855
Creative Reply S.r.l.	Torino	19.362.700	102.352.804	82.990.104
Sytel Reply S.r.l.	Roma	120.000.000	2.015.506.470	1.011.545.890
Sytel Reply Milano S.r.l.	Torino	19.362.700	143.966.056	116.882.800
Technology Reply S.r.l.	Torino	150.000.000	1.686.622.889	734.825.469
Technology Reply Torino S.r.l.	Torino	19.362.700	107.911.437	85.094.249
YH Reply S.r.l.	Roma	41.095.486	677.269.480	555.056.474

(1) Companies established in December 2000, whose first accounting period will end at 31 December 2001

Interest	Balance sheet value	Valutation pursuant art. 2426.4 Italian Civil Code	Difference
100%	19.390.160	(63.590.851)	82.981.011
70%	4.066.167	(1)	(1)
85%	4.937.489	(1)	(1)
100%	725.058.352	815.747.726	(90.689.374)
100%	1.028.530.111	2.252.654.871	(1.224.124.760)
25%	6.633.000	210.217.785	(203.584.785)
35%	8.542.000	148.803.974	(140.261.974)
100%	19.458.296	102.352.804	(82.894.508)
100%	1.147.393.375	1.857.668.859	(710.275.484)
25%	4.840.676	35.991.514	(31.150.838)
100%	1.934.147.162	2.635.076.949	(700.929.787)
25%	4.840.676	26.977.859	(22.137.183)
100%	173.600.600	194.069.480	(20.468.880)
	<b>5.081.438.064</b>		<b>(3.143.536.561)</b>



## STATUTORY AUDITORS' REPORT ON THE SHAREHOLDER'S MEETING PURSUANT TO ART. 153 OF ITALIAN LEGISLATIVE DECREE N° 58/1998 AND ART. 2429, PARAGRAPH 3 OF THE ITALIAN CIVIL CODE IN RELATION TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2000

To the Shareholders,

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

With regards to our activities and to the consequent observations arising from them, we inform You that during the year ended as at 31 December 2000, and in accordance with the Auditing firm, we have performed supervision activities pursuant to the Law and in compliance with correct behaviour principles set out by the Statutory Auditors and recommended by the National Board of Dottori Commercialisti and Ragionieri and also by CONSOB resolutions and recommendations.

It is valuable to bear in mind, that the standing Statutory Auditors and its current members, took office on 7 November 2000. Therefore, the supervision of the events that have taken place before 7 November 2000 is limited to the gathering of information from the former Statutory Auditors.

With reference to the recommendations provided in the CONSOB communication no. DAC/RM/97001574 dated 20 February 1997 and n. DEM/1025564 dated 06 April 2001 we present to You the following information:

### 1. Significant economic, financial and monetary transactions.

The most significant economic, financial and monetary transactions, as also indicated in the Prospectus filed to CONSOB on 21 November 2000, are mainly related to the operations carried out to rationalise and increase the transparency of the Group in view of the admission to the listing in the New Market controlled by Borsa Italiana S.p.A., which took place on 6 November 2000, herein "listing". In particular, in March 2000 Reply Europe S.a.r.l, company governed by Luxemburg law, now REPLY S.p.A., purchased 51% of Yellow House Reply S.r.l., through the subscription of the share capital increase amounting to 10.824 Euro, with an additional paid-in surplus amounting to 40.822 Euro.

On 9 June 2000 the shareholder Alister Holding S.A. took part in the share capital increase of Reply Europe Sarl, now REPLY S.P.A., through the contribution of the "Reply" trademark and the following percentage of investments:

Business Reply S.r.l.;	30%
Aktive Reply S.r.l.	20%
Sytel Reply S.r.l.;	20%
Cluster Reply S.r.l.;	15%
Technology Reply S.r.l.;	30%
Creative Reply S.r.l.;	15%

With respect to the latter, we point out that at the date of the aforementioned contribution, Reply Europe S.a.r.l already held 85% of the investment in light of what had already been subscribed on 7 February 2000 when the company was constituted.

On 10 July 2000 the Company:

- > purchased the remaining 49% of the subsidiary Creative Reply S.r.l for Lire 73.600.000;
- > purchased, with effective date 31 July 2000, from Alika S.r.l. the business branch related to consulting activities in the Information Technology sector and administrative support to the other Group companies;
- > was transformed into a public limited company with the new name "REPLY S.P.A."

In conclusion, during December 2000, REPLY S.P.A, constituted Bewit Reply S.r.l. and Blue Reply S.r.l. through the subscription of 70% and 85% respectively of their share capital and paid-in 3/10 of it.

The Board of Directors with regards to significant subsequent events that occurred after the fiscal year-end has adequately informed us.

Such events refer to:

- > the splitting transaction of the subsidiary Technology Reply S.r.l;  
This transaction implies the transfer of the business branch, comprising design and Internet Open Standard activities and the transfer of the investments in the associated companies Cluster Reply Milano S.r.l., Technology Reply Torino S.r.l. and Sytel Reply Milano S.r.l., into a newly constituted company.
- > the purchase of 70% of XYZ S.r.l.'s share capital, that provides communication consultancy;
- > the constitution of the subsidiary Link Reply S.r.l.;
- > the strategic business agreement signed with IBM for the joint supply of services in the telecommunications and the E-business market.

In conclusion, with the Board of Directors' Meeting held on 14 May 2001, we were able to obtain information concerning the general outline of the stock option plan reserved for executives, managers and staff of all levels of the Parent Company and its subsidiaries, on the basis of which the increase of REPLY S.P.A.'s share capital up to 130.000 Euro, excluding the stock option right, pursuant to art. 2441, paragraph 8 of the Civil Code, will be subject to approval by the Extraordinary Shareholders' Meeting to be held on 26 June 2001.

We believe that the aforementioned operations have been carried out pursuant to the law and to the By-laws and are not in contrast with the shareholders' resolutions.

We also think that the information provided in the Directors' Report on Operations and in the notes to the financial statements presented by the Board of Directors is sufficiently clear and complete.

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

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 nor following the year-end closing.

In reference to inter-company operations or those carried out with related parties, further to what has been mentioned with regards to the purchase of the business branch from Alika S.r.l., we inform You that;



- > The Company has granted surety ships and patronage letters on behalf of some subsidiary companies in order to enable them to have adequate financial means for the development of their activities;
- > During the accounting year REPLY S.p.A. has granted loans to some subsidiaries, regulated under normal market conditions, with the objective of providing financial support to the subsidiaries' activities;
- > The shareholder Alika has stipulated with REPLY S.p.A. and nine other group companies several service contracts related to the use of its premises whether in leasehold or of property and related to domiciliation and secretarial services. The compensation agreed upon these services are in line with market values;
- > REPLY S.p.A. provides the subsidiaries administrative, managerial, commercial and marketing assistance and assistance related to the managing of Internet within the company, electronic mail and web services;
- > The Group companies use the "Reply" trademark, which is currently owned by the Parent Company. The compensations agreed are in line with current market conditions.

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

The Directors have provided in the Directors' Report on Operations, as well as during our meetings throughout the year, complete information on the major economic, financial and monetary transactions and on the relations with associate companies and other related parties.

The existence of atypical and/or unusual transactions during and following the year-end closing is not revealed in such report.

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

PricewaterhouseCoopers S.p.A., the Auditing firm in charge of certifying the financial statements and the consolidated financial statements as of 31 December 2000, issued its report on 25 May 2001, in which it asserts that REPLY S.P.A.'s financial statements as of 31 December 2000 comply with laws governing the criteria for their preparation.

### **5. Complaints pursuant art. 2408 C.C.**

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

### **6. Petitions.**

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

### **7. Other possible assignments to the Auditing Firm and the relative costs.**

From the listing date, no other engagements have been assigned to the Auditing firm apart from the legal audit of the Financial statements and the Consolidated financial statements for the years 2000, 2001 and 2002 and the auditing of the half-year report as of June 30, 2001 and 2002.

As for the year 2001, we remind You that on 14 May 2001 the Board of Directors resolved to convene the Extraordinary Shareholders' Meeting in order to resolve the increase of the share capital against payment, with additional paid-in capital pursuant to art. 2441 paragraph 8 of the Italian Civil Code, reserving the subscription of such increase to the directors, managers and employees at all levels of the Company and its subsidiaries.

In this regards, we inform You that, although a formal and explicit obligation does not exist, the Board of Directors deemed advisable that the Auditing firm prepare an opinion on the fair issuing price established for the new shares, pursuant to art. 2441 paragraph 6 of the Italian Civil Code.

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

From the listing date, the Company did not confer any appointments to parties connected by continuous working relationships with the Auditing firm.

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

The Statutory Auditors did not issue opinions pursuant to the law, besides the one with reference to the engagement of the Auditing firm pursuant to art. 159 paragraph 1 of Italian Legislative Decree 58/1998, presented on 2 August 2000.

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

We have presided at the following meetings:

- > Board of Directors:
  - 10/11/2000;
  - 06/02/2001;
  - 13/02/2001;
  - 28/03/2001;
  - 13/04/2001;
  - 14/05/2001;
- > Statutory Auditors
  - 10/11/2000;
  - 06/02/2001;
  - 02/05/2001.

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

We have verified the adequacy of the provisions set out for the subsidiary companies, as required by paragraph 2, art. 114 of Italian Legislative Decree 58/1998.

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 administrative bodies of the subsidiary companies.

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

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

### **13. Compliance with the Code of Self-Discipline prepared by the Corporate Governance Committee of listed companies.**

The company has consented to comply with the Code of Self-Discipline prepared by the Corporate Governance Committee of listed companies in light of the adaptations made to the By-laws resolved by the Extraordinary Shareholders' meeting on 10 July 2000 and subsequent Directors' resolutions to execute them.

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

We have keep up and developed, through meetings and occasions, a systematic relationship with the audit firm PricewaterhouseCoopers S.p.A – engaged in the controlling of accounting and the auditing of the financial statements and the consolidated financial statements – for purpose of a reciprocal exchange of information and data.

In this regards, the Auditing firm, during its auditing activity on the financial statements, never noticed reprehensible matters or events worthy of being mentioned.

On the basis of the already mentioned principles and of the information gathered during the supervision pursuant to the law, and on the basis of the meetings with personnel in charge of corporate management and internal control, we have reached the following conclusions:

#### *1) ADMINISTRATION*

Administration has been carried out pursuant to the law and the By-laws.

It has not departed from correct administration principles adopted by the Directors in making managerial decisions, which were in turn adopted in compliance with the rationale criteria of the company's economic policy.

#### *2) ORGANISATIONAL STRUCTURE*

Within our duties set out by Legislative Decree 58/1998, we gained knowledge and supervised the organisational structure of the Company, thanks to the information obtained directly from the managers of the different departments and to the meetings held with the Auditing firm, reaching the opinion that it is adequate.

#### *3) INTERNAL CONTROL SYSTEM*

The activities of Internal Control and Internal Auditing Committee are carried out in accordance to a work program, which we feel is adequate

We have met those in charge of the aforementioned functions, gathering satisfactory information with respect to the areas in which they intervene and the solutions adopted in order to overcome weak points outlined in a self-evaluation document of the internal control profile.

#### *4) ADMINISTRATIVE AND ACCOUNTING SYSTEM*

Our analysis reveals that the organisational set-up of the administrative and accounting system is essentially correct, and we consider it suitable to represent and monitor operations and to provide data for the periods.

In view of what has been said, the Statutory Auditors, having witnessed that the financial statements as at 31 December 2001 and the Directors' Report on Operations comply with existing legislation and with the By-laws, hereby agree to the proposal of approval set out by

the Board of Directors, as well as to proposal of allocation of the result for the year amounting to Lire 2.885.601.533.

Read, confirmed and undersigned.

Turin, 30 May 2001

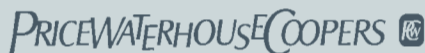
THE STATUTORY AUDITORS

*(Prof. Piergiorgio Re)*

*(Mr. Tommaso Vallenzasca)*

*(Prof. Giorgio Gianeri)*





PricewaterhouseCoopers SpA

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW  
DECREE N° 58 DATED 24 FEBRUARY 1998**

To the Shareholders of  
Reply SpA

- 1 We have audited the financial statements of Reply SpA (or "the Company") as at 31 December 2000. These financial statements are the responsibility of Reply's Directors. 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 and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. 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. We believe that our audit provides a reasonable basis for our opinion.

The figures of the prior year refer to the financial statements as at 31 December 1999 of Reply Europe S.à.r.l. Luxembourg that was transformed into an Italian Company on 9 June 2000. For the opinion on the financial statements of the prior year, which are presented for comparative purposes as required by law, reference is made to the report issued by PricewaterhouseCoopers S.à.r.l. - Luxembourg dated 21 August 2000.

- 3 In our opinion, the financial statements of Reply SpA as at 31 December 2000 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Company.

Sede legale: Milano 20124 Via Vittor Pisani 20 Tel. 0267831 Fax 0266981411 Cap. Soc. 7.220.000.000 I.v. Reg. Imp. Milano N. 278929/1999  
C.F. e P.IVA 12979980155 Scritta 3/P Albo Consob - Altri uffici: **Ancona** 60123 Via Corridoni 2 Tel. 071.36381 **Bari** 70125 Viale della  
Repubblica 110 Tel. 080.42.29861 - **Bologna** 40122 Via delle Lanze 111 Tel. 051.526611 - **Brescia** 25124 Via Cotalana 70 Tel. 030.2219811 -  
**Firenze** 50129 Viale Sallustiana 65 Tel. 055.4627100 - **Genova** 16121 Piazza Dante 7 Tel. 010.5702013 - **Milano** 20122 Corso Europa 2  
Tel. 02.27851 - **Napoli** 80121 Piazza dei Martiri 80 Tel. 081.7644441 - **Padova** 35137 Largo Europa 16 Tel. 049.9262677 - **Palermo** 90141  
Via Marchese Ugo 60 Tel. 091.349247 - **Parma** 41100 Viale Lanara 20/A Tel. 0521.242848 - **Roma** 00154 Largo Focchetti 29 Tel. 06.570251  
**Torino** 10129 Corso Montecitorio 37 Tel. 011.556771 - **Trento** 38100 Via San Francesco B Tel. 0461.217004 - **Treviso** 31100 Piazza  
Crispi B Tel. 042.2342726 - **Udine** 33100 Via Marconi 12 Tel. 0432.25289 - **Verona** 37122 Corso Porta Nuova 125 Tel. 045.8002567

- 4 We bring to your attention that the Company holds controlling investments in other companies and has therefore prepared, as required by law, the consolidated financial statements of the Group. The consolidated financial statements represent an integration of the financial statements of Reply S.p.A. in order to give a true and fair view of the financial position and of the results of operations of the Company and of the Group. The consolidated financial statements have been audited by us and we therefore make reference to our report dated 25 May 2001.

Turin, 25 May 2001

PricewaterhouseCoopers SpA



Armando Boffi  
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation.







REPLY GROUP  
**CONSOLIDATED  
FINANCIAL STATEMENTS  
AS OF 31 DECEMBER 2000**

# REPLY GROUP

## CONSOLIDATED BALANCE SHEET

(in millions of Lire)	31/12/00	31/12/99	31/12/00 (euro/000)
<b>ASSETS</b>			
<b>A) AMOUNT DUE FROM SHAREHOLDERS</b>	–	–	–
<b>B) FIXED ASSETS</b>			
<i>I Intangible fixed assets</i>			
1 Start-up and expansion costs	7.081	43	3.657
3 Industrial patents and intellectual property rights	204	7	105
4 Concessions, licenses, trademarks and similar rights	2.937	–	1.517
5 Goodwill	252	–	130
7 Other	136	105	70
8 Consolidation differences	2.943	–	1.520
<b>Total intangible fixed assets</b>	<b>13.553</b>	<b>155</b>	<b>6.999</b>
<i>II Tangible fixed assets</i>			
2 Plant and machinery	29	56	15
3 Industrial and commercial equipment	35	1	18
4 Other assets	1.539	985	795
<b>Total tangible fixed assets</b>	<b>1.603</b>	<b>1.042</b>	<b>828</b>
<i>III Financial fixed assets</i>			
1 Equity investment in:			
a) subsidiary companies	9	15	5
d) other companies	3	–	1
	12	15	6
2 Receivables due beyond 12 months:			
d) other	398	230	206
	398	230	206
<b>Total financial fixed assets</b>	<b>410</b>	<b>245</b>	<b>212</b>
<b>Total fixed assets</b>	<b>15.566</b>	<b>1.442</b>	<b>8.039</b>

(in millions of Lire)

31/12/00

31/12/99

31/12/00  
(euro/000)**ASSETS****C) CURRENT ASSETS***I Inventories*

3 Contract work in progress	2.835	1.402	1.464
4 Finished products and goods for resale	423	101	218
5 Advances to suppliers	218	-	113
<b>Total inventories</b>	<b>3.476</b>	<b>1.503</b>	<b>1.795</b>

*II Receivables due within 12 months*

1 Trade receivables	30.440	16.151	15.721
4 Parent companies	5	1.914	3
5 Other receivables	1.362	210	703
<b>Total receivables</b>	<b>31.807</b>	<b>18.275</b>	<b>16.427</b>

*III Financial assets not held  
as fixed assets*

	50.003	-	25.824
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*IV Liquid funds*

1 Banks and post office deposits	9.178	872	4.740
3 Cash in hand	130	72	67
<b>Total liquid funds</b>	<b>9.308</b>	<b>944</b>	<b>4.807</b>

<b>Total current assets</b>	<b>94.594</b>	<b>20.722</b>	<b>48.853</b>
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**D) ACCRUED INCOME AND PREPAID EXPENSES**

	199	76	103
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<b>TOTAL ASSETS</b>	<b>110.359</b>	<b>22.240</b>	<b>56.995</b>
---------------------	----------------	---------------	---------------

(in millions of Lire)

31/12/00

31/12/99

31/12/00  
(euro/000)**LIABILITIES AND SHAREHOLDERS' EQUITY****A SHAREHOLDERS' EQUITY**

<b>I</b>	<b>Share Capital</b>	<b>8.218</b>	<b>1.378</b>	<b>4.244</b>
<b>II</b>	<b>Additional paid-in capital</b>	<b>66.302</b>	<b>215</b>	<b>34.242</b>
<b>IV</b>	<b>Legal reserve</b>	<b>7</b>	<b>3</b>	<b>4</b>
<b>VII</b>	<b>Other reserves</b>	<b>122</b>	<b>23</b>	<b>63</b>
<b>VIII</b>	<b>Retained earnings (accumulated losses)</b>	<b>2.565</b>	<b>524</b>	<b>1.325</b>
<b>IX</b>	<b>Net result for the year</b>	<b>3.646</b>	<b>2.174</b>	<b>1.883</b>
<b>Group shareholders' equity</b>		<b>80.860</b>	<b>4.317</b>	<b>41.761</b>
<b>X</b>	<b>Minority interests</b>	<b>-</b>	<b>848</b>	<b>-</b>
<b>Total shareholders' equity</b>		<b>80.860</b>	<b>5.165</b>	<b>41.761</b>

**B RESERVES FOR RISKS AND CHARGES**

<b>1</b>	<b>Employee pensions and similar obligations</b>	<b>415</b>	<b>300</b>	<b>214</b>
<b>2</b>	<b>Taxation</b>	<b>-</b>	<b>6</b>	<b>-</b>
<b>Total reserves for risks and charges</b>		<b>415</b>	<b>306</b>	<b>214</b>

**C RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES**

		<b>1.612</b>	<b>854</b>	<b>833</b>
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**D PAYABLES**

<b>3</b>	<b>Due to banks</b>			
	- within 12 months	<b>392</b>	<b>3.034</b>	<b>202</b>
	- beyond 12 months	<b>466</b>	<b>-</b>	<b>241</b>
<b>4</b>	<b>Due to other providers of finance</b>			
	- within 12 months	<b>110</b>	<b>242</b>	<b>57</b>
	- beyond 12 months	<b>84</b>	<b>118</b>	<b>43</b>
<b>5</b>	<b>Advances payments</b>	<b>3.330</b>	<b>2.050</b>	<b>1.720</b>
<b>6</b>	<b>Trade payables</b>	<b>14.393</b>	<b>4.319</b>	<b>7.433</b>
<b>10</b>	<b>Due to parent companies</b>	<b>1.026</b>	<b>1.467</b>	<b>530</b>
<b>11</b>	<b>Due to tax authorities</b>	<b>4.032</b>	<b>2.550</b>	<b>2.082</b>
<b>12</b>	<b>Due to social security authorities</b>	<b>1.749</b>	<b>855</b>	<b>903</b>
<b>13</b>	<b>Other payables</b>	<b>1.865</b>	<b>1.260</b>	<b>963</b>
<b>Total payables (D)</b>		<b>27.447</b>	<b>15.895</b>	<b>14.174</b>

**E ACCRUED EXPENSES AND DEFERRED INCOME**

		<b>25</b>	<b>20</b>	<b>13</b>
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**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY**

		<b>110.359</b>	<b>22.240</b>	<b>56.995</b>
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(in millions of Lire)

31/12/00

31/12/99

31/12/00  
(euro/000)**MEMORANDUM ACCOUNTS**

<b>Guarantees issued on behalf of group companies</b>	<b>3.865</b>	<b>2.808</b>	<b>1.996</b>
<b>Guarantees received from third parties</b>	<b>778</b>	<b>-</b>	<b>402</b>
<b>Obligations for leasing commitments</b>	<b>1.187</b>	<b>1.113</b>	<b>613</b>
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>5.830</b>	<b>3.921</b>	<b>3.011</b>

# REPLY GROUP

## CONSOLIDATED STATEMENT OF INCOME

(in millions of Lire)	2000	1999	2000 (euro/000)
<b>A VALUE OF PRODUCTION</b>			
1 Revenues from sales and services	62.918	34.963	32.494
3 Change in contract work in progress	1.434	469	741
4 Capitalized production	120	-	62
5 Other income	80	132	41
<b>Total value of production (A)</b>	<b>64.552</b>	<b>35.564</b>	<b>33.338</b>
<b>B COSTS OF PRODUCTION</b>			
6 Raw and other materials, consumables and good for resale	4.940	1.427	2.551
7 Services	21.650	12.815	11.181
8 Leases and rentals	1.748	1.594	903
9 Personnel			
a) wages and salaries	17.276	9.720	8.922
b) social security charges	5.013	2.623	2.590
c) employee termination indemnities	1.101	589	569
d) employee pensions and similar obligations	115	-	59
e) other	-	-	-
	23.505	12.932	12.140
10 Amortisation, depreciation and writedowns			
a) amortisation of intangible fixed assets	2.653	66	1.370
b) depreciation of tangible fixed assets	765	417	395
c) other writedowns of fixed assets	-	-	-
d) writedowns of receivables among current assets and liquid funds	155	81	80
	3.573	564	1.845
11 Change in inventories of raw and other materials, consumables and goods for resale	(199)	-	(103)
14 Other operating costs	334	239	172
<b>Total costs of production (B)</b>	<b>55.551</b>	<b>29.571</b>	<b>28.689</b>
<b>Difference between value and costs of production (A-B)</b>	<b>9.001</b>	<b>5.993</b>	<b>4.649</b>

(in millions of Lire)	2000	1999	2000 (euro/000)
<b>C FINANCIAL INCOME AND EXPENSES</b>			
15 Income from equity investments	-	-	-
<b>16 Other financial income</b>			
c) income from securities held as current assets	79	-	41
d) other	74	10	38
17 Interest and other financial expenses	(357)	(198)	(184)
<b>Total financial income and expenses (C)</b>	<b>(204)</b>	<b>(188)</b>	<b>(105)</b>
<b>D ADJUSTMENTS TO FINANCIAL ASSETS</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>E EXTRAORDINARY INCOME AND EXPENSES</b>			
20 Income	120	11	61
21 Expenses	(4)	(22)	(2)
<b>Total extraordinary income and expenses (E)</b>	<b>116</b>	<b>(11)</b>	<b>59</b>
<b>RESULT BEFORE TAXATION</b>	<b>8.913</b>	<b>5.794</b>	<b>4.603</b>
22 Income taxes for the year	5.267	3.104	2.720
<b>NET RESULT FOR THE YEAR BEFORE MINORITY INTERESTS</b>	<b>3.646</b>	<b>2.690</b>	<b>1.883</b>
23 Result attributable to minority interests	-	(516)	-
<b>GROUP NET RESULT FOR THE YEAR</b>	<b>3.646</b>	<b>2.174</b>	<b>1.883</b>

the 1990s, the number of people with a mental health problem has increased in the UK (Mental Health Act 1983, 1990).

There is a growing awareness of the need to improve the lives of people with mental health problems. The Government has set out a strategy for mental health care in the UK (Department of Health 1999). The strategy is based on the following principles:

- People with mental health problems should be treated as individuals, with their own needs and wishes.
- People with mental health problems should be given the opportunity to participate in decisions about their care and treatment.
- People with mental health problems should be given the opportunity to live in their own homes and communities.

The strategy also sets out a number of objectives for the future, including:

- To reduce the number of people with mental health problems who are admitted to hospital.
- To improve the quality of care and treatment for people with mental health problems.
- To improve the support and services available to people with mental health problems.

The strategy is a long-term plan and will be reviewed regularly. It is a framework for action and will be supported by a range of policies and initiatives.

The strategy is a landmark document and represents a significant step forward in the development of mental health care in the UK.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The 31 December 2000 Consolidated Financial Statements have been prepared in accordance with Italian Legislative Decree No. 127 of April 9, 1991, and they consist of the balance sheet (prepared using the format specified in articles 2424 and 2424 bis of the Italian Civil Code), the statement of income (prepared using the format specified in articles 2425 and 2425 bis of the Italian Civil Code) and these Notes to the Consolidated Financial Statements.

These notes explain, analyse and supplement the financial statement data with the information required by article 38 and other requirements of Italian Decree No. 127/1991. Additional information is provided in order to present a true and fair view of the state of the group, even where this is not required by specific legislation.

The amounts indicated in the consolidated financial statements are expressed in millions of Lire.

## ACTIVITY OF THE GROUP

The Reply Group operates in the planning and implementation of E-business market. The activity is mainly carried out in Italy with operating branches in Turin, Milan and Rome.

## CONSOLIDATION AREA

The Consolidated Financial Statements include the financial statements as of 31 December 2000 of Reply S.p.A. and of all the subsidiaries, in which it directly or indirectly holds the majority of the voting rights.

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

The Shareholder's meeting of the single companies has approved the financial statements utilised for the consolidation.

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

The most significant changes that have occurred in the consolidation area of Reply Group compared to the year ended 1999 are the following:

- > Following the acquisition of 100% of the share capital of YH Reply Srl by the Parent Company, inclusion of this company in the year 2000 consolidation area with economic and financial effects;
- > Inclusion in the consolidation area of Aktive Reply Srl, which has become fully active during the year 2000, with consequent economic and financial effects. As at 31 December 1999 such investment was valued at cost.
- > Inclusion in the area of consolidation of Creative Reply Srl, founded in March 2000.

## PRINCIPLES OF CONSOLIDATION

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

- The assets and liabilities of the subsidiary companies are consolidated on a line-by-line basis according to the full consolidation method; the carrying amount of investments held by the Parent Company and other subsidiaries is eliminated against the related shareholders' equity.
- When a company is consolidated for the first time, any positive differences arising from the elimination of its carrying value, on the basis above indicated, is allocated, where applicable, to the assets of subsidiary. Any excess arising upon consolidation is classified as "consolidation differences" as it represents income-earning capacity of the companies acquired, and it is amortized over the period that it is expected to benefit. Negative differences are classified within the "Reserve for risks and charges arising from consolidation" if they reflect estimated future losses; otherwise they are classified as part of "Consolidation Reserve" within Shareholders' equity.
- Inter-company receivables and payables, costs and revenues and all significant transactions between consolidated companies, including the payment of dividends, are eliminated.  
Unrealised inter-company profits, gain and losses arising from transactions between Group companies are also eliminated.
- The minority Shareholders' interest in net assets and results for the year of consolidated subsidiaries are classified separately as "Minority interests" in the consolidated balance sheet and as "Result attributable to minority interests" in the consolidated and statement of income.
- Adjustments and accruals effected exclusively for fiscal purposes, have been eliminated, taking into account any related tax impact.

## ACCOUNTING PRINCIPLES

These have been adopted in observance of article 2426 of the Italian Civil Code, also taking account of CONSOB indications and the Italian accounting principles issued by the National Board of "Dottori Commercialisti and of Ragionieri"; in absence thereof reference is made to those issued by the International Accounting Standards Committee (IASC). The accounting principles are in line with the ones adopted in the previous year.

### **Intangible fixed assets**

Intangible fixed assets are recorded at purchase or production cost, including related charges; book value is amortized on a straight-line-basis in relation to the residual period they are expected to benefit. In compliance with accounting principle No. 24 the costs incurred by the Parent Company for the listing in the New Market, have been included in start-up and expansion costs.

The duration of the amortisation plans is based on the estimated useful lives of the related assets. In particular:

	<b>Percentage</b>
Start-up and expansion costs	20%
Industrial patents and intellectual property rights	33%
Concessions, licenses, trademarks and similar rights	20%
Leasehold improvements	20%
Other deferred charges	20%
Goodwill and Consolidation differences	10%

Goodwill and Consolidation differences are amortized in compliance with the accounting principles of the market sector in which the Group operates.

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

### **Tangible fixed assets**

Tangible fixed assets are generally recorded at purchase or construction costs including related charges and other direct or indirect expenses reasonably attributable to the individual assets. Neither monetary nor economical revaluations have been made to the historical cost of the assets. Tangible assets are written down to reflect a permanent impairment of value, regardless of the amortization already accounted for. Their book value is reinstated in subsequent year if the reasons for such write-down no longer apply. Ordinary maintenance costs are fully expensed as incurred, while improvement expenditures are allocated to the related assets and depreciated over their residual useful lives.

Depreciation is calculated on a straight-line basis using rates that reflect the estimated useful lives of the related assets. In the first year such assets enter into service these rates are halved, in consideration of their shorter period of use. Acquisitions with a unit value of less than Lire 1 million are recorded in the statement of income in the year in which they are incurred.

The annual depreciation rates applied are as follows:

	<b>Percentage</b>
Plants and machinery	40%-50%
Industrial and commercial equipment	30%
Furniture and fittings	24%
Electronic office equipment	40%
Office equipment	24%
Mobile telephones	40%
Automobiles	50%

Assets acquired under finance leases are recorded at their fair value at the start of the lease and the capital portion of the lease instalments is recorded as a liability.

Such assets are depreciated on a straight-line basis over their economic useful lives, on the same basis as other tangible fixed assets.

**Financial fixed assets**

Investments in non consolidated subsidiaries as well as those of less than 20% in other companies are recorded as financial fixed assets and are carried at cost. Such investments are written down to reflect a permanent impairment in value. Their book value is reinstated in subsequent year if the reasons for such write-down no longer apply.

Financial receivables included among financial fixed assets are stated at their estimated realisable value.

**Inventories**

Inventories are stated at the lower of purchase or production cost and their corresponding market or net realisable value. The evaluation methods are as follows:

- Contract work in progress, for “turn key” of a long-term nature are valued based on the agreed project revenues and the stage of completion;
- Work in progress for contracts with a duration of less than twelve months has been recorded based on costs;
- Finished products and goods for resale are valued at the lower of purchase or specific production cost of each component in stock, including all directly chargeable costs, and the their net realisable value.

**Accounts receivable and accounts payables**

Accounts receivable are recorded at their estimated realisable value. Accounts payable are stated at face value.

**Other financial assets not held as fixed assets**

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

Securities purchased under agreement to resell are recorded at cost and classified as financial assets not held as fixed assets. The difference between the related spot and forward prices is recognized on an accruals basis over the duration of the contract.

**Liquidity funds**

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

**Accruals and Deferrals**

Accruals and deferrals are recorded using the accrual method to match costs and revenues in the accounting periods to which they relate.

**Reserves for risks and charges**

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

**Reserve for employee termination indemnities**

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

**Revenue recognition**

Revenues from services are recognised at the time of execution.

Revenues from the execution of specific contracts are recognised at the moment of the customer approval of the completion of the work or on the basis of the percentage of completion method.

Revenues from sales of products are recognised at the moment title passes to the clients, which is generally at the time of shipment.

**Income taxes**

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

The net balance between deferred tax assets and liabilities is also accounted for.

Deferred tax assets arise from costs and expenses that are not tax deductible at year-end, and from benefits on tax losses carried forward; deferred tax assets are only accounted for if there is a reasonable belief that they will be recovered.

Deferred tax liabilities refer to transactions where taxation is deferred to future years, such as gains on the disposal of tangible and intangible fixed assets or to consolidation adjustments, like those arising from lease transactions recorded as finance leases.

**Translation of foreign currency items**

At year-end short-term receivables and payables denominated in foreign currency, including short-term portions of long-term receivables, payables and investment funds, are translated and recorded using the year-end exchange rate.

Non-current receivables and payables denominated in foreign currency are translated and booked at the year-end exchange rate. If net exchange loss arises from the translation of long-term receivables and payables, this is charged to the statement of income. On the other hand resulting net exchange gain is not recognised, on the basis of prudence.

## OTHER INFORMATION

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

No exceptions allowed under art. 2423.4 of the Italian Civil Code have been taken advantage of with respect to the consolidated financial statements.

### **Comparability of items**

In order to allow comparisons the consolidated financial statements of the Group as of 31 December 1999, at the time including Reply Europe SàRL and its subsidiaries, has been adjusted in accordance to the Italian Legislative Decree No 127 of the 9 April 1991, in compliance with paragraph 5 of art. 2423 ter of the Italian Civil Code.

### **Balance Sheet and Statement of Income items expressed expressed in Euro as at 31 December 2000**

The balance sheet and statement of income items as of 31 December 2000 have been translated in Euro using the fixed exchange rate of Lire 1.936,27 per Euro established by the Finance Ministry, member of the European Monetary Union. The values expressed in Euro, have been provided solely for information purposes and are not to be mistaken as an effective translation from Lira to Euro.

## COMMENTS ON ASSETS INCLUDED IN THE CONSOLIDATED BALANCE SHEET

### B) FIXED ASSETS

#### I. Intangible fixed assets

Net intangible fixed assets, as at 31 December 2000 amount to Lire 13.553 million (Lire 155 million as at 31 December 1999).

(in millions of Lire)	Historical cost	Accumulated amortisation	Net book value at 31/12/00
<b>Start-up and expansion costs</b>	<b>8.930</b>	<b>1.849</b>	<b>7.081</b>
<b>Industrial patents and intellectual property rights</b>	<b>381</b>	<b>177</b>	<b>204</b>
<b>Concessions, licenses, trademarks and similar rights</b>	<b>3.300</b>	<b>363</b>	<b>2.937</b>
<b>Goodwill</b>	<b>280</b>	<b>28</b>	<b>252</b>
<b>Other intangible assets</b>	<b>253</b>	<b>117</b>	<b>136</b>
<b>Consolidation differences</b>	<b>3.270</b>	<b>327</b>	<b>2.943</b>
<b>Total</b>	<b>16.414</b>	<b>2.861</b>	<b>13.553</b>

Movements in intangible fixed assets during the year 2000 can be summarized as follows:

(in millions of Lire)	Net book value at 31/12/99	Acquisition of company branch	Increases	Amortisation	Net book value at 31/12/00
<b>Start-up and expansion costs</b>	<b>43</b>	–	<b>8.822</b>	<b>(1.784)</b>	<b>7.081</b>
<b>Industrial patents and intellectual property rights</b>	<b>7</b>	<b>187</b>	<b>115</b>	<b>(105)</b>	<b>204</b>
<b>Concessions, licenses, trademarks and similar rights</b>	–	–	<b>3.300</b>	<b>(363)</b>	<b>2.937</b>
<b>Goodwill</b>	–	<b>280</b>	–	<b>(28)</b>	<b>252</b>
<b>Other intangible assets</b>	<b>105</b>	–	<b>77</b>	<b>(46)</b>	<b>136</b>
<b>Consolidation differences</b>	–	–	<b>3.270</b>	<b>(327)</b>	<b>2.943</b>
<b>Total</b>	<b>155</b>	<b>467</b>	<b>15.584</b>	<b>(2.653)</b>	<b>13.553</b>

*Start-up and expansion costs* refer to charges related to the operations of share capital increase. In particular the increase refers to costs incurred by the Parent Company in relation to the Global Offer of 1,970,000 ordinary shares representing about 24.14% of Reply S.p.A.'s share capital for a corresponding amount of 8.807 million Lire.

*Industrial patents and intellectual property rights* refer mainly to software patents deriving from the acquisition of the business branch.

The increase of *Concessions, licences, trademarks and similar rights* is due to the increase of the Parent Company Reply S.p.A.'s share capital (at the time Reply Europe), which was resolved on 9 June 2000, and subscribed by Alister Holding SA through the contribution of its shares in subsidiary companies and the "Reply" trademark.

Such trademark is amortised over a 5-year period calculated from the date of acquisition.

*Goodwill*, amounting to Lire 280 million, and amortised over a 10-year period is related to the value of the business branch purchased by the holding, Alika S.r.l.

*Other intangible assets* mainly include improvements to third party assets.

*Consolidation differences* (or goodwill consolidation) reflects the goodwill arising from consolidation and is due to:

- The acquisition of minority interests of the company Alister Holding SA amounting to 3.218 millions of Lire, transaction which was executed 9 June 2000 through the Parent Company Reply's share capital increase;
- The acquisition of 100% of YH Reply S.r.l.'s share capital for Lire 52 million during the year 2000.



## II. Tangible fixed assets

Tangible fixed assets amounting to Lire 1.603 million are detailed as follows:

(in millions of Lire)	31/12/2000	31/12/1999	Difference
Generic plants	29	56	(27)
Electronic equipment	1.161	628	533
Ordinary office equipment	2	3	(1)
Furniture and fittings	364	348	16
Automobiles	9	5	4
Generic equipment	35	1	34
Mobile phones	3	1	2
<b>Total</b>	<b>1.603</b>	<b>1.042</b>	<b>561</b>

Property, plant and equipment in the year 2000 have had the following movements:

(in millions of Lire)	Plant and machinery	Industrial and Comm. equipment	Other assets	Total
Historical cost	111	3	1.697	1.811
Accumulated Depreciation	55	2	712	769
<b>Balance as at 31 December 1999</b>	<b>56</b>	<b>1</b>	<b>985</b>	<b>1.042</b>

### Historical cost

Additions	21	41	1.269	1.331
Disposals	-	-	(54)	(54)
Change in consolidation area	-	-	25	25

### Accumulated Depreciation

Depreciation	48	7	710	765
Disposals	-	-	(29)	(29)
Change in consolidation area	-	-	5	5

Historical cost	132	44	2.937	3.113
Accumulated Depreciation	103	9	1.398	1.510
<b>Balance as at 31 December 2000</b>	<b>29</b>	<b>35</b>	<b>1.539</b>	<b>1.603</b>

During the year 2000 the Group has carried out investments amounting to Lire 1.356 million related mainly to computers and network equipment.

In compliance with law n.72 of 1983, art. 10, it is important to point out that no revaluations in accordance with specific law have been made to the assets the Group.

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

Tangible assets as of 31 December 2000 are depreciated for 48.5% of their gross value, compared to 42.5% year-ended 1999.

### III. Financial fixed assets

Financial fixed assets as of 31 December 2000 amount to Lire 410 million compared to Lire 245 million at 31 December 1999; details are as follows:

(in millions of Lire)	31/12/2000	31/12/1999	Difference
<b>Investments in subsidiaries</b>	<b>9</b>	<b>15</b>	<b>(6)</b>
<b>Investments in other companies</b>	<b>3</b>	<b>–</b>	<b>3</b>
<b>Receivables from other companies</b>	<b>398</b>	<b>230</b>	<b>168</b>
<b>Total</b>	<b>410</b>	<b>245</b>	<b>165</b>

The change in the value of *investments in subsidiaries*, amounting to a 6 million negative figure is detailed as follows:

- > The subsidiary Aktive Reply Srl, which has become active during the year 2000, has been consolidated on a line-by-line basis, while as of 31 December 1999 it was recorded at cost for 15 million of Lire;
- > The item Investment in subsidiaries, amounting to Lire 9 million as at 31 December 2000, represents the paying-in of 3/10 of the share capital subscribed by parent company Reply, equivalent to 85% of Blue Reply Srl and 70% of BeWit Reply S.r.l., non-active companies and valued at cost.

*Investments in other companies* refer to the subscription of shares in the Unionfidi consortium amounting to Lire 3 million.

*Receivables from other companies* include:

(in million of Lire)	31/12/2000	31/12/1999	Difference
<b>Insurance receivables</b>	<b>310</b>	<b>193</b>	<b>117</b>
<b>Guarantee deposits</b>	<b>88</b>	<b>32</b>	<b>56</b>
<b>Advance for tax on employee termination indemnities</b>	<b>–</b>	<b>5</b>	<b>(5)</b>
<b>Total</b>	<b>398</b>	<b>230</b>	<b>168</b>

The difference is mainly due to the payment of the insurance premium related to the contract payables for Directors' severance indemnity.

## C. CURRENT ASSETS

### I. Inventories

Inventories, amounting to Lire 3.476 million, are detailed as follows:

(in millions of Lire)	31/12/2000	31/12/1999	Difference
<b>Contract work in progress</b>	<b>2.835</b>	<b>1.402</b>	<b>1.433</b>
<b>Finished products and goods for resale</b>	<b>423</b>	<b>101</b>	<b>322</b>
<b>Advances to suppliers</b>	<b>218</b>	<b>-</b>	<b>218</b>
<b>Total</b>	<b>3.476</b>	<b>1.503</b>	<b>1.973</b>

*Contract work in progress* includes mainly the following projects:

- > Realisation of a spare parts warehouse management system at a European level;
- > System integration for the start-up of a new European wireless/GSM operator;
- > Implementation of a service system for telephone user support;
- > Realisation of a web-based organization that gathers and indicates abnormalities of the ESA satellites on a European base.

*Finished products and goods for resale* reflect the value of software licences still not implemented at year-end.

*Advances to suppliers* include the advance payments for future supplies of goods.

### II. Receivables

The difference in short-term receivables, amounting to Lire 13.531 million is due mainly to the significant increase of revenues compared to the previous year.

#### *Trade Receivables*

Trade receivables, mainly constituted by highly rated companies, all collectable within the year, arise from normal sales transactions. Details are provided below:

(in millions of Lire)	31/12/2000	31/12/1999	Difference
<b>Domestic customers</b>	<b>30.238</b>	<b>15.694</b>	<b>14.544</b>
<b>Foreign customers</b>	<b>740</b>	<b>801</b>	<b>(61)</b>
<b>Credit notes to be issued</b>	<b>(211)</b>	<b>(164)</b>	<b>(47)</b>
<b>Total</b>	<b>30.767</b>	<b>16.331</b>	<b>14.536</b>
<b>Allowance for doubtful accounts</b>	<b>(327)</b>	<b>(180)</b>	<b>(147)</b>
<b>Total trade receivables, net</b>	<b>30.440</b>	<b>16.151</b>	<b>14.389</b>

As of 31 December 2000, after having carried out a careful risk evaluation, the provision made for doubtful accounts amounted to Lire 155 million.

#### *Receivables from Parent Companies*

As of 31 December 2000 the receivables from parent companies amount to Lire 5 million, with a decrease of Lire 1.909 million, compared to 31 December 1999. This difference is due to trade relations, regulated by normal market conditions that during the year 1999 were carried out between operating companies within Reply Group and the holding Alike Srl. These transactions have been eliminated through the consolidation process as of 31 December 2000, as they were transferred to the Parent Company Reply on 10 July 2000, upon sale of the business branch.

#### *Other receivables*

The detail is as follows:

(in millions of Lire)	31/12/2000	31/12/1999	Difference
<b>Advances to suppliers</b>	<b>105</b>	<b>52</b>	<b>53</b>
<b>Receivables from tax authorities</b>	<b>43</b>	<b>–</b>	<b>43</b>
<b>Deferred tax assets</b>	<b>505</b>	<b>–</b>	<b>505</b>
<b>VAT receivable</b>	<b>533</b>	<b>–</b>	<b>533</b>
<b>Other receivables</b>	<b>176</b>	<b>158</b>	<b>18</b>
<b>Total</b>	<b>1.362</b>	<b>210</b>	<b>1.152</b>

The significant changes compared to the previous year is due to the following:

- > Recording of the benefit arising from the tax loss carried forward by the Parent Company Reply for Lire 505 million;
- > VAT receivable amounting to Lire 533 million, due to the significant increase of payables relevant to costs incurred for the listing of the Parent Company Reply .

### **III. Financial assets not held as fixed assets**

This item, amounting to Lire 50.003 million, reflects the investments made by the Parent Company Reply with third parties for the temporary commitment of liquidity deriving from the Global Offer of shares. The detail is as follows:

(in millions of Lire)	31/12/2000	31/12/1999	Difference
<b>Receivables from sale of securities</b>	<b>21.981</b>	<b>–</b>	<b>21.981</b>
<b>Government Bond (BTP) and Treasury Certificates (CCT)</b>	<b>17.760</b>	<b>–</b>	<b>17.760</b>
<b>Mutual investment funds</b>	<b>10.000</b>	<b>–</b>	<b>10.000</b>
<b>Other</b>	<b>262</b>	<b>–</b>	<b>262</b>
<b>Total</b>	<b>50.003</b>	<b>–</b>	<b>50.003</b>

*Receivables from sale of securities* reflect the purchase cost of securities held under agreements to resell at established date and price.

Gains and losses related to this operation, calculated in function of the difference between spot and forward price are recorded in compliance with the accruals accounting method and are classified within “other financial income and expenses” of the statement of income.

*Mutual investment funds* represent the purchase cost of the share of a SAN PAOLO IMI ASSET MANAGEMENT SGR liquidity fund.

#### **IV. Liquid funds**

This item amounting to Lire 9.308 million, shows a difference of Lire 8.364 million compared to 31 December 1999, and is referred to cash at banks and in hand at year-end.

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

#### **D. Accrued income and prepaid expenses**

This item amounting to Lire 199 million, and showing a difference of Lire 123 million compared to 31 December 1999, mainly refers to accrued income from interest on securities and prepaid expenses from leasing contracts and other utility expenses, which are accounted for in accordance with the accruals accounting method.

## COMMENTS ON SHAREHOLDERS' EQUITY AND LIABILITIES INCLUDED IN THE CONSOLIDATED BALANCE SHEET

### A) SHAREHOLDERS' EQUITY

The table below shows changes in shareholders' equity as of 31 December 2000:

(in millions of Lire)	Share Capital	Additional paid-in Capital	Legal Reserve
<b>Balance as at 31 December 1999</b>	<b>1.378</b>	<b>215</b>	<b>3</b>
Allocation of 1999 result	-	-	4
Increase in share capital - Extraord. Shareholders' Meeting -09/06/00	1.855	5.564	-
Free capital increase	2.666	(2.666)	-
Translation adjustment of share capital in Euro	40	(40)	-
Increase in share capital set aside for the company managers of 102,000 shares (price 0,81 euro)	103	57	-
Increase in share capital set aside for strategic partners of 300,000 shares (price: 0,949 euro)	302	249	-
Global Offer of 1,832,200 shares (price: 18 euro)	1.844	62.012	-
Global Offer of 30,000 shares set aside for employees (price: 16,2 euro)	30	911	-
Other	-	-	-
Net result of the year	-	-	-
<b>Balance as at 31 December 2000</b>	<b>8.218</b>	<b>66.302</b>	<b>7</b>

As of 31 December 2000 the fully subscribed paid-in share capital of Reply S.p.A., the Parent Company, amounted to Lire 8.218 million (1.378 Lira as at 31 December 1999). This is represented by 8.162.200 ordinary shares, par value 0,52 Euro each.

Movements in the share capital during the year have been determined by the following transactions:

- > On 9 June 2000 the Parent Company (at the time Reply Europe Sàrl) increased its share capital from Lire 1.377.500.000 to Lire 3.232.100.000, through the issuing of 18.546 shares each at Lire 100.000 (in addition to a share premium amounting to Lire 5.563.900.000), fully subscribed by Alister Holding through the contribution of its investments in operating companies and the "Reply" trademark;
- > On 10 July 2000, the Extraordinary Shareholders' Meeting of Reply S.p.A. resolved as follows (the resolution was subsequently approved by the Tribunal of Turin on 21 July 2000):
  - A free increase in the share capital from Lire 3.232.100.000 to Lire 5.898.000.000 using the additional paid-in capital reserve for Lire 2.665.900.000,
  - The conversion of the increased share capital to 3.066.960 euro, represented by 5,898,000 shares of 0,52 Euro each, using the additional paid-in capital reserve for Lire 40.462.639; the paid increase in the share capital, following the shareholder's waiver of stock option rights, from 3.066.960 euro to 4.303.546 euro

Extraordinary Reserve	Consolidation Reserve	Retained earnings	Net result for the year	Total
-	23	524	2.174	4.317
122	-	2.048	(2.174)	-
-	-	-	-	7.419
-	-	-	-	-
-	-	-	-	-
-	-	-	-	160
-	-	-	-	551
-	-	-	-	63.856
-	-	-	-	941
-	(23)	(7)	-	(30)
-	-	-	3.646	3.646
122	-	2.565	3.646	80.860

through the issuing, in a lump sum or in several sums, of a maximum number of 2,378,050 new shares, of 0,52 euro each and the allocation of the aforementioned increase as follows:

- To the managers of the Reply Group up to a total of 102,000 shares, in different proportions;
  - Up to 1,862,200 shares to third parties in compliance with the Italian Legislative decree 24-2-1998 no.58 and in accordance with CONSOB resolutions;
  - Up to 413,850 shares to strategic business partners.
- > On 5 September 2000 the managers entirely subscribed and paid-in the share capital increase set aside for them for a total amount of 82.620 euro;
- > On 2 November 2000 TNT, a strategic Group partner, subscribed part of the increase reserved for third party strategic investors, and precisely, 300,000 shares at 0,949 euro per share, equivalent to 284.700 euro.
- > On 6 December 2000, with the beginning of negotiations, the Global Offer of 1,970,000 ordinary shares representing 24,14% of the Company's share capital, following its increase resolved by the Extraordinary Shareholder's Meeting on 10 July 2000 in 1,862,200 shares and in 107,800 shares sold by the Shareholders, was concluded.

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

(in millions of Lire)	31 December 2000		31 December 1999	
	Net Equity	Net result for the year	Net Equity	Net result for the year
<b>Reply S.p.A. Financial Statements</b>	<b>77.535</b>	<b>2.886</b>	<b>1.722</b>	<b>71</b>
Amounts shown in the financial statements of the consolidated companies	9.602	5.137	4.303	2.659
Carrying value of investments in consolidated companies	(5.129)	-	(820)	-
Difference on consolidation	2.943	(327)	-	-
Elimination of dividends from subsidiaries	(3.950)	(3.950)	-	-
Adjustments on accounting principles and elimination of inter-company gains and losses, net of the related tax effect	(141)	(100)	(40)	(40)
Minority interests	-	-	(848)	(516)
<b>Consolidated Financial Statements of Reply Group</b>	<b>80.860</b>	<b>3.646</b>	<b>4.317</b>	<b>2.174</b>

## B) RESERVES FOR RISKS AND CHARGES

### *Employee pensions and similar obligations*

This item is related to the Company's liability for directors' severance indemnity.

The difference of Lire 115.000.000, compared to the previous year, is related to the additional leaving indemnity to several members of the Board of Directors for the year 2000 resolved by the consolidated company's Shareholders' Meeting.

## C) RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

Movements in the reserve during the year were as follows:

(in millions of Lire)	
<b>Balance as at 31 December 1999</b>	<b>854</b>
Reserve transferred following the acquisition of business branch	85
Provision for the year	1.101
Utilizations	(428)
<b>Balance as at 31 December 2000</b>	<b>1.612</b>

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

The number of employees as at 31 December 2000 is 396, compared to 244 employees at 31 December 1999.



**D) PAYABLES**

Payables as at 31 December 2000 amount to Lire 27.447 million, of which Lire 1.052 million are related to financial liabilities (3.394 Lira at 31 December 1999) and Lire 26.395 million are related to trade payables and other payables (Lire 12.501 at 31 December 1999).

**Financial payables**

(in millions of Lire)	31/12/2000			31/12/1999		
	Short term	Long term	Total	Short term	Long term	Total
<b>Advances on invoices and bank overdrafts</b>	<b>60</b>	<b>–</b>	<b>60</b>	<b>3.034</b>	<b>–</b>	<b>3.034</b>
<b>Medium/Long term borrowings</b>	<b>332</b>	<b>466</b>	<b>798</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total due to banks</b>	<b>392</b>	<b>466</b>	<b>858</b>	<b>3.034</b>	<b>–</b>	<b>3.034</b>
<b>Due to other providers of finance</b>	<b>110</b>	<b>84</b>	<b>194</b>	<b>242</b>	<b>118</b>	<b>360</b>
<b>Total Financial Payables</b>	<b>502</b>	<b>550</b>	<b>1.052</b>	<b>3.276</b>	<b>118</b>	<b>3.394</b>

Due to other providers of finance refer to finance lease liability related to the acquisition of plants, electronic equipment and office furnishings.

Medium and long-term borrowings, as at 31 December 2000, can be detailed as follows:

Financial Institution	Balance as at 31/12/00 Lire/mil	Interest rate	Maturity date	Type of payment
San Paolo Imi	214	Euroribor 6 months + 1,25%	3 April 2003	Monthly post-dated
San Paolo Imi	208	Euroribor 6 months + 1,25%	31 March 2003	Monthly post-dated
San Paolo Imi	85	Euroribor 6 months + 1,25%	8 February 2005	Monthly post-dated
San Paolo Imi	208	Euroribor 6 months + 1,25%	30 March 2003	Monthly post-dated
San Paolo Imi	83	Euroribor 6 months + 1,25%	31 March 2003	Monthly post-dated
<b>Total medium/long-term borrowings</b>	<b>798</b>			

In order to obtain the above borrowings, the Group obtained a guarantee from “Consorzio Unionfidi” for an amount of Lire 756 million, equivalent to 80% of the amount collected by the financial institute SANPAOLO IMI. As a consequence, the Group has undersigned certain shares of “Consorzio Unionfidi” for an amount of Lire 3 million, classified as financial fixed assets.

Net financial position as of 31 December 2000 amounts to Lire 58.259 million and is detailed as follows:

(in millions of Lire)	31/12/2000	31/12/1999	Difference
<b>Receivables from sale of securities</b>	<b>21.982</b>	–	<b>21.982</b>
<b>Securities</b>	<b>17.759</b>	–	<b>17.759</b>
<b>Mutual investment Funds</b>	<b>10.000</b>	–	<b>10.000</b>
<b>Other</b>	<b>262</b>	–	<b>262</b>
<b>Liquid funds</b>	<b>9.308</b>	<b>944</b>	<b>8.364</b>
<b>Total financial assets</b>	<b>59.311</b>	<b>944</b>	<b>58.367</b>
<i>Financial payables</i>			
<b>Due within 12 months</b>	<b>(502)</b>	<b>(3.276)</b>	<b>2.774</b>
<b>Due beyond 12 months</b>	<b>(550)</b>	<b>(118)</b>	<b>(432)</b>
<b>Total financial payables</b>	<b>(1.052)</b>	<b>(3.394)</b>	<b>2.342</b>
<b>Net financial position</b>	<b>58.259</b>	<b>(2.450)</b>	<b>60.709</b>

### Trade payables and other payables

The differences in trade payables and other payables, amounting to Lire 13.894 million, is mainly due to the increasing business activities of the Group, compared to the year 1999, and to the costs incurred by the Parent Company Reply near year-end, in relation to the Global Offer of shares.

(in millions of Lire)	31/12/2000	31/12/1999	Difference
<i>Advance payments</i>	3.330	2.050	1.280
<i>Trade payables</i>	14.393	4.319	10.074
<i>Due to parent companies</i>	1.026	1.467	(441)
<i>Due to tax authorities</i>			
Income taxes (Irpeg- Irap)	2.763	2.012	751
VAT payable	427	84	343
Withholding taxes	842	374	468
Other	–	80	(80)
	4.032	2.550	1.482
<i>Due to social security authorities</i>			
Inps	1.526	723	803
Inpdai	135	75	60
Inail	44	20	24
Other authorities	44	37	7
	1.749	855	894
<i>Other payables</i>			
Employees accruals	1.581	1.145	436
Other payables to employees	101	–	101
Other payables	183	115	68
	1.865	1.260	605
<b>Total Trade Payables and Other Payables</b>	<b>26.395</b>	<b>12.501</b>	<b>13.894</b>

Non-financial payables comprise the following items:

#### *Advance payments*

Advance payments include the advances received from clients for job orders that at year-end have not yet been completed.

#### *Trade payables*

The item, amounting to Lire 14.393 million, refers to normal trade transactions of which Lire 406 million are due to foreign suppliers.

*Due to Parent Companies*

Payables to Parent Company are related to trade transactions at normal market conditions, for:

- > Reply Group service contracts related to the use of premises, to domiciliation and secretarial services (Lire 110 million);
- > Contracts for the acquisition of the exploitation rights for the "Reply" trademark until 9 June 2000 (Lire 916 million).

*Due to tax authorities*

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

*Due to Social security authorities*

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

*Other payables*

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

### MEMORANDUM ACCOUNTS

The details are as follows:

(in millions of Lire)	31/12/2000	31/12/1999	Difference
<b>Guarantees issued on behalf of group companies</b>	<b>3.865</b>	<b>2.808</b>	<b>1.057</b>
<b>Guarantees received from third parties</b>	<b>778</b>	<b>–</b>	<b>778</b>
<b>Obligations for leasing commitments</b>	<b>1.187</b>	<b>1.113</b>	<b>74</b>
<b>Total</b>	<b>5.830</b>	<b>3.921</b>	<b>1.909</b>

Guarantees issued on behalf of to group companies mainly refer to patronage letters, issued by the Parent Company Reply, in favour of credit institutions, in order to provide the subsidiary companies with autonomous credit lines.

Guarantees received from third parties mainly refer to surety ships issued by "Consorzio Unionfidi" to SANPAOLO IMI. As a consequence, the Group subscribed certain shares of "Consorzio Unionfidi" for the amount of Lire 3 million.

## NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

### A) VALUE OF PRODUCTION

#### Revenues from sales and services

Revenues from sales and services, including changes in contract work in progress, amount to Lire 64.352 million and are detailed as follows:

(in millions of Lire)	2000	1999	Difference
<b>Revenues from services</b>	<b>58.918</b>	<b>33.906</b>	<b>25.012</b>
<b>Sale of hardware and software licenses</b>	<b>5.434</b>	<b>1.526</b>	<b>3.908</b>
<b>Total</b>	<b>64.352</b>	<b>35.432</b>	<b>28.920</b>

The Group mainly operates in the Italian market; in the year 2000 revenues from foreign countries make up approximately 4.25% of total revenues.

The revenues breakdown by line of business is provided in the Directors' Report.

#### Capitalized production

The item is related to software licences and to the implementation of the company's information system.

### B) COSTS OF PRODUCTION

#### Raw and other materials, consumables and goods for resale

(in millions of Lire)	2000	1999	Difference
<b>Hardware for resale</b>	<b>580</b>	<b>740</b>	<b>(160)</b>
<b>Software licenses for resale</b>	<b>3.897</b>	<b>425</b>	<b>3.472</b>
<b>Other</b>	<b>463</b>	<b>262</b>	<b>201</b>
<b>Total</b>	<b>4.940</b>	<b>1.427</b>	<b>3.513</b>

### Services

The cost of services is detailed as follows:

(in millions of Lire)	2000	1999	Difference
<b>Commercial and technical consultancy</b>	<b>8.809</b>	<b>4.192</b>	<b>4.617</b>
<b>Services from Parent Company</b>	<b>3.631</b>	<b>2.790</b>	<b>841</b>
<b>Directors' remuneration</b>	<b>2.607</b>	<b>1.613</b>	<b>994</b>
<b>Travelling and professional training expenses</b>	<b>3.153</b>	<b>2.543</b>	<b>610</b>
<b>Marketing expenses</b>	<b>764</b>	<b>523</b>	<b>241</b>
<b>Administrative and legal services</b>	<b>680</b>	<b>287</b>	<b>393</b>
<b>Utilities</b>	<b>436</b>	<b>203</b>	<b>233</b>
<b>Statutory Auditors' and Independent Auditors' fees</b>	<b>250</b>	<b>-</b>	<b>250</b>
<b>Canteen expenses</b>	<b>724</b>	<b>435</b>	<b>289</b>
<b>Other</b>	<b>596</b>	<b>229</b>	<b>367</b>
<b>Total</b>	<b>21.650</b>	<b>12.815</b>	<b>8.835</b>

Services from Parent Company refer to:

1. Operating co-ordination, technical and quality direction;
2. Administration, financial assistance, portion of purchasing activities and marketing;
3. Service contracts related to the use of premises, domiciliation and secretarial services.

The services described in points 1) and 2) have been charged by Alika Srl to the operating Group companies since 31 July 2000, date in which the transfer of the company branch including the consulting activities in Information Technology and administration support, to the Parent Company Reply became effective. Transactions subsequent to that date have been eliminated in the consolidation of the financial statements as of 31 December 2000.

### Leases and rentals

Charges for leases and rentals are detailed below:

(in millions of Lire)	2000	1999	Difference
<b>Rental expenses</b>	<b>670</b>	<b>489</b>	<b>181</b>
<b>Leasing of automobiles</b>	<b>457</b>	<b>281</b>	<b>176</b>
<b>Royalties on trademarks</b>	<b>475</b>	<b>758</b>	<b>(283)</b>
<b>Other</b>	<b>146</b>	<b>66</b>	<b>80</b>
<b>Total</b>	<b>1.748</b>	<b>1.594</b>	<b>154</b>

The item "Royalties on trademarks" represents the costs incurred by the Group for the acquisition of the exploitation rights for the "Reply" trademark until 9 June 2000.

### Personnel Costs

Costs for personnel amount to Lire 23.505 million, with a difference of Lire 10.573 million compared to the previous year. The breakdown of these costs is provided at the statement of income. The following table indicates the number of employees by category:

(Number)	31/12/2000	31/12/1999	Difference
<b>Executives</b>	<b>14</b>	<b>8</b>	<b>6</b>
<b>Managers</b>	<b>26</b>	<b>17</b>	<b>9</b>
<b>Staff</b>	<b>356</b>	<b>219</b>	<b>137</b>
<b>Total</b>	<b>396</b>	<b>244</b>	<b>152</b>

### Amortisation, depreciation and writedowns

Amortisation of Intangible assets amounts to Lire 2.653 million. The details are provided at the notes to Intangible Assets herein.

Depreciation of tangible assets, amounting to Lire 765 million, 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.

Writedowns of receivables and liquid funds amounting to Lire 155 million refer to the provision for doubtful accounts.

### Other operating costs

These expenses amount to Lire 334 million and include:

(in millions of Lire)	2000	1999	Difference
<b>Hospitality expenses</b>	<b>48</b>	<b>-</b>	<b>48</b>
<b>Gifts to clients</b>	<b>95</b>	<b>76</b>	<b>19</b>
<b>Other costs</b>	<b>161</b>	<b>148</b>	<b>13</b>
<b>Magazines</b>	<b>20</b>	<b>10</b>	<b>10</b>
<b>Taxes on automobiles</b>	<b>10</b>	<b>5</b>	<b>5</b>
<b>Total</b>	<b>334</b>	<b>239</b>	<b>95</b>

**C) FINANCIAL INCOME AND EXPENSES****Interest and other financial charges**

This item is detailed as follows:

(in millions of Lire)	2000	1999	Difference
<b>Income from securities</b>	<b>79</b>	<b>-</b>	<b>79</b>
<b>Interest income on banks accounts</b>	<b>67</b>	<b>10</b>	<b>57</b>
<b>Interest due to banks</b>	<b>(236)</b>	<b>(164)</b>	<b>(72)</b>
<b>Interest expense on loans</b>	<b>(41)</b>	<b>-</b>	<b>(41)</b>
<b>Interest on income tax from previous years</b>	<b>(39)</b>	<b>(9)</b>	<b>(30)</b>
<b>Other</b>	<b>(34)</b>	<b>(25)</b>	<b>(9)</b>
<b>Total</b>	<b>(204)</b>	<b>(188)</b>	<b>(16)</b>

**E) EXTRAORDINARY INCOME AND EXPENSES**

Extraordinary income amounts to Lire 120 million and it is related to costs booked in previous years that have become non-payable.

Extraordinary expenses amount to Lire 4 million and are mainly related to unexpected losses.

**INCOME TAXES**

Income taxes due for the year 2000 amount to Lire 5.267 million, compared to Lire 3.104 million in 1999.

(in millions of Lire)	2000	1999	Difference
<b>Current taxes</b>	<b>5.838</b>	<b>3.098</b>	<b>2.740</b>
<b>Deferred taxes, net</b>	<b>(571)</b>	<b>6</b>	<b>(577)</b>
<b>Total</b>	<b>5.267</b>	<b>3.104</b>	<b>2.163</b>

Deferred taxes include Lire 505 million related to fiscal benefits of tax losses carried forward by the Parent Company, stated on the basis of the reasonable certainty of their recovery in subsequent years.

The impact of tax burden before taxation is equivalent to 59%. The difference, compared to the theoretical tax incidence of 41.25%, is mainly due to non-deductible costs as per IRAP (a regional tax on added value) and to permanent tax differences of certain costs.



**OTHER INFORMATION****Emoluments of the Parent Company's Directors and Statutory Auditors**

Emoluments due by the Parent Company to Directors and Statutory Auditors for the year 2000 for services provided to consolidated companies amount to Lire 338 million and Lire 99 million respectively.

# REPLY GROUP

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Lire)	31/12/00	31/12/00 (euro/000)
Net result for the year	3.646	1.883
Depreciation and amortisation	3.418	1.765
Accrual for employee severance indemnities	1.101	569
Accrual for reserve for risks and charges	115	59
Accrual for allowances for doubtful accounts	155	80
<b>Cash flow from operating activities before working capital movements</b>	<b>8.435</b>	<b>4.356</b>
Change in inventories	(1.973)	(1.019)
Change in trade receivables	(14.444)	(7.460)
Change in other current assets	634	327
Change in trade payables	10.074	5.203
Change in other current liabilities	3.825	1.975
Change in employee severance indemnities	(349)	(180)
<b>Change in net working capital</b>	<b>(2.233)</b>	<b>(1.154)</b>
<b>Cash flows from operating activities (A)</b>	<b>6.202</b>	<b>3.202</b>
Capitalization of intangibles assets	(16.051)	(8.290)
Purchase of plant, property and equipment	(1.326)	(685)
Change in other long term assets	(165)	(85)
<b>Cash flows used in investing activities (B)</b>	<b>(17.542)</b>	<b>(9.060)</b>
Increase in share capital and share premium	72.927	37.664
Decrease of minority interests in net equity	(848)	(438)
Other movements in shareholders' equity	(30)	(16)
<b>Cash flows used in financing activities (C)</b>	<b>72.049</b>	<b>37.210</b>
<b>Change in net financial position (A + B + C)</b>	<b>60.709</b>	<b>31.352</b>
Net financial position at the beginning of the year	(2.450)	(1.265)
Change in net financial position	60.709	31.354
<b>Net financial position at the end of the year</b>	<b>58.259</b>	<b>30.089</b>

# REPLY GROUP

## RECLASSIFIED CONSOLIDATED BALANCE SHEET

(in millions of Lire)	31/12/00	31/12/99	31/12/00 (euro/000)
Intangible fixed assets	13.553	155	7.000
Tangible fixed assets	1.603	1.042	828
Financial fixed assets	410	245	211
<b>Total fixed assets (A)</b>	<b>15.566</b>	<b>1.442</b>	<b>8.039</b>
Inventories	3.476	1.503	1.795
Trade receivables	30.445	18.065	15.724
Other current assets	1.561	286	806
<b>Total current assets (B)</b>	<b>35.482</b>	<b>19.854</b>	<b>18.325</b>
Trade payables	(15.419)	(5.786)	(7.963)
Other current liabilities	(11.001)	(6.735)	(5.682)
<b>Total current liabilities (C)</b>	<b>(26.420)</b>	<b>(12.521)</b>	<b>(13.645)</b>
<b>Net current assets (D) (B + C)</b>	<b>9.062</b>	<b>7.333</b>	<b>4.680</b>
Employee severance indemnities (E)	(1.612)	(854)	(833)
Reserve for risks and charges (F)	(415)	(306)	(214)
<b>Net invested capital (A + D + E + F)</b>	<b>22.601</b>	<b>7.615</b>	<b>11.672</b>
Shareholders' equity	80.860	5.165	41.761
Long-term net financial position	550	118	284
Short-term net financial position	(58.809)	2332	(30.372)
<b>Shareholders' equity and net financial position</b>	<b>22.601</b>	<b>7.615</b>	<b>11.672</b>

## REPLY GROUP

### COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2000, AND EQUITY INVESTMENTS

Company name	Registered office	Share Capital	Group interest
<b>PARENT COMPANY</b>			
Reply S.p.A.	Torino - Corso Francia, 110	€ 4.244.344	-
<b>SUBSIDIARIES CONSOLIDATED ON A LINE-BY-LINE BASIS</b>			
Aktive Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	100%
Business Reply S.r.l.	Torino - Corso Francia, 110	Lire 150.000.000	100%
Cluster Reply S.r.l.	Torino - Corso Francia, 110	Lire 100.000.000	100%
Cluster Reply Milano S.r.l.	Torino - Corso Francia, 110	Lire 20.000.000	100%
Cluster Reply Roma S.r.l.	Roma - Via G.B. Vico, 31	Lire 20.000.000	100%
Creative Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	100%
Sytel Reply S.r.l.	Roma - Via G.B. Vico, 31	Lire 120.000.000	100%
Sytel Reply Milano S.r.l.	Torino - Corso Francia, 110	€ 10.000	100%
Technology Reply S.r.l.	Torino - Corso Francia, 110	Lire 150.000.000	100%
Technology Reply Torino S.r.l.	Torino - Corso Francia, 110	€ 10.000	100%
YH Reply S.r.l.	Roma - Via G.B. Vico, 31	€ 21.224	100%
<b>INVESTMENTS IN SUBSIDIARIES CARRIED AT COST</b>			
BeWit Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	70%
Blue Reply S.r.l.	Torino - Corso Francia, 110	€ 10.000	85%



## STATUTORY AUDITORS' REPORT TO THE SHAREHOLDER'S MEETING ON THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2000

To the Shareholders,

The Board of Directors is submitting to You the consolidated financial statements as of 31 December 2000, including the Balance Sheet, the Statement of Income and the Notes to the consolidated financial statements, delivered to the Statutory Auditors jointly with the financial statements and the Directors' Report on Operations, which includes information on data, and analysis of the activities carried out, even at a consolidated level, by REPLY S.P.A. and its subsidiary companies.

Within this framework, the consolidation area is defined clearly through the list of the companies included, which were twelve as at 31 December 2000, all consolidated with the full consolidation method.

Furthermore, the volume of activities are subdivided by main business lines, a summary of the economic trend of the Group is also included, as well as the analysis of the financial position and consolidated results.

The consolidated financial statements as at 31 December 2000, indicates a consolidated net equity amounting to Lire 77.214 million, net of the consolidated net result amounting to Lire 3.646 million.

PricewaterhouseCoopers S.p.A., the Auditing firm engaged in certifying the REPLY consolidated financial statements, issued its report on 25 May 2001, in which it asserts that the REPLY Group Consolidated Financial statements as of 31 December 2000 comply with laws governing the criteria for their preparation.

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

- > the consolidation area has been determined correctly;
- > the adopted consolidation procedures are pursuant to the law and have been applied correctly;
- > the figures expressed in the financial statements correspond to the accounting results of the Parent Company and to the information sent by its subsidiaries;
- > all the information used for consolidation purposes is referred to the entire administrative period of the year 2000;
- > the accounting principles and the evaluation criteria, whose supervision is carried out by the Statutory Auditors, seem to have been applied correctly;

The preparation of the consolidated financial statements is, therefore, technically pursuant to the laws regulating it.

Read, confirmed and undersigned.

THE STATUTORY AUDITORS

Turin, 30 May 2001

*(Prof. Piergiorgio Re)*

*(Mr. Tommaso Vallenzasca)*

*(Prof. Giorgio Gianeri)*

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW  
DECREE N° 58 DATED 24 FEBRUARY 1998**

To the Shareholders of  
Reply SpA

- 1 We have audited the consolidated financial statements of the Reply Group as at 31 December 2000. These consolidated financial statements are the responsibility of Reply's Directors. 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 and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. 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. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by law, reference is made to our report dated 21 August 2000.

- 3 In our opinion, the consolidated financial statements of the Reply Group as at 31 December 2000 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Group.

Turin, 25 May 2001

PricewaterhouseCoopers SpA



Armando Boffi  
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation.

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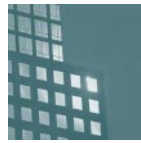
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